

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-070565

SETTLEMENT AGREEMENT

I. INTRODUCTION

1 This Settlement Agreement is entered into in order to compromise and settle all
issues in this proceeding among the parties that have been actively participating. It is a
“Multiparty Settlement” pursuant to WAC 480-07-730(3).

II. PARTIES

2 This Settlement Agreement is entered into by: Puget Sound Energy, Inc. (“PSE” or
“the Company”); the Staff of the Washington Utilities and Transportation Commission
 (“Staff”); the Public Counsel Section of the Attorney General’s Office (“Public Counsel”);
and the Industrial Customers of Northwest Utilities (“ICNU”) (collectively referred to
hereinafter as the “Parties”).

III. BACKGROUND

3 On March 20, 2007, PSE filed revisions to its Power Cost Rate, Schedule 95, to
reflect increases in the Company’s overall normalized power supply costs. The filing was
an expedited (5 month) “power cost only rate case” (“PCORC”) under PSE’s Power Cost

Adjustment (“PCA”) Mechanism, which was approved by the Commission in its Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (consolidated).

4 PSE proposed in its PCORC filing to increase electric rates by \$64,680,804, an average of 3.68%, to recover additional power costs that the Company projected it would incur to provide electric service to its customers during the PCORC rate year: September 1, 2007, through August 31, 2008. PSE submitted prefiled testimony and exhibits in support of its tariff filing.

5 The Commission suspended the filing on March 27, 2007. A prehearing conference was held in the proceeding on April 11, 2007, at which time the Commission granted petitions to intervene filed by ICNU, The Kroger Company (“Kroger”) and the Federal Executive Agencies. Staff, Public Counsel and ICNU conducted discovery on the Company’s prefiled direct testimony and tariff filing. Neither Kroger nor the Federal Executive Agencies has conducted discovery, filed testimony, or participated in settlement conferences, despite the opportunity to do so.

6 On May 23, 2007, the Company filed a Motion for Leave to File Supplemental Testimony and Exhibits to update the Company’s power costs. Based on this power cost update, the Company submitted a revised revenue requirement of \$77,837,215, an average of 4.43% increase over rates in effect as of January 13, 2007, due primarily to increases in wholesale market natural gas prices since the time the Company prepared its original filing. For purposes of comparison, the Company stated that its three-month average gas price forecast method as of May 10, 2007, produced an updated average price at the Sumas delivery hub of \$7.90/MMBtu for this proceeding’s rate year, compared to: (i) the average price at Sumas of \$7.57/MMBtu used in PSE’s original March 20, 2007 filing (for the three

months ended February 27, 2007); and (ii) the average price at Sumas of \$7.41/MMBtu in rates in effect as of January 13, 2007 (for the three months ended November 30, 2006).

7 On June 4, 2007, the Commission granted the Company's Motion for Leave to File Supplemental Testimony and Exhibits. On June 15, 2007, Staff and ICNU filed testimony and exhibits in response to the Company's updated presentation. ICNU filed Supplemental Testimony and Exhibits on June 25, 2007.

8 The Parties undertook settlement discussions for purposes of resolving or narrowing the contested issues in this proceeding. The Parties have reached agreement on all issues raised in this proceeding and now wish to present their agreement for the Commission's consideration. The Parties therefore adopt the following Settlement Agreement, which is entered into by the Parties voluntarily to resolve matters in dispute among them regarding the Company's PCORC filing in the interests of expediting the orderly disposition of this proceeding. This Settlement Agreement is being filed with the Commission as a "Multiparty Settlement" pursuant to WAC 480-07-730(3). While this settlement is technically a "Multiparty Settlement" rather than a "Full Settlement," it does resolve all issues among the parties that have actively engaged in this proceeding.

9 The Parties understand that this Settlement Agreement is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement Agreement. This Settlement Agreement calls for new rate Schedule 95 to go into effect on September 1, 2007. Thus, the Parties request that the Commission hold a hearing on this Settlement Agreement on July 25, 2007, which coincides with the currently scheduled public comment hearing in this docket and would permit implementation of the Settlement Agreement on a timely basis.

IV. AGREEMENT

A. Revenue Requirement and Adjusted Power Cost Baseline Rate:

10 The Parties agree to accept PSE's additional revenue requirement, as originally filed, of \$64,680,804, but calculated based upon the \$77,837,215 revenue requirement as supplemented on May 23, 2007, with the following changes to the calculation of the revenue requirement: PSE will remove Adjustment 13 – Tenaska Flow-through Tax True-up and Other Power Supply Costs for “San Diego v. Sellers” litigation costs, and will include the remaining amount of revenue difference (after removal of Adjustment 13 – Tenaska Flow-through Tax True-up and Other Power Supply Costs for “San Diego v. Sellers” litigation costs), net of revenue sensitive items, on Line 14, account 555 Purchased Power on Schedule A-1 in determining the Power Cost Rate. This results in a Power Cost Rate of \$59.813, as shown on Attachment A.

B. Revenue Allocation and Rate Design:

11 The Schedule 95 rates will be set based on the allocation proposed by the Company in its initial filing, with the exception that no increase will be allocated to Schedule 40. This revenue allocation and rate design, as well as other elements of this Settlement Agreement, will not establish precedent for future cases. In addition, in the future, the revenue allocation and rate design approved by the Commission in the then most recent general rate case will be applied in all subsequent PCORCs. The Parties agree that this principle will apply to subsequent PCORC proceedings and is not subject to review in the PCORC Collaborative established in Section IV.E. below. Attachment B hereto shows the revenue allocation and rate design to be effective September 1, 2007, under the terms of this Settlement Agreement.

C. Compliance Filing:

12 As its compliance filing in this proceeding, PSE shall refile Schedule 95. The only change to be made to this Schedule from the version filed on March 20, 2007, will be those changes necessitated by the Parties' agreement that no increase in this proceeding will be allocated to Schedule 40.

D. Prudence of New Resource Acquisitions:

13 The Parties agree that the Company's acquisition of the Goldendale Generating Station (including its related costs) and activities undertaken to manage its electric portfolio described in its original filing in this proceeding were prudent; provided that, PSE's actual power costs shall be subject to a prudence review as provided in Paragraph 4 of the PCA Settlement Agreement approved in Docket Nos. UE-011570 and UG-011571.

E. Collaborative on PCORC Issues:

14 The Parties agree that it is appropriate to review whether the PCORC process should continue and, if so, in what form. The Parties agree to review the scope and timing of the PCORC mechanism, if continued, to improve and standardize the PCORC process. The Parties, therefore, agree to establish and to participate in a stakeholder review ("PCORC Collaborative") that will consider the PCORC process. Subjects to be addressed by the PCORC Collaborative will include but are not limited to: (i) the number of PCORCs that the Company will be allowed to file in any given calendar year; (ii) the number and timing of updates that the Company may submit in an individual PCORC before Staff and intervenor response cases are filed in that PCORC; (iii) the items directly associated with power costs that may be included and considered in a PCORC filing; and (iv) whether the number and

timing of updates may vary depending on whether or not the update addresses information that other parties can easily verify with little or no additional discovery.

15 It is the Parties' intention to finish the PCORC Collaborative prior to the filing of PSE's next general rate case. However, the Parties agree that any failure to complete the PCORC Collaborative will not delay or otherwise prevent PSE from filing its next general rate case, and that the PCORC Collaborative may continue during the course of PSE's next general rate case. Any agreements reached by the Parties in the PCORC Collaborative will be presented to the Commission for approval in PSE's next general rate case, and any issues on which agreement has not been reached may be presented to the Commission for its consideration by any of the Parties in PSE's next general rate case.

F. Additional PCORC Collaborative Subjects:

16 As part of the PCORC Collaborative addressed above, the Parties also agree to investigate: (i) whether to set rates using forward market prices in lieu of AURORA generated prices; and (ii) the definition of short-term resources that may be included in the allowable PCA costs under Section 7 of Exhibit A to the Settlement Stipulation in the Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 to align with the Company's recently revised hedging strategy.

G. Gas Optimization Review:

17 In addition to the PCORC Collaborative addressed above, the Parties agree to establish and participate in a stakeholder review ("Gas Optimization Review") that will consider how all of the Company's gas assets can be used to maximize the benefit for all customers of the Company.

H. Miscellaneous Provisions:

- 18 a. The Parties agree to support the terms and conditions of this Settlement Agreement as a settlement of all contested issues in the above-captioned proceeding. The Parties understand that this Settlement Agreement is subject to Commission approval.
- 19 b. This Settlement Agreement represents an integrated resolution of the matters at issue in this case. Accordingly, the Parties recommend that the Commission adopt this Settlement Agreement in its entirety.
- 20 c. The Parties will cooperate in submitting this Settlement Agreement promptly to the Commission for approval, and will cooperate in developing supporting materials as required in WAC 480-07-740(2)(a). The Parties agree to support the Settlement Agreement throughout this proceeding, provide witnesses to sponsor such Settlement Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the Settlement Agreement in its entirety.
- 21 d. In the event the Commission rejects this Settlement Agreement, the provision of WAC 480-07-750(2) shall apply. In the event the Commission accepts the Settlement Agreement upon conditions not proposed herein, or approves resolution of PSE's PCORC filing through provisions which are different than recommended in this Settlement Agreement, each Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within five (5) days of the Commission's order, to state its rejection of the conditions. In such event, the Parties immediately will request that hearings be held on the appropriateness of the conditions. The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date.

22 e. The Parties enter into this Settlement Agreement to avoid further expense, uncertainty, and delay. By executing this Settlement Agreement, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement Agreement, and except to the extent expressly set forth in this Settlement Agreement, no Party shall be deemed to have agreed that this Settlement Agreement is appropriate for resolving any issues in any other proceeding.

23 f. This Settlement Agreement may be executed in counterparts, through original and/or facsimile signature, and each signed counterpart shall constitute an original document.

24 g. In support of this Settlement Agreement, the Parties further stipulate that the testimony and exhibits that were prefiled by PSE on March 20, 2007, and updated on May 23, 2007, should be admitted into evidence in the record of this proceeding. The Parties also agree that the testimony and exhibits that were prefiled by Staff and ICNU on June 15, 2007, and by ICNU on June 25, 2007, and the errata to the June 15, 2007 prefiled testimony of Donald W. Schoenbeck that ICNU has agreed to file, should also be admitted into evidence in the record of this proceeding.

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DATED: July 5, 2007

PUGET SOUND ENERGY, INC.

By Tom DeBoer
Tom DeBoer
Director Rates & Regulatory Affairs

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By _____
Robert Cedarbaum
Assistant Attorney General

**PUBLIC COUNSEL SECTION,
OFFICE OF THE ATTORNEY
GENERAL OF THE STATE OF
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By _____
Simon ffitch
Assistant Attorney General
Public Counsel Section Chief

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES**


By _____
Irion A. Sanger
Attorney for ICNU

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Attorney for ICNU

ATTACHMENT A

CALCULATION OF THE POWER COST RATE

PUGET SOUND ENERGY
POWER COST ONLY RATE CASE
TEST YEAR DECEMBER 31, 2006
RATE YEAR AUGUST 31, 2008

Exhibit A-1 Power Cost Rate

Row		Test Year							
3	Regulatory Assets (1) (Variable)	\$	209,854,425						
4	Transmission Rate Base (Fixed)		107,835,081						
5	Production Rate Base (Fixed)		1,072,051,983						
6		\$	1,389,741,490						
7	Net of tax rate of return		7.06%						Production Factor 0.97319
8									
9									
9A									
				Test Yr \$/MWh	Adjustment to Power Cost Rate	Baseline Rate			Rate Year
				(I)	(II)	(III)			(IV)
10	Regulatory Asset Recovery (on Row 3)	\$	22,793,419	\$ 1.077		\$ 1.077	(c)		
11	Fixed Asset Recovery Other (on Row 4)		11,712,549	\$ 0.554		\$ 0.554	(a)	\$	11,712,549
12	Fixed Asset Recovery-Prod Factored (on Row 5)		116,441,338	\$ 5.504		\$ 5.504	(a)		119,649,132
13	501-Steam Fuel		57,439,461	\$ 2.715		\$ 2.715	(c)		
14	555-Purchased power		660,899,180	\$ 31.237		\$ 31.237	(c)		
14a	Rate Disallowances for March Point 2 and Tenaska		(10,023,555)	\$ (0.474)		\$ (0.474)	(c)		
15	557-Other Power Exp		6,534,148	\$ 0.309		\$ 0.309	(a)		6,714,155
15a	Payroll Overheads - Benefits (Inc. Worker's Comp)		1,918,238	\$ 0.091		\$ 0.091	(a)		1,971,083
15b	Property Insurance		1,694,912	\$ 0.080		\$ 0.080	(a)		1,741,604
15c	Montana Electric Energy Tax		1,705,103	\$ 0.081		\$ 0.081	(a)		1,752,076
15d	Payroll Taxes on Production Wages		723,944	\$ 0.034		\$ 0.034	(a)		743,888
16	547-Fuel		130,399,129	\$ 6.163		\$ 6.163	(c)		
17	565-Wheeling		64,865,736	\$ 3.066		\$ 3.066	(c)		
18	Variable Transmission Income		(4,065,390)	\$ (0.192)		\$ (0.192)	(c)		
19	Hydro and Other Pwr.		86,202,400	\$ 4.074		\$ 4.074	(a)		88,577,153
20	447-Sales to Others		(6,462,987)	\$ (0.305)		\$ (0.305)	(c)		
21	456-Subaccounts 00012 & 00018 and 00035 & 00036		(576,422)	\$ (0.027)		\$ (0.027)	(c)		
22	Transmission Exp - 500KV		1,315,467	\$ 0.062		\$ 0.062	(a)		1,351,706
23	Depreciation-Production (FERC 403)		69,578,600	\$ 3.289		\$ 3.289	(a)		71,495,391
24	Depreciation-Transmission		5,123,147	\$ 0.242		\$ 0.242	(a)		5,123,147
25	Amortization - Regulatory Assets (1)		32,113,880	\$ 1.518	\$ -	\$ 1.518	(c)		
26	Property Taxes-Production		11,418,820	\$ 0.540		\$ 0.540	(a)		11,733,392
27	Property Taxes-Transmission		3,448,641	\$ 0.163		\$ 0.163	(a)		3,448,641
28	Hedging Line of Credit		299,791	\$ 0.014		\$ 0.014	(c)		
29	Subtotal & Baseline Rate	\$	1,265,499,550	\$ 59.813	\$ -	\$ 59.813	(b)	\$	326,013,917
30	Revenue Sensitive Items		0.9548744						
31		\$	1,325,304,742						
32	Test Year DELIVERED Load (MWH's)		21,157,569	<-- includes Firm Wholesale					
33									
34									
35				Before Rev.	After Rev.	Before Rev.	After Rev.		
36	Power Cost in Rates with Revenue Sensitive			Sensitive Items	Sensitive Items	Sensitive Items	Sensitive Items		
37	Items (the adjusted baseline)			Rev Req (Column (I))	Rev Req (Column (III))				
38	sum of (a) = Fixed Rate Component	\$		59.813	\$ 62.640	\$ 59.813	\$ 62.640		
39	(b) = Power Cost Rate	\$		15.021	\$ 15.731	\$ 15.021	\$ 15.731		
40	sum of (c) = Variable Power Rate Component	\$		59.813	\$ 62.640	\$ 59.813	\$ 62.640		
41				44.792	\$ 46.908	\$ 44.792	\$ 46.908		
42	(1) - Regulatory Assets are shown in detail on Exhibit D.								

(Note) Amounts presented in bold italic type have changed from the May 23, 2007 update filing.

ATTACHMENT B

**ILLUSTRATION OF THE RATE SPREAD AND
RATE DESIGN EFFECTIVE UNDER
THE TERMS OF THIS SETTLEMENT AGREEMENT**

Docket No. UE-070565
Final per Settlement Stipulation

Note 1 - Source: Docket Nos. UE-060266 & UG-060267, Cost of Service Workpapers, pages 3 & 6, "ENERGY_1" Allocator
 Note 2 - Source: Docket Nos. UE-060266 & UG-060267, Cost of Service Workpapers, pages 5 & 8, "DEM_3B" Allocator
 Note 3 - Source: Docket No. UE-070565, Exhibit No. (JHS-7)