

Exhibit No. ____ (JRS-8)
Docket Nos. UE-060266/UG-060267
Witness: Joelle R. Steward

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UE-060266

DOCKET NO. UG-060267

EXHIBIT TO DIRECT TESTIMONY OF

JOELLE R. STEWARD

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Requirements for Electric Incentive Mechanism

July 25, 2006

Requirements on Electric Efficiency Incentive Mechanism

Agreed Criteria of Public Counsel and Commission Staff

1. If approved, the mechanism becomes effective for programs to be implemented starting January 1, 2007.
2. The Company must achieve at least 16.5 aMW in 2006 in order to be eligible for an incentive in 2007.
3. The baseline target for the incentive/penalty mechanism will be set on an annual basis, with joint consensus of PSE and the CRAG, and subject to Commission approval. Penalties or incentives shall be paid or awarded in the two following years, on the basis of annual energy efficiency achievement by the Company.
4. PSE must achieve at least 75% of the projected savings in each sector, in order to be eligible to receive an incentive. The sectors are residential and commercial/industrial. Savings attributed to self-directing industrials in Schedule 258 and the Northwest Energy Efficiency Alliance in Schedule 254 are excluded from any sector calculation.
5. The weighted average measure life of the total program portfolio must meet a minimum of 9 years to be eligible for an incentive.
6. All first-year savings from all funding sources count towards the baseline target with the exception of annual savings as calculated by the Northwest Energy Efficiency Alliance (NEEA). The company may claim its proportionate share of NEEA annual savings only from NEEA programs that are receiving implementation funding during the company's program year. For example, NEEA tracks and counts savings from its Builder Operator Certification program. These savings would not count toward the company's annual conservation target because NEEA discontinued funding for this Builder Operator program several years ago.
7. Following each program year, it will be determined if the Company qualifies for an incentive or a penalty based on PSE's Annual Report on Conservation Results, filed with the Commission on or before February 15. The Annual Report will include year-end savings and cost-effectiveness results.
 - a. If a penalty is to be incurred:
 - i. PSE shareholders will pay 75% of the full penalty within 90 days of filing the Annual Report. The remaining 25% of the penalty shall be paid no later than April 1 of the second year following the program year, subject to adjustments based on the results of ex-post verification of savings by the Evaluation Committee. PSE shall provide for separate accounting of the penalty funds, with interest accrued (at the company's commission authorized overall

commitment outlined in Section D.(8) of the Conservation Settlement in the 2001 rate case).

11. The incentive mechanism will sunset after 3 full program years (2007 - 2009). The Company shall complete collection of incentives or payment of penalties for all 3 program years under this mechanism. The Company may file a request to extend or modify the mechanism beyond the pilot three-year period, either as part of a general rate case or in a separate filing.
12. In calculating actual conservation achievement as a percentage of the target, numbers will be rounded to the nearest tenth of one percent.