PUGET SOUND ENERGY
The Energy To Do Great Things

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February 13, 2009

Mr. David Danner, Secretary and Executive Director
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Via Electronic & Regular Mail

RE: Docket No. UE-970686
Annual Report of Energy Efficiency Services (EES) Programs

Dear Mr. Danner:

Enclosed are an original and three copies of Puget Sound Energy's 2008 annual report of program results covering the Puget Sound Energy EES programs for the period of January through December 2008. A summary of accounting for each of the EES programs for the same period is also included as well as work papers showing the calculation of the incentive and the program total resource cost.

This report was prepared and is submitted in accordance with the Second Supplemental Order in Docket No. UE-970686, Requiring Reporting on Programs Funded by the Tariff Rider Mechanism.

Please contact Lynn Logen at (425) 462-3872 for additional information about this filing. If you have any other questions please contact me at (425) 462-3495.

Very truly yours,

Lynn F. Logen
Tariff Consultant
for Tom DeBoer
Director, Fedearl & State Regulatory Affairs

Enclosure

cc: Simon J. ffitch, Public Counsel
Sheree Carson, Perkins Coie

PUGET SOUND ENERGY

The Energy To Do Great Things

Energy Efficiency Services Program Results

January – December 2008

February 13, 2009

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EXECUTIVE SUMMARY

Annual Report Content

Puget Sound Energy's ("PSE's" or "The Company's") Energy Efficiency Services (EES) department is pleased to present this annual report of 2008 energy efficiency program activity. Covering January through December 2008, the report is associated with the electric Rider and natural gas Tracker funding.

2008 represented the first year of a two year (2008 – 2009) conservation tariff period. The summary table on page 2 compares the overall performance of PSE's energy efficiency programs during 2008 against budget and savings targets. EES program descriptions and 2008 summaries are provided in the following pages. Detailed program savings and expenses are found in Exhibit 1 at the end of this report.

2008 EES Results

EES exceeded 2008 expectations in all conservation areas—breaking records in both electricity and natural gas conservation—while completing the year below expense targets for electric programs.

The majority of both Residential and Commercial/Industrial electric programs surpassed their savings targets in 2008—many by a sizeable margin. Residential savings results were driven largely by an aggressive sales effort in the Multifamily market in the Residential sector and an increase in the number of retail partners offering compact fluorescent lighting programs. Strong showings by the Commercial/Industrial New Construction, Retrofit, High Voltage/Self-Directed and Commercial Rebate programs made significant contributions to PSE's electric savings in 2008.

PSE's natural gas efficiency programs were equally successful, finishing the year 45 percent above the therm savings target and only one percent above the expense target. PSE offset increased costs while increasing savings due in large part to the very high cost effectiveness of many Commercial/Industrial programs—contributing over 33 percent of overall gas savings was the Commercial/Industrial low flow pre-rinse spray head program. On the Residential side, the Gas Weatherization program grew four-fold. It is noteworthy that EES gas efficiency programs saved over one million more therms than in 2007.

January - December 2008 EES Summary

	Jan - Dec 2008	2008 Budget/Savings Targets	Percent of Target
ELECTRIC Expenses, all programs	$53,172,240	$57,434,880	92.6%
Megawatt Hour (MWh) Savings	273,483	216,836	126.1%
(or) **aMW (MWh ÷ 8760)**	31.2	24.8	
GAS Expenses, all programs*	$12,630,383	$12,458,750	101.4%
Therm Savings	3,672,300	2,520,000	145.7%

Note: Electric and therm savings figures are based on first-year savings at the customer meter.

** Gas expense figure includes $290,517 Low Income Weatherization PSE Shareholder funding.*

Electricity Conservation Incentive Mechanism

2008 was the second year of a financial incentive mechanism implemented in concert with PSE to achieve maximum energy conservation. That incentive/penalty mechanism is detailed in PSE Electric Tariff G - Rate Schedule 121.

The incentive replaced the two-year penalty-only mechanism originally established by the 2001 Rate Case Settlement Terms for Conservation. A penalty-only mechanism (up to $750,000 annually) was still in effect for falling short of the natural gas savings target; in 2008, PSE exceeded that target.

The electric conservation incentive mechanism is based on the conservation results filed in this Annual Report and compared to the baseline savings target of 216,372 MWhs (24.7 aMW). This target was set through a collaborative process with the Conservation Resource Advisory Group (CRAG) and the Washington Utilities and Transportation Commission (WUTC).

The incentive consists of two parts - the first based on actual savings (273,483 MWhs or 31.2 aMW) compared to the baseline savings target (216,372 MWh). The second based on comparison of PSE's avoided cost ($108 per MWh) for acquiring generation resources versus the overall actual Total Resource Cost (TRC) of the portfolio of the conservation programs ($63 per MWh) that offset the need to acquire those generating resources.

PSE met the three required criteria for incentive eligibility in 2008:

1) At least 75 percent of the savings targets by Residential and Commercial/Industrial sector were achieved. Actual savings versus target results were, Residential: 158 percent and Commercial/Industrial: 104 percent.

2) The weighted average measure life of the total program portfolio is greater than the minimum life of nine (9) years. Actual weighted average measure life is 10.3 years.

3) PSE's portfolio of programs, in aggregate, are cost-effective from both the Utility Cost and Total Resource Cost (TRC) perspective - benefit/cost ratio is greater than one (1). Actual Utility Cost is 4.05 and Total Resource Cost is 1.75.

The total incentive is calculated to be $4,339,150 ($3,305,940 based on MWh savings plus $1,033,210 based on TRC shared savings). PSE will collect 75 percent of that amount as part of the 2009 Schedule 120 Electric Conservation Rider and the remaining 25 percent in 2010 (subject to review with the CRAG and WUTC).

The detailed incentive and program TRC calculator table is provided in Exhibit 2 at the end of this report.

PROGRAM DESCRIPTIONS

RESIDENTIAL SECTOR

Residential & Commercial Energy Efficiency Information, Schedules E200/G1206 (Residential) & E260/G260 (Commercial/Industrial)

These services consist of five components that complement each other to provide information for customers on energy programs and efficiency improvements tailored to their interests and energy-use concerns.

Energy Advisors
Specially trained and dedicated support representatives provide all customer sectors direct access to PSE's array of energy efficiency services through a toll-free phone number. Energy Advisors discuss with customers the potential benefits of various conservation programs, eligible incentives, and introduce related products and services.

Energy Efficiency Brochures
PSE provides brochures and how-to guides on various energy efficiency opportunities, including behavioral measures, low-cost equipment, weatherization measures, major weatherization improvements, and equipment upgrades. This information includes investment and savings estimates where appropriate. These brochures are available to customers in paper form and online at the PSE Web site. Where required by tariff, brochures are included as bill inserts.

On Line Services
To assist customers with information and questions, a section of the PSE web site (www.pse.com) is dedicated to energy efficiency and energy management for customers that prefer on-line services. PSE provides "Energy at Home", a quarterly e-newsletter promoting energy efficiency services. This free service contains articles about energy efficiency, timely seasonal tips, links to PSE program information and coupons for energy efficient products. A similar bimonthly "Energy in Business" e-newsletter features case studies of PSE energy efficiency projects, as well as announcements of upcoming training opportunities. Other services include an email box, and links from a customer's Energy Tracker information and graphs to energy efficient tips and ideas.

On-Line Personal/Business Energy Profile
Personal Energy Profile (residential) and Business Energy Profile (small business) are free energy self-audit surveys, with PSE follow-up analysis and a report that provides customers with specific and customized energy efficiency recommendations. These services identify current energy costs and consumption by end-use, and provide a list of specific recommendations for energy efficiency opportunities and their associated savings estimates.

MY PSE Account incorporates a customer's billing history and details, with an analyzer tool that explains what is included in their bill. Customers can understand what changes can be made to reduce energy usage. The Business Energy Profile is available only to online users.

Events
Energy Efficiency Services sponsors a number of community, local, and regional events. These events include home shows, trade shows, seminars, corporate events and community festivals. They provide a unique opportunity for Energy Efficiency Services staff to interact directly with customers to discuss a variety of products, programs and services PSE offers.

Information Services Recap:

Residential:
The strategy deployed in the beginning of 2008 to participate in more events continued in the second half of 2008. This has grown to include greater participation with communities through our Community Resource Manager program. This program has helped fund positions within a community, promote PSE Energy Efficiency programs and coordinating door to door outreach campaigns to encourage changing porch lights to CFL. PSE's new regional offices have given Energy Efficiency Services a permanent location for customers to receive information and speak directly to a PSE employee regarding opportunities to save energy.

Commercial/Industrial:
Work continued with PSE's IT department and Aclara® on development of Business Portal Web site to allow small commercial customers to access billing information and analyze monthly billing to identify savings opportunities.

Single Family Existing, Schedules E214, G214

Description: Single Family Existing programs implement cost effective, targeted, residential energy savings using a menu of prescriptive efficiency measure incentives, including rebates. Prescriptive rebates are intended to facilitate participation by customers and trade allies, and provide administrative efficiencies for PSE in meeting energy efficiency goals.

Rebates offered to eligible natural gas and electric PSE Single Family Existing customers include a variety of end-use classifications, not limited to:

- Compact Fluorescent Lighting including CFL lamps and CFL fixtures,
- Clothes washer rebates
- Refrigerator Decommissioning – focused on removing the "garage" unit Weatherization including windows, insulation and duct sealing
- Heating including high efficiency furnaces and heat pumps
- Water heating, including tankless water heaters and efficient showerheads

Rebate amounts are based on regionally accepted energy savings estimates and incremental efficiency measure cost. Rebates may be subject to change in response to revisions in savings estimates, average incremental cost or changes in Federal appliance efficiency standards or State codes.

Single Family Existing Electric Recap:

CFL bulbs continue to provide the majority of electric savings for our customers. The increase in retailers offering PSE marked down product as well as the increase in quality, variety and availability of special bulbs allows PSE to continue to feature this product with retailers of all sizes. Over 3 million bulbs were sold to PSE customers in 2008. In addition to CFLs, PSE's manufactured home duct sealing, refrigerator decommissioning, electric weatherization and heat pump program round out the balance of the single family electric savings. Both the refrigerator decommissioning and heat pump program achieved nearly double their savings targets in 2008.

Single Family Existing Gas Recap:

For the first time, gas weatherization measures have exceeded high efficiency furnaces as the number one therm saver for our customers. PSE trained contractors with post installation inspections have weatherized approximately 300 homes per month in 2008; a 44% increase over 2007. PSE's proactive approach to training contractors and educating consumers has helped to increase the market share of 90% furnaces.

Multi-Family Existing, Schedule E217, G217

Description: The Multi-Family Retrofit program proposes to increase the installation of certain measures in existing, multifamily (MF) buildings, consisting of five or more residential units. MF structures typically have both in-unit and common area energy-efficiency opportunities that can include shell, appliance, lighting, HVAC and water heating measures. The program targets installation of energy efficient measures in MF facilities occurring on a retrofit (e.g., planned project) or "replace upon failure" (RUF) basis.

Multi-Family Electric Recap:

PSE's direct install program has been enthusiastically adopted by Multi-Family property managers and property owners throughout PSE's service territory. Via two different contracts, PSE installs CFLs, Showerheads, pipe wrap and insulation at low cost or no cost to the property owner. The addition of a second contractor in 2008 has allowed PSE to move outside of the King County area and into the northern regions of our service territory. 2008 savings were double that of 2007.

Multi-Family Gas Recap:

A significant change to the Multi-Family gas program for 2008 was joining forces with our commercial energy efficiency group. This allowed PSE to address both whole system measures including boilers and pool heaters in addition to shell measures. Measure cost and a long sales cycle are two factors that impact achievable savings.

Single Family New Construction, Schedules E215/G215

Description: To implement cost effective, targeted, residential new construction energy savings using a menu of prescriptive efficiency measure rebates. Prescriptive rebates are intended to facilitate participation by builders, owner-builders and trade allies, and provide administrative efficiencies for PSE in meeting energy efficiency goals.

In addition to most incentive types enumerated for Single Family Existing customers, natural Gas and electric PSE Single Family New Construction customers may also be eligible for the following classifications of incentives:

- Energy Star® dishwashers
- Energy Star manufactured homes

Rebate amounts are based on regionally accepted energy savings estimates and incremental efficiency measure cost. Rebates may be subject to change in response to revisions in savings estimates, average incremental cost or changes in Federal appliance efficiency standards or State codes.

Single Family New Construction Recap:

Although the economy has slowed construction significantly, PSE's penetration of homes installing either efficient lighting packages, energy efficient equipment or qualifying as an Energy Star Home has increased as a percentage of total home sales. Total electric savings were up from 2007 and as result, PSE won the Energy Star Partner of the year through our new construction advanced lighting program. The slowing market has given PSE greater accessibility to the builders and has increased their interest in our programs. Builders view our programs as a low cost or no cost strategy to position themselves as a "green builder" while increasing the value of the home.

Low Income, Schedules E201/G203

Description: PSE provides funding of cost-effective home weatherization measures for low-income gas and electric heat customers. Funds are used for single-family, multifamily, and mobile home residences.
Program participation takes place through referrals from low-income and crisis service agencies. PSE customers who are having difficulty paying heating bills are also referred to the appropriate serving agency when they apply for energy bill payment assistance. Income qualification for the low-income weatherization program takes place at the local weatherization agency or other designated agency. Local agencies assume responsibility for getting permission from rental property owners to install weatherization measures. The elderly, disabled, and households with very young children receive priority in scheduling of the weatherization work. In addition to the structure audit and measures installation, agencies are trained to provide energy use education to participants.

Low Income Recap:

2008 brought important improvements to the customer service PSE provides participating low income agencies. For the first time, PSE has a full-time dedicated program manager working directly with the agencies to maximize the use of PSE dollars for energy efficiency improvements. As a result, process improvements have been completed via the online database, 2009 contracts have been signed, PSE is participating in state level work groups, and several agencies have requested and receive increased funding as a result of lifting the cap on low income agency incentives.

Pilots, Schedule E249

Pilot programs and demonstration projects may be undertaken to determine whether certain strategies and measures are cost-effective in the long run. Pilots are employed to test cost-effective ways to demonstrate market opportunities for energy efficiency.

Pilots may include tests of measure cost and performance, customer acceptance and delivery methods. Pilots are not subject to achieving energy savings sufficient to demonstrate cost-effectiveness in the short run. In 2008, Energy Efficiency Services implemented the following pilots:

- Blue Line® - real time in-home display of kWh use
- NEAA Mini-Split Heat Pump Pilot
- HomePrint - In home energy performance and diagnostics program
- Positive Energy – social marketing program comparing usage of like homes

Pilots Recap:

Positive Energy and **HomePrint** are two pilots that have gained significant attention since their inception. Positive Energy is a home energy report mailed to 40,000 customers that compares energy consumption of similar homes to that of their neighbors. HomePrint is an in-home energy audit that includes a blower door test, infrared cameras and direct install measures. Both are regarded as cutting edge programs which are currently being evaluated for savings and cost effectiveness. **Blue Line®** in home display and the **NEEA Mini-split heat pump** pilot are just getting started. The NEEA mini-split heat pump pilot is a regional initiative to test both the contractor participation and savings opportunities associated with mini-split heat pumps. Results will be tracked and reported throughout the next two years of the pilot.

Energy Education, Schedules E202/G207

Description: Powerful Choices is a 4-day school program that empowers Washington State's middle school students with the ability to make informed choices regarding the use of natural resources. This program fills a need for environmental education in Washington State at no cost to schools.
Powerful Choices also helps students in reaching Washington's learning standards by aligning the curriculum with Washington State's Essential Academic Learning Requirements (EALRS). Students participate in a variety of activities focusing on energy, water, solid waste, and air quality.

Energy Education Recap:

Energy Education staff have expanded the depth and extent of their program offerings. Powerful Choices for the Environment added 15 new schools, representing a 25 percent increase in its audience (from 59 to 74 schools). Powerful Choices also brought on a new partner, Intercity Transit, and welcomed the return of a former partner, Seattle Public Utilities. It also celebrated its 15th Anniversary, bringing together school teachers and community partners to reflect on the program's history and plans for the future. The Powerful Choices team reached 15,972 young customers across seven counties in the PSE service territory.

Energy Education also brought affordable, field-based environmental education to over 600 upper elementary students in the Baker River watershed through its Komo Kulshan Outdoor School. The department hosted three OSPI (Office of the Superintendent of Public Instruction) Sustainable Design project planning sessions and conducted 10 Cool School Challenge workshops in 2008. The schools participating in the Cool School Challenge have each reported over 600 lbs. of carbon monoxide (CO_2) reduction to date.

Multi-Family New Construction, Schedule E218/G218

Description:

There are three distinct construction types in this market:

1. Low/mid rise construction*: These buildings typically have residential type meters that measure all the natural gas/electric consumption in the dwelling units. Commercial type meters measure the consumption in common spaces. These complexes are one to four floors of residential dwelling units.

2. High rise construction*: These buildings typically have commercial type meters that measure the in-unit heating/water heating and common area consumption. Residential type meters typically measure the dwelling unit lighting, appliance and plug load. These complexes are five or more floors of residential dwelling units. Where commercial meters measure the residential heat/water heating, energy efficient upgrades are typically served under an existing PSE commercial program.

3. Assisted Living/Affordable Housing construction*: These buildings typically have commercial type meters that measure the in-unit heating/water and common area consumption. Commercial type meters also measure the consumption in common spaces.

   * There may be any combination of meter mix in all types three of construction. PSE works with each development team to determine the meter type mix. Once the meter type mix is confirmed, the appropriate PSE programs are identified to serve that development.

This program serves the residential meters in all three building construction types. PSE's current commercial tariff programs serve most of the commercial meter upgrades in these types of construction. Where the multifamily program may serve the in unit load on commercial meters, the residential program may apply. An example may be in unit lighting/plug load in master metered complexes.

This program includes rebates/incentives and grants.

Eligible customers include building developers/owners and equipment suppliers. This program will provide financial incentives to the above audience for both natural gas/electric and residential/commercial meters. The incentives are both fixed, per measure rebates, and calculated incentives.

This program is structured to work in accord with our current commercial programs. PSE provides a single "point of contact" to development teams for all energy efficient measure/upgrades. This allows PSE to maximize the energy savings opportunity in each development and reduce multi-program confusion for the customer.

Multifamily New Construction Recap:

Hiring a program manager to address this market has proven effective. PSE now has prescriptive rebates for Multi-Family New Construction and a network of architects, builders and contractors familiar with the benefits of PSE programs and services. This program was not expected to deliver electric or therm savings in 2008. However, by the end of 2008, PSE had received and reviewed 30 applications, submitted 16 proposals and secured three grants.

COMMERCIAL/INDUSTRIAL SECTOR

Commercial/Industrial Retrofit, Schedules E250/G205

Description: PSE works with commercial and industrial customers to review energy consumption at the customer's facility, and to assess cost-effective energy savings opportunities from equipment, building shell, industrial process, or O&M improvements. These services are provided on the customer's behalf and, where specified by the customer, will be developed in conjunction with design engineers, contractors, and/or vendors. PSE will review third-party savings estimates and analyses. Where the project meets PSE cost-effectiveness funding criteria, PSE will provide grants toward energy savings projects. PSE works with the customer to make sure financial decision makers at the customer's facility are aware of the cost-savings opportunities, including review of energy saving projections that can help obtain favorable financing rates. Upon notice of installation/implementation, PSE will verify the project as complete and operational and payment will be issued.

Commercial/Industrial Retrofit Recap:

Electric:
Commercial retrofit activity slowed down in Q2 which affected the year end results. Several projects were delayed until 2009 but activity still remained steady and picked up significantly in December to close at 86 percent of target. Projects costs were generally more cost effective than budgeted, leaving the budget at 73 percent.

Gas:
Gas retrofit projects maintained steady activity throughout the year and effectively met the savings goal at 97 percent. Project costs exceeded original program budget estimates by approximately 60 percent. This is likely due to increased fuel costs associated with manufacturing and shipping of heavy equipment associated with gas retrofits. Nevertheless, all projects still met cost effectiveness criteria.

Large Power User/Self Directed, Schedule E258

Description: This program solicits electric energy efficiency upgrades through a Request for Proposal (RFP) process. C/I customers receiving electric service under Schedule 40,46,49 or 449 receive a funding allocation based on electric usage and are responsible for proposing cost-effective project to utilize their allocation. Proposals are evaluated by PSE engineering staff for technical soundness, cost-effectiveness and compliance with energy code and tariff requirements. Customers sign a standard PSE Conservation Grant Agreement, defining project cost and PSE incentive amount prior to installation of project measures.

All projects are field verified by PSE before grant payments are made. Customer not designating projects to fully utilize their allocation within 30 months of the program start date forfeit their remaining balance to a competitive phase, in which remaining funds are available to all program participants via competitive bid.

Large Power User, Self Directed Recap:

An RFP for the competitive phase of the program was issued in August and had a very high response rate. Several projects were completed ahead of schedule, providing additional savings for 2008. All funds were awarded for project completion in 2009 with significant alternate list that will fund if projects drop out or through the CI Retrofit program. 2009 is the final year of this four-year program cycle.

Resource Conservation Manager, Schedules E253/G208

Description: PSE offers Resource Conservation Manager Services (RCM) to any school district, public-sector government agency, and commercial or industrial (C/I) customer, with a focus on larger customers with multiple facilities. An RCM customer employs or contracts with someone who has designated resource management responsibilities, including accounting for resource consumption and savings. PSE assists in designing and implementing an RCM program. Salary guarantees are available for RCMs, and training opportunities are available for RCMs and corollary staff such as custodial and maintenance personnel.

In some cases, PSE provides a grant to partially fund a start-up RCM position, provided there is a mutual agreement that if the program generates dollar savings, funding by the customer will continue after "start-up" funding support terminates. Depending on individual customer needs, PSE may provide additional services or assistance, including resource policy guidelines; a resource accounting system; PSE billing data; informational materials; and a forum for resource conservation managers to exchange information, ideas, and techniques for controlling utility costs. Any grants for retrofits are coordinated through PSE's C/I retrofit or new construction programs.

Resource Conservation Manager Recap:

Electric:
Interest and activity remains very high in this program as organizations seek low cost methods to reduce utility costs. Two RCM Program Managers were hired in Q4 helping the program meet the 2008 target. The RCM team has continued to sign up new customers and develop training and technical support channels. Development of the web-based utility accounting software tool remains on schedule for initial testing and deployment in Q4 2009.

Gas:
Gas savings from RCM activities were 25 percent below expectations. The RCM team has expanded and is continuing to develop training and technical support channels to provide additional focus on identifying low cost measures to increase gas savings.

Small Business Lighting Rebate, Schedule E255

Description: The program offers a variety of lighting fixed-incentives that streamline the delivery of energy-saving measures for a variety of small usage commercial businesses and building types. Eligibility is limited to Schedule 24 and Schedule 8 electric customers. Rebates for small businesses cover efficient incandescent and fluorescent lighting conversions and lighting.

Small Business Lighting Recap:

Small Business Lighting remains one of our most consistent programs. Activity has remained steady with this contractor driven approach to lighting installations in Schedule 24 businesses. Increasing rebate amounts to cover approximately 70 percent or the installation costs has been a successful method of maintaining customer interest and allowed contractors to competitively price projects to keep their installation teams working.

Commercial/Industrial New Construction, Schedules E251/G251

Description: PSE works with designers and developers of new C/I facilities, or major remodels, to propose cost-effective energy efficient upgrades that exceed energy codes by 10% or standard practice in industrial facilities. Two paths may be followed to qualify for assistance and/or funding for energy efficiency measures.
The first path is a prescriptive measure approach, similar to meeting code using the prescriptive path. PSE recommends and reviews measures beyond what is included in the proposed design. Where the project proposes savings 10% beyond the applicable local Energy Code, PSE provides grant funding.

The second path is similar to meeting the code using a performance path. PSE will work with designers to incorporate measures that produce 10% overall savings beyond the applicable local energy code. Given the time frame of new construction planning to completion, these projects may not be complete in the first year.

All C/I customers are eligible, although larger projects tend to be more cost effective. Customers provide PSE with project costs and estimated savings, and assume full responsibility for selecting and contracting with third-party service providers. Projects must be approved for funding prior to installation/implementation to be eligible.

Commercial/Industrial New Construction Recap:

Electric:
While we saw activity increase in Q4, leading to doubling of target savings and budget, new construction activity may be one of our program areas most affected by the downturn in the economy. Development of the whole building prescriptive program, targeted to new schools, offices, and retail facilities under 100,000 square feet has helped streamline the application process and work flow for the engineering staff. This should help meet need of sectors, such as schools, where construction activity will continue.

Gas:
New construction activity remained fairly constant throughout the year and exceeded both savings target by 37 percent and budget by 65 percent. As with CI retrofit, project costs have likely increased due to high fuel costs associated with manufacturing and shipping of heavy equipment associated with gas projects. All projects remain cost effective.

Commercial Rebates, Schedules E262/G262

Description: PSE offers fixed rebates for select, commonly-applied measures to commercial customers. Rebate measures are those with energy-savings that can reasonably be standardized over a wide variety of applications, and that have competitive market pricing to ensure cost-effectiveness.

The current list (effective November, 2008) of eligible Commercial Rebates is maintained by the Company and made available upon request. Rebate amounts are updated as market conditions change.

Commercial Rebates Recap:

Electric:
Commercial rebates saw an increase in savings in large part due to a renewed emphasis in the pre-rinse spray head program replacing existing units with 1.0 and 0.6 gpm models, increased activity in the premium HVAC Service program to some large multi-site customers, and an increase in installation of variable speed drives. The commercial kitchen program activity continues to increase as more equipment dealers participate and as PSE drives increased cooperation with other Puget Sound area utilities. The Vending Machine Controller Program is seeing a large reduction in new installations due to reaching near saturation.

Gas:
Rebate program savings significantly exceeded targets while coming in at 60 percent of budget. The increase is due in large part due to a renewed emphasis in the spray head program replacing existing units with 1.0 and 0.6 gpm models. The premium HVAC Service program experienced a strong 3rd and 4th quarter due to increased contractor participation. The Gas Boiler Tune-up program activity also increased later in the year.

LED Traffic Signals, Schedule E257

Description: The program educates public-sector customers with traffic control authority (cities, counties, and DOT's) on the benefits of installing red and green LED traffic signals. PSE provides an LED informational packet along with a rebate application by mail or in person. Customers must receive electric service from PSE to qualify for the rebates, and customers with unmetered accounts must document all connected load at the intersection.

LED Traffic Signals Recap:

This program exceeded goals for 2008. While most traffic signals have been retrofit in metropolitan areas, we are continuing to try to identify pockets of older signals and work with local governments and agencies who have expressed an interest in participating in the program for future traffic signal retrofits.

Northwest Energy Efficiency Alliance, Schedule E254

Description: Northwest Energy Efficiency Alliance's (NEEA) market transformation initiatives will increase the availability and consumer acceptance of energy-efficient technologies and practices. As a partner with NEEA, PSE contributes funding for regional programs, actively participates on the NEEA Board of Directors, and supports various related initiatives within the PSE service area.
Detailed information on NEEA history, structure, funding, projects, reports, press-releases, proposals and more is available at NEEA's web site at www.nwalliance.org.

Northwest Energy Efficiency Alliance Recap:

PSE's partnership with the Northwest Energy Efficiency Alliance continues to be strong and met energy savings targets for 2008. PSE also began participation in a ductless heat pump pilot program with NEEA in late 2008, which will be evaluated through 2010..

Energy Efficient Technology Evaluation, Schedules E261/G261

PSE reviews available literature to find information on new, energy efficient technologies and products. PSE draws on the experience and research of others; e.g. E-Source, NEEA, WSU and other utilities. "New" measures must be significantly different from measures already qualifying for grants on the PSE program.
The focus of the research is on practical, cost effective technologies and measures that can be immediately implemented. Technologies must be based on generally accepted engineering or scientific principles. Savings must be quantifiable, using generally accepted engineering calculations.

Energy Efficiency Technology Evaluation Recap:

Electric:
Initial test design of pressure-independent Delta-P Valves exceeded budget expectations so we continued with a more basic approach. We did not receive preliminary results as expected in 4th quarter but will have performance data to evaluate in 2009. PSE has found several customers interested in trying the variable flow refrigerant technology in their new buildings and are following progress on development of energy calculations.

Gas:
We are continuing to work with manufacturers evaluating data to support claims for savings related to de-stratification fans and boiler controls and follow development of Stirling Engine Combined Heat & Power technology. A natural gas Stirling engine has been licensed to Rinnai and Bosch to produce heat and electricity. The system looks attractive due to potentially high efficiency but is not yet available in the US.

Local Infrastructure & Market Transformation, Schedules E270/G270

PSE participates with or utilizes the services of many organizations to support the local delivery, management, and promotion of a broad range of energy efficiency programs. Measures to be delivered are developed on a project by project basis, primarily dealing with education about energy efficiency and information about Puget Sound Energy's energy efficiency services. Measures can include participation in conferences and energy efficiency trade shows aimed at reaching a broad array of customers and trade allies. The company may provide support or fees to energy efficiency industry, trade ally and customer associations with interest in education and promotion of energy efficiency benefits.

Local Infrastructure and Market Transformation Recap:

Highlights of major 2008 new or renewed memberships include:
Consortium for Energy Efficiency (CEE),
Northwest Energy Efficiency Council,
As well as various local symposiums and green/renewable awareness events.

OTHER EES SERVICES

Program Evaluation and Research

PSE is committed to the verification of claimed energy savings and the continual improvement of energy efficiency service delivery to customers.

Program Evaluation and Research Recap:

Evaluation of high priority programs and measures included an RCM impact study, and residential showerheads, clothes washers, gas furnaces, and shell measure energy savings modeling. PSE also participated in regional studies including the New Construction Baseline Study and Vending Machine Market Characterization. Other PSE high priority measure studies and regional studies of interest are underway.

Conservation Market Research

Demand-Side Resource Market Potential: The Company will conduct an assessment of the long-term market potential for energy savings from energy efficiency and other demand-side resources, covering the twenty year period 2010-2029. The result of this market potential assessment will be the development of conservation supply curves that will be included in the Company's 2009 Integrated Resource Plan and be a key component is establishing program savings targets for 2010-2011.

Baseline Research for Program Design and Promotional Campaign Development: This research will consist of several studies designed to provide basic, foundational information about PSE customers that will be used as input to the Company's Integrated Resource Plan, as well as for the planning and design of programs and promotional campaigns.

Program-Specific Market Research Support: This research will support the development and evaluation of specific energy efficiency program promotion and communications campaigns, including message testing, campaign target markets, and campaign effectiveness studies, as appropriate.

Conservation Market Research Recap:

The Company completed its energy efficiency potential assessment for use in its 2009 Integrated Resource Plan. The Company also completed residential and commercial end use characteristics surveys, a residential market segmentation study, residential communications strategy study, and research in support of various promotional material testing, target markets, and testing receptiveness to new program concepts.

Mainstreaming Green

The Mainstreaming Green campaign envisions messaging and advertising communicating this "Why and How" of energy efficiency in addition to serving as a unifying platform of messages and images from which individual energy Efficiency Program promotional campaigns can launch. This unifying platform will allow Energy Efficiency promotions to lever one another and achieve the greatest value for the individual promotional investments.

Mainstreaming Green Recap:

2008 was both a year of laying the foundation for the Mainstreaming Green initiative and taking advantage of opportunities to spread the message through high-profile community and public engagements.

The cornerstone of the 2008 efforts was the launching and substantial completion of the research and development effort for the messaging and graphic platform for Mainstreaming Green. A local firm with deep roots in environmental communications was hired and a significant portion of their work done in 2008. In the first half of 2009 we will have the platform that will accurately explain the "Why and How" of energy efficiency in addition to the unifying graphics for all of PSE's efficiency communications.

In the interim, we found opportunities to touch our customers in enhanced ways through investments in things like the Bellevue Home Show, advertising on the state ferries to respond to specific expressions of community interest and other similar applications.

The media relations outreach also saw significant increases in energy efficiency visibility through regular newspaper columns and other specific outreach efforts to publicize specific energy efficiency program offerings and behavior change opportunities for customers.

Net Metering, Schedule E150; Production Metering, Schedule 151

Schedule 150, Net Metering for Renewable Energy Services, became effective February 11, 1999. Subsequently, Schedule 150 was revised on June 8, 2000 in response to legislative action[1], which modified certain aspects of the net metering program.

As revised, the schedule applies to customers who operate fuel cells or hydroelectric, solar or wind generators of no more that 100 kW.[2] Service under this schedule is limited to a total of 4.5 MW of cumulative nameplate generating capacity, of which no less than 2.25 MW of cumulative nameplate generating capacity shall be attributable to net metering systems that use either solar, wind, or hydroelectric power as its fuel. Customer generation can be used to offset part or all of the customer-generator's electricity use under Schedules 7, 24, 25 or 29 of Electric Tariff G.

Net Metering Recap:

PSE added 117 New Net Metered customers in 2008 bringing the total customer count to 333. Together they represent over 1.2 MW of capacity. 97 percent are Solar PV. The remaining 3 percent represent wind and micro-hydro. Of the new Net Metering customers, almost all are electing to participate in the State's Renewable Energy Production Incentive Program. Over 90 percent of eligible Net Metered customers take part in the production incentive, and PSE paid $85,545 in 2008 to participating customers.

With the passage of Schedule 248, PSE began rebating back the cost of Production Meters, so there is no additional cost from PSE for the customer when interconnecting a renewable energy system. $30,435 was rebated back to customers on this program. In 2008 PSE continues to promote the growth of this sector.

[1] On March 27, 2000, Engrossed House Bill 2334 relating to the definition of net metering systems and amending RCW 80.60.010, 80.60.020 and 80.60.040 was signed into law. The revised law became effective June 8, 2000.

[2] Revisions to Schedule 150, including increasing the maximum generator capacity to 100kW became effective June 12, 2006.

Small-Scale Renewables, Schedule E248

This program will first provide a solar rebate equal to the cost of the required production meter under terms of PSE's Production Metering tariff. Separately, PSE will develop a grant program for school solar demonstration projects which are tied in with both a curriculum and energy efficiency services. Further, PSE will encourage customers to make investments in small scale renewable electricity generating systems.

Small Scale Renewables Recap:

In 2008, PSE awarded five solar PV demonstration systems for schools with installations being facilitated under contract with the Bonneville Environmental Foundation. Amounts for the schools range from $3,639 at South Whidbey High School, $20,000 at Interlake High School, and $25,000 each for systems at Thomas Jefferson High School in Federal Way, Marshal Middle School in Olympia and Sakai Intermediate on Bainbridge Island.

Demand Response Pilots

PSE's 2005 and 2007 Integrated Resource Plans (IRP) present achievable estimated demand response capacity potential for residential, commercial and industrial customer sectors. Pilots under this schedule are being undertaken to strengthen the Company's capability to responsively and effectively offer cost-effective demand response options to all customer classes in the future. Some members of the CRAG expressed a preference for demand response pilots involving "direct load control" by the Company, as opposed to pilots which involve pricing signals to elicit demand response from consumers.

The Company's primary focus will be to pilot direct load control during times of high peak loads, focusing on the customer communication needed, as well as the information and incentives needed to get the customer to agree to respond. PSE will evaluate the effects of these pilot demand response options on its electrical system.

Attributes to be evaluated include technologies, demand reduction performance, customer behavior and preferences, impact and integration of demand response with PSE operations, demand reductions achieved, energy savings achieved, and local distribution system benefits derived.

Small-scale demand response pilots will be offered (on a voluntary basis) to targeted customers. Residential, commercial or industrial customers receiving retail bundled service under Electric Tariff G will be recruited for participation in demand events. PSE will determine prospective participant eligibility. There will be no rate impact to participants and financial incentives may be offered to customers who participate. This Schedule (249A) is tied to the provisions of Schedule 83, with funding provided through the existing Electric Conservation Service Rider.

Demand Response Pilot Recap:

The pilot has provided experience with a total of six winter and summer curtailment events. Curtailed kW performance of the site enabled, ready-to-respond customers generally was at, or exceeded each site's nominated, curtailable capacity. December 15th and 18th events were conducted with outdoor temperatures at approximately 18° and 27° F.

Recruiting customer participants for the pilot has continued to be challenging. The timeline from initial contact of a customer to the point of a customer facility being under contract and ready to respond to a curtailment event is longer and more complex than understood prior to beginning the pilot. These steps from initial contact with the customer, to a meeting with key facility decision makers, inking the participation agreement, conducting the on-site demand reduction technical assessment of the customer facility, installing demand pulse metering, EnerNOC site server installation and LAN transmission of meter data, each have presented challenges to overcome with individual customers. The declining economy has clearly also been a factor in number cases where a solidly recruited, invested, customer (particularly manufacturing and distribution and retail) subsequently, because of that increasing day-to-day business challenges, made an unanticipated decision not to participate in the pilot.

To overcome these challenges, modifications were made to the customer recruiting process to significantly increase the pool qualified leads of prospective participating facilities. EnerNOC, the pilot's service provider, assigned an experienced business development specialist to the pilot. This specialist effectively drew on EnerNOC's relationships with national corporate accounts with capacity contracts in other regions of the US to reach local branches within the PSE service area. This specialist has worked since May 2008 contacting prospective pilot participants and presenting PSE's pilot offer. Approximately 3.5 qualified leads result in each actual participant enrollment.

Substantial amounts of time are invested by EnerNOC and staff of the prospective participant in the process of information exchange, in order to move forward through the steps to participation. The specialist also closely coordinates his recruiting efforts with PSE's Business Account Services Managers to insure PSE is solidly-linked in each customer contact made within the service area.

Exhibit 1: 2008 Results by Rate Schedule

Electric Schedule Nos.	Gas Schedule Nos.	Service	MWh Savings	Therm Savings	Electric Costs	Gas Costs	Total Costs
Residential Programs							
E214	G214	Single Family Existing	122,446	1,135,643	$ 14,390,325	$ 5,140,771	$ 19,531,096
E215	G215	Single Family New Construction	3,804	141,212	$ 1,553,541	$ 751,564	$ 2,305,104
E217	G217	Multi Family Existing	15,719	32,708	$ 4,023,794	$ 269,195	$ 4,292,989
E249	G249	Pilots		-	$ 634,320	$ 356,707	$ 991,027
E201	G203	Low Income	1,031	20,188	$ 1,195,805	$ 497,422	$ 1,693,227
E202	G207	Energy Education	1,274	60,771	$ 473,618	$ 252,698	$ 726,316
E218	G218	Multi Family New Construction	-	-	$ 143,921	$ 74,251	$ 218,172
E200	G206	Residential Information Services	-	-	$ 1,225,537	$ 718,585	$ 1,944,123
		Total, Residential Programs	**144,274**	**1,390,522**	**$ 23,640,861**	**$ 8,061,193**	**$ 31,702,054**
			16.47 aMW				
Commercial Programs							
E250	G205	Commercial / Industrial Retrofit	51,600	437,005	$ 12,962,561	$ 2,286,947	$ 15,249,508
E258		Large Power User - Self Directed Prg.	12,743		$ 3,547,165		$ 3,547,165
E253	G208	Resource Conservation Manager	9,058	202,268	$ 815,504	$ 375,280	$ 1,190,784
E262	G262	Commercial Rebates	9,479	1,478,345	$ 1,020,419	$ 304,395	$ 1,324,814
E255		Small Business Lighting Rebate	9,255		$ 2,772,642		$ 2,772,642
E251	G251	Commercial/Industrial New Construction	12,005	164,160	$ 3,135,086	$ 552,779	$ 3,687,865
E257		LED Traffic Signals	569		$ 18,916		$ 18,916
E260	G260	C/I Energy Efficiency Information			$ 84,364	$ 56,046	$ 140,410
		Total, Com'l & Ind'l Programs	**104,709**	**2,281,778**	**$ 24,356,657**	**$ 3,575,447**	**$ 27,932,104**
			12.0 aMW				
Other Programs							
E254		NW Energy Efficiency Alliance	24,500	-	$ 2,269,347.00		$ 2,269,347
		Program Evaluation	-	-	$ 451,379.20	$ 354,580.77	$ 805,960
na		Market Research	-	-	$ 1,205,624.16	$ 323,557.07	$ 1,529,181
CON		Program Support	-	-	$ 112,363.54		$ 112,364
E261	G261	Energy Efficient Technology Evaluation	-	-	$ 27,423.01	$ 9,184.00	$ 36,607
E150		Net Metering	-	-	$ 82,933.69		$ 82,934
		Mainstreaming Green	-	-	$ 8,290.07	$ 5,120.07	$ 13,410
E270	G270	Local Infrastructure & Mkt Transformation	-	-	$ 75,577.83	$ 10,783.50	$ 86,361
		Total, Other Programs	**24,500**	**-**	**$ 4,232,939**	**$ 703,225**	**$ 4,936,164**
			2.8 aMW				
		Subtotal, Efficiency Programs	**273,483**	**3,672,300**	**$ 52,230,457**	**$ 12,339,865**	**$ 64,570,322**
			-	-		-	$ -
Sch. 249A		Demand Response Pilots	-	-	$ 620,749	$ -	$ 620,749
Sch. 248		Small-Scale Renewables	-	-	321,034	-	$ 321,034
		Total, Other Programs	**-**	**-**	**$ 941,783**		**$ 941,783**
			0.0 aMW				
		EES GRAND TOTAL	**273,483**	**3,672,300**	**53,172,240**	**$ 12,339,865.47**	**$ 65,512,105.59**
	G209	Low Income Customers-Shareholders	31.2 aMW	N/A	-	$ 290,517.07	$ 290,517

Exhibit 2: Incentive and Program Total Resource Cost Calculator

REQUIRED CRITERIA:
Portfolio exceeds 9 year average measure life (**actual 10.3 years**)
Overall portfolio benefit/cost ratio exceeds 1 (**actual UC = 4.05, TRC = 1.75**)
Savings by Sector at least 75% of original goals (**Resid. = 158%, Business = 104%**)

Shared Savings Calculation			
Avoided Cost	$	0.108	*Based on 2008-09 Tariff filing Appendix C*
TRC Conservation	**$**	**0.063**	*Based on 2008 actuals, as reported Feb. 2009*
Net Shared Incentive	$	0.045	*$/kWh. Multiply by 1000 to convert to $/MWh*

Band	Incentive Range	$/MWH Incentive	Shared Savings Incentive	MWh by Band	Per MWh Incentive	Shared Savings Incentive	Total Incentive
A	140.0 - <150.0%	$ 20	100%	-	$ -	$ -	$ -
B	130.0 - <140.0%	$ 20	80%	-	$ -	$ -	$ -
C	120.0 - <130.0%	$ 20	40%	14,053	$ 281,059	$ 253,516	$ 534,575
D	110.0 - <120.0%	$ 20	20%	21,637	$ 432,744	$ 195,168	$ 627,912
E	100.0 - <110.0%	$ 20	10%	21,421	$ 428,417	$ 96,608	$ 525,024
F	100% Baseline Target	$ 10	5%	216,372	$ 2,163,720	$ 487,919	$ 2,651,639
				273,483	$ 3,305,940	$ 1,033,210	$ 4,339,150

	Penalty Range	$/MWH Penalty		MWh Shortfall by Band			Total Penalty
G	90.0% - <100% Deadband	$ -		-			$ -
H	80.0 - <90.0%	$ 75		0			$ -
I	70.0 - <80.0%	$ 80		0			$ -
J	60.0 - <70.0%	$ 85		0			$ -
K	50.0 - <60.0%	$ 90		0			$ -
L	<50.0%	$ 95		0			$ -
				0			$ -

	MWH	aMW
Achieved Savings	**273,483**	31.2
% of baseline	126.4%	
Baseline Target	216,372	24.7
Penalty Level	194,735	22.2

Exhibit 2: Incentive and Program Total Resource Cost Calculator (continued)

Schedule No.		Meas Life	End-Use Type	MWh Savings	kWh Savings	Utility Cost	Customer Cost	Other Contributions	Total Cost	Levelized Utility Cost per kWh	Levelized TRC Cost per kWh	Cost Eff. Standard per kWh	UC B/C Ratio	TRC B/C Ratio
	RESIDENTIAL PROGRAMS	10	LIGHTING	144,274	144,273,849	$ 23,640,861	$ 32,740,866	$ 56,879	$ 56,438,606	$ 0.0234	$ 0.0559	$ 0.1103	4.71	1.97
E200	Residential Information Services	-		-	-	$ 1,225,537	$ -	$ -	$ 1,225,537	na	na	na	na	na
E201	Residential Low-Income Retrofit	30	SH	1,031	1,030,795	$ 1,195,805	$ -	$ -	$ 1,195,805	$ 0.0941	$ 0.0941	$ 0.1495	1.59	1.59
E202	Energy Education- Elec	10	LIGHTING	1,274	1,273,804	$ 473,618	$ -	$ 56,879	$ 530,497	$ 0.0531	$ 0.0595	$ 0.1103	2.08	1.86
E214	Single Family Existing	10	LIGHTING	122,446	122,446,093	$ 14,390,325	$ 25,678,383	$ -	$ 40,068,708	$ 0.0168	$ 0.0467	$ 0.1103	6.57	2.36
E215	Single Family New Construction	18	SH	3,804	3,804,193	$ 1,553,541	$ 859,680	$ -	$ 2,413,221	$ 0.0408	$ 0.0633	$ 0.1376	3.38	2.17
E217	Multi Family Existing	12	SH	15,719	15,718,964	$ 4,023,794	$ 6,202,803	$ -	$ 10,226,597	$ 0.0323	$ 0.0822	$ 0.1312	4.06	1.60
E218	Multi Family New Construction	-	SH	-	-	$ 143,921	$ -	$ -	$ 143,921	na	na	na	na	na
E249	Pilots	-	SH	-	-	$ 634,320	$ -	$ -	$ 634,320	na	na	na	na	na
	COMMERCIAL PROGRAMS	11	CILTG	104,709	104,708,841	$ 24,356,657	$ 36,308,425	$ -	$ 57,665,082	$ 0.0311	$ 0.0737	$ 0.1082	3.48	1.47
E250	C/I Retrofit	12	CILTG	51,600	51,600,363	$ 12,962,561	$ 26,854,304	$ -	$ 39,816,865	$ 0.0317	$ 0.0975	$ 0.1093	3.45	1.12
E251	C/I New Construction	15	CILTG	12,005	12,005,208	$ 3,135,086	$ 124,072	$ -	$ 3,259,158	$ 0.0288	$ 0.0299	$ 0.1120	3.89	3.74
E253	Resource Conservation Manager (RCM)	3	CILTG	9,058	9,057,710	$ 815,504	$ 531,184	$ -	$ 1,346,688	$ 0.0343	$ 0.0567	$ 0.1018	2.96	1.80
E255	Small Business Lighting (Calc) Rebate	12	CILTG	9,255	9,254,500	$ 2,772,642	$ 1,120,383	$ -	$ 3,893,025	$ 0.0378	$ 0.0531	$ 0.1093	2.89	2.06
E257	LED Traffic Signals	7	CILTG	569	569,240	$ 18,916	$ 183,276	$ -	$ 202,192	$ 0.0062	$ 0.0660	$ 0.1045	16.91	1.58
E258	High Voltage - Self Directed	12	FLAT	12,743	12,742,869	$ 3,547,165	$ 1,706,984	$ -	$ 5,254,149	$ 0.0352	$ 0.0521	$ 0.1032	2.93	1.98
E260	Commercial Information Services	-		-	-	$ 84,364	$ -	$ -	$ 84,364	na	na	na	na	na
E262	Commercial Rebates	10	CIAPP	9,479	9,478,951	$ 1,020,419	$ 2,788,223	$ -	$ 3,808,642	$ 0.0154	$ 0.0574	$ 0.1094	7.12	1.91
	Other Programs	9	LIGHTING	24,500	24,500,000	$ 4,150,005	$ 2,269,347	$ -	$ 6,419,352	$ 0.0261	$ 0.0403	$ 0.1092	4.19	2.71
E254	NE Energy Efficiency Alliance	9	LIGHTING	24,500	24,500,000	$ 2,269,347	$ 2,269,347	$ -	$ 4,538,694	$ 0.0143	$ 0.0285	$ 0.1092	7.66	3.83
E261	Energy Efficiency Technology Evaluation			-	-	$ 27,423	$ -	$ -	$ 27,423	na	na	na	na	na
E270	Local Infrastructure, Mkt Transformation			-	-	$ 75,578	$ -	$ -	$ 75,578	na	na	na	na	na
	Mainstreaming Green				-	$ 8,290	$ -	$ -	$ 8,290	na	na	na	na	na
	Program Evaluation and Research			-	-	$ 451,379	$ -	$ -	$ 451,379	na	na	na	na	na
	Conservation Market Research			-	-	$ 581,253	$ -	$ -	$ 581,253	na	na	na	na	na
	Conservation Supply Curves			-	-	$ 623,953	$ -	$ -	$ 623,953	na	na	na	na	na
	Program Support			-	-	$ 112,364	$ -	$ -	$ 112,364	na	na	na	na	na
	Electric Efficiency RFP			-	-	$ 418	$ -	$ -	$ 418	na	na	na	na	na
	Total	10	LIGHTING	273,483	273,482,690	$ 52,147,523	$ 71,318,638	$ 56,879	$ 120,523,040	$ 0.0272	$ 0.0629	$ 0.1103	4.05	1.75