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BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of
PUGET SOUND ENERGY, INC.
For Approval of 2003 Power Cost
Adjustment Mechanism Report

DOCKET NO. UE-031389
PARTIAL SETTLEMENT STIPULATION

I. INTRODUCTION

1. This Stipulation is entered into this 19th day of December, 2003, by and between: Puget Sound Energy, Inc. ("PSE" or the "Company"), the Staff of the Washington Utilities and Transportation Commission ("Staff"), and the Public Counsel Section of the Attorney General's Office ("Public Counsel") (referred to hereinafter jointly as the "Participating Parties" and individually as a "Participating Party").

2. The Participating Parties hereby voluntarily agree to this Partial Settlement Stipulation to resolve a number of issues in dispute among them regarding PSE's Power Cost Adjustment Mechanism Annual Report For The Twelve Months Ended June 30, 2003 ("2003 PCA Report"). The Participating Parties understand that this Partial Settlement Stipulation is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Partial Settlement Stipulation.

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II. PROCEDURAL BACKGROUND

3. In the Commission's Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 ("Twelfth Supplemental Order"), the Commission approved the parties' Settlement Stipulation for Electric and Common Issues for PSE's most recent general rate case ("Stipulation"). Among other things, the Twelfth Supplemental Order authorized a Power Cost Adjustment Mechanism (PCA). Exhibit A to the Stipulation, which is attached to the Twelfth Supplemental Order, sets forth details regarding the PCA, and is hereinafter referred to and cited as the "PCA Settlement."

4. Following verification of certain numbers set forth in the exhibits to the PCA Settlement, the Commission ordered that revised pages of Exhibits A, B, D and F be substituted for the corollary pages of Exhibits A, B, D and F of the PCA Settlement. The Commission further ordered that the resulting adjusted calculations be used for purposes of the PCA accounting required by the PCA Settlement beginning July 1, 2002. See Fifteenth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (May 13, 2003) ("Fifteenth Supplemental Order").

5. The PCA Settlement describes the PCA as

a mechanism that would account for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism would account for a sharing of costs and benefits that are graduated over four levels of power cost variances, with an overall cap of \$40 million (+/-) over the four year period July 1, 2002 through June 30, 2006. If the cap is exceeded, costs and benefits in excess of \$40 million would be shared at a different level of sharing.

PCA Settlement, ¶ 2. The PCA Settlement sets forth the various levels of costs and benefits sharing between the Company and its Customers, and provides that "[t]he customer's share of the power cost variability will be deferred as described below..." *Id.* at ¶ 3.

1 6. In order to implement its sharing provisions and overall cap, the PCA
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3 Settlement requires an annual true-up of actual power costs (versus the normalized level set
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5 in rates) and an accounting of sharing amounts. To accomplish this, the PCA Settlement
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7 provides that:

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9 • In August of 2003 and each year thereafter, the Company shall file an annual
10 report detailing the power costs included in the deferral calculation, in a form
11 satisfactory to the Commission, for Commission review and approval. The
12 Commission shall have an opportunity to review the prudence of the power costs
13 included in the deferred calculation, and costs determined to be imprudent can be
14 disallowed at that time. Staff and other interested parties will have the
15 opportunity to participate in the prudence review process.
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18 PCA Settlement, ¶ 4.
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20 7. In compliance with the PCA Settlement and Twelfth and Fifteenth
21 Supplemental Orders, on August 28, 2003, PSE filed a Petition for review and approval of
22 its 2003 PCA Report. At the prehearing conference on September 29, 2003, the parties
23
24 agreed that it might be possible to reach consensus with respect to whether some or all of the
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26 2003 PCA Report complied with the Twelfth Supplemental Order and PCA Settlement. The
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28 Administrative Law Judge set a deadline of December 5 for filing any proposed settlement.
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30 Discovery commenced, and the parties convened a series of conference calls to discuss the
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32 progress of investigation into the 2003 PCA Report and a variety of issues that were
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34 potentially disputed.
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37 8. As a result of these discussions, PSE has agreed to make several corrections
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39 to its 2003 PCA Report suggested by Staff. The Participating Parties have also agreed to a
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41 methodology for calculating a number of adjustments and true-ups for the 2003 PCA Report
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43 and future annual PCA Reports filed pursuant to the PCA Settlement, ¶ 4. These agreements
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45 resolve all but one issue regarding PSE's 2003 PCA Report, as further described below.
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III. PARTIAL SETTLEMENT AND REQUEST FOR APPROVAL

A. Carve-out of Impasse Issue

9. The Participating Parties have agreed that only the following issue remains unresolved in this proceeding:

- Fuel costs for Tenaska and Encogen/Cabot: Staff and Public Counsel object to the amount of fuel costs for the Tenaska and Encogen natural gas-fired cogeneration projects.

10. The Participating Parties specifically carve out and exclude the impasse issue described in paragraph 9, above, from the partial settlement set forth in this stipulation, and acknowledge that a hearing will need to be set to litigate the impasse issue.

B. Partial Settlement and Request for Approval

11. Except for the impasse issue described in Section III.A., above, the Participating Parties have resolved all other issues with respect to PSE's 2003 PCA Report.

12. The Participating Parties have agreed to a methodology for treating "out of PCA period" items. Exhibit A hereto defines and outlines the agreed upon treatment for such costs.

13. The Participating Parties agree that certain adjustments must be made to the 2003 PCA Report as a result of the methodologies described in Exhibit A hereto, and also agree that certain corrections should be made to the 2003 PCA Report. Such adjustments and corrections are described in Exhibit B hereto.

14. The revised 2003 PCA Report attached hereto as Exhibit C reflects changes to PSE's original filing necessary to incorporate the corrections and agreements described in paragraph 13, above, and Exhibit B. The Participating Parties recognize that further

1 revisions to the 2003 PCA Report may or may not be required as a result of the outcome of
2 litigation over the impasse issue described in Section III.A., above.
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4 15. The Participating Parties expressly agree that the methodologies set forth in
5 paragraph 12, above, and Exhibit A hereto should be used to calculate not only PSE's 2003
6 PCA Report, but also future annual PCA Reports filed pursuant to the PCA Settlement, ¶ 4.
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9 16. This Partial Settlement Stipulation is presented to the Commission under
10 WAC 480-09-465 (Alternative Dispute Resolution) for the Commission's approval. Except
11 with respect to the question whether further revisions to the 2003 PCA Report will be
12 required as a result of the outcome of litigation over the impasse issue described in Section
13 III.A., above, each Participating Party agrees that the issues resolved in this Partial
14 Settlement Stipulation, and the revised 2003 PCA Report attached hereto as Exhibit C,
15 comply with the Commission's Twelfth and Fifteenth Supplemental Orders and PCA
16 Settlement and/or are fair, just, reasonable and sufficient.
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19 **C. Miscellaneous Provisions**
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21 17. The Participating Parties agree to the following miscellaneous terms with
22 respect to the Partial Settlement Stipulation:
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24 18. **Binding on Parties:** Each Participating Party agrees to support the terms
25 and conditions of this Partial Settlement Stipulation. The Participating Parties understand
26 that this Partial Settlement Stipulation is subject to Commission approval.
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28 19. **Integrated Terms of Settlement:** This Partial Settlement Stipulation
29 represents an integrated resolution of issues. Accordingly, the Participating Parties
30 recommend that the Commission adopt this Partial Settlement Stipulation in its entirety. If
31 the Commission rejects all or any material portion of this Partial Settlement Stipulation, or
32 adds additional material conditions, each Participating Party reserves the right, upon written
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1 notice to the Commission and all parties to this proceeding within five (5) business days of
2 the date of the Commission's Order, to withdraw from this Partial Settlement Stipulation.
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4 For purposes of this paragraph, each Participating Party shall determine materiality and shall
5 do so in good faith. If any Participating Party exercises its right of withdrawal, the Partial
6 Settlement Stipulation shall be void and of no effect, and the Participating Parties will
7 support a joint motion to establish a procedural schedule to litigate disputed issues.
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12 20. **Negotiated Agreement:** This Partial Settlement Stipulation represents a
13 fully negotiated agreement. Each Participating Party has been afforded the opportunity,
14 which it has exercised, to review the terms of the Partial Settlement Stipulation. Each
15 Participating Party has been afforded the opportunity, which it has exercised, to consult with
16 legal counsel of its choice concerning such terms and their implications. The Partial
17 Settlement Stipulation shall not be construed for or against any Participating Party based on
18 the principle that ambiguities are construed against the drafter.
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27 21. **Procedure:** The Participating Parties shall cooperate in submitting this
28 Partial Settlement Stipulation promptly to the Commission for approval. The Participating
29 Parties agree to cooperate, in good faith, in any further activities that may be necessary to
30 support and explain the basis of this Partial Settlement Stipulation.
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35 22. **No Precedent:** The Participating Parties enter into this Partial Settlement
36 Stipulation and the attached Issue Agreements to avoid further expense, uncertainty, and
37 delay. By executing this Partial Settlement Stipulation, no Participating Party shall be
38 deemed to have accepted or consented to the facts, principles, methods, or theories
39 employed in arriving at the Partial Settlement Stipulation, and except to the extent expressly
40 set forth in this Partial Settlement Stipulation, no Participating Party shall be deemed to have
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agreed that this Partial Settlement Stipulation is appropriate for resolving any issues in any other proceeding.

23. **Execution:** This Partial Settlement Stipulation may be executed by the Participating Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 19th day of December, 2003.

PUGET SOUND ENERGY, INC.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF

By James W. Eldredge
James W. Eldredge
Vice President, Corporate Secretary
and Chief Accounting Officer

By _____
Robert Cedarbaum
Assistant Attorney General

PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON

By _____
Simon ffitch
Assistant Attorney General
Public Counsel Section Chief

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23. Execution: This Partial Settlement Stipulation may be executed by the Participating Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 18th day of December, 2003.

PUGET SOUND ENERGY, INC.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF

By _____
Kimberly Harris
Vice President of Regulatory Affairs

By 
Robert Cedarbaum
Assistant Attorney General

PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON

By _____
Simon fitch
Assistant Attorney General
Public Counsel Section Chief

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DATED this 19th day of December, 2003.

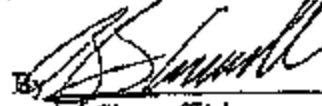
PUGET SOUND ENERGY, INC.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF

By _____
Kimberly Harris
Vice President of Regulatory Affairs

By _____
Robert Cedarbaum
Assistant Attorney General

PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON

By  for:
Simon Fitch
Assistant Attorney General
Public Counsel Section Chief