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BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,  
  
Complainant,  
  
v.  
  
PUGET SOUND ENERGY, INC.,  
  
Respondent.

DOCKET NOS. UE-011570 and  
UG-011571 (Consolidated)

SETTLEMENT STIPULATION AND  
APPLICATION FOR COMMISSION  
APPROVAL OF SETTLEMENT

PUBLIC COUNSEL SECTION OF THE  
OFFICE OF THE WASHINGTON  
ATTORNEY GENERAL,  
  
Complainant,  
  
v.  
  
PUGET SOUND ENERGY, INC.,  
  
Respondent.

DOCKET NO. UE-011411

SETTLEMENT STIPULATION AND  
APPLICATION FOR COMMISSION  
APPROVAL OF SETTLEMENT - 1

[07771-0082/011570, PSE, Settlement Stipulation, 3-20-02.doc]

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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1. This Settlement Stipulation is entered into this 20th day of March, 2002, by and between the following parties to the above referenced dockets: Puget Sound Energy, Inc. ("PSE" or the "Company"), the Staff of the Washington Utilities and Transportation Commission ("WUTC Staff"), the Public Counsel Section of the Attorney General's Office ("Public Counsel"), Intervenor Industrial Customers of Northwest Utilities ("ICNU"), Intervenor the Kroger Co. ("Kroger"), Intervenor Northwest Industrial Gas Users ("NWIGU"), Intervenor AT&T Wireless Services, Inc. ("AWS"), Intervenor Seattle Steam Company, and Joint Intervenor NW Energy Coalition and Natural Resources Defense Council ("NWEC/NRDC"), as represented by the undersigned (referred to hereinafter jointly as the "Participating Parties" and individually as a "Participating Party").

2. The Participating Parties hereby voluntarily agree to this Settlement Stipulation to resolve matters in dispute among them and to expedite the orderly disposition of this proceeding. The Participating Parties understand that this Settlement Stipulation is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement Stipulation by March 29, 2002. The Participating Parties agree that this Settlement Stipulation is in the public interest and will result in interim rates that are just, fair, reasonable and sufficient.

**I. INTRODUCTION**

3. On November 26, 2001, PSE filed tariff revisions designed to effectuate a general rate increase for electric and gas services. On December 3, 2001, PSE filed a request for an interim electric rate increase of \$170.7 million. These proceedings have been consolidated under Docket Nos. UE-011570 and UG-011571.

4. On October 8, 2001, the Public Counsel Section of the Attorney General's Office filed with the Commission a

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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complaint against PSE in Docket No. UE-011411. The complaint alleges that PSE violated the Commission's Fourteenth Supplemental Order in the Puget/WNG Merger proceeding (Docket No. UE-960195) and the Rate Plan in the underlying merger settlement by failing to transfer the prior residential exchange credit to general rates on July 1, 2001. The complaint is pending before the Commission.

5. Following settlement discussions among the Participating Parties in these dockets, the Participating Parties have entered into the following agreement ("Settlement Stipulation") regarding the resolution of the request for interim rate relief, the Public Counsel complaint against PSE, and certain issues related to the General Rate Case. Accordingly, this Settlement Stipulation is presented to the Commission. If this Settlement Stipulation is approved, it would constitute a full settlement of all issues raised in the Interim Rate Case and certain issues related to the pending General Rate Case in Docket Nos. UE-011570 and UG-011571. It would also constitute a full and final settlement of the complaint filed by Public Counsel in Docket No. UE-011411 regarding PSE's compliance with the Merger Order in Docket Nos. UE-951270 and UE-960195 with respect thereto.

6. This Settlement Stipulation is presented under WAC 480-09-465 (Alternative Dispute Resolution) for the Commission's approval of the issues specified below. The Participating Parties agree that comments of the public, including those that were filed in connection with the Interim Rate Case and that may be filed or made at any public hearing on this Settlement Stipulation, may be admitted to the record without objection.

**II. RESOLUTION OF ISSUES**

**A. Resolution of Interim Rate Case**

7. No later than March 29, 2002, the Company will file tariff schedules to effect collection by PSE of \$25 million in

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One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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interim electric rate relief. Such relief will not be subject to refund. Interim rates will go into effect on April 1, 2002 and will terminate on June 30, 2002. The interim increase will be allocated to rate schedules (except Schedules 448 and 449 and PSE's special contract customers) in proportion to the total annual kWh sales to each rate schedule during 2001 to total retail sales (except Schedules 448 and 449 and PSE's special contract customers). The dollars allocated to the non-residential rate schedules will be collected by increasing each component of the bill by an equal percent. The dollars allocated to the residential rate schedules will be collected by increasing each component of the bill (except the customer charge) by an equal percent. Implementation of the interim increase will not change the current peak/off peak differential in the current TOU pilot. Any 2001 loads of former Schedule 48 customers that have returned to core tariffs will be added to the loads of their current schedules for purposes of allocating the interim increase.

8. Approval of this Settlement Stipulation and the interim relief described in the foregoing paragraph resolves all issues concerning or related to the Company's Accounting Petition in Docket No.UE-011600. PSE's power cost deferrals will terminate effective upon approval of the Settlement Stipulation. PSE will not seek recovery of any power costs deferred since January 1, 2002.

**B. Resolution of Certain Issues in General Rate Case**

**1. Stipulated Reduction in Filed Revenue Requirement**

9. The Company will remove the electric real-time pricing mechanism and associated electric hedge option from its proposed rate filing, thus decreasing PSE's proposed revenue requirement by (1) the costs associated with the real-time pricing mechanism, (2) the costs associated with the electric hedge option, and (3) the \$5 million common costs related to implementation of the real-time pricing mechanism and proposed natural gas hedging and monthly purchased gas adjustments. The

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
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Participating Parties have not agreed that gas hedge options should be included or excluded from PSE's final rates; this issue will be addressed in the negotiation and collaborative process described below. With these adjustments and the Return on Equity and Equity Capital Ratio reflected in paragraph 13 of this Settlement Stipulation, PSE's proposed revenue requirement increase is the following:

Electric Rate Increase:	\$89,725,197 6.49 %
Gas Rate Increase:	\$56,246,305 9.14%

10. The foregoing electric and gas rate increases are the maximum amounts that PSE will seek in the event of litigation, i.e. PSE will not unilaterally propose additional increases to its revenue requirement. However, this provision does not preclude an increase in PSE's revenue requirement beyond the foregoing increases in the event that issues raised by other parties in the General Rate Case increase PSE's costs and related revenue requirement. The foregoing increases may be lower based upon the results of the review of revenue requirement in the collaborative or litigation processes described below.

**2. Implementation of Expanded Time of Use Program**

11. PSE agrees that further implementation of its optional Time of Use program to new and additional customers, including customers relocating to premises previously served under the TOU program, shall operate as an opt-in program for customers rather than an opt-out program. The rate design and customer notification for the TOU rates will be determined pursuant to the rate design collaborative and litigation options contained in Section II.C of this Settlement Stipulation.

12. The Participating Parties agree to use good faith to address the issues relating to the participation of current TOU pilot

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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customers in the further implementation of the TOU program, including but not limited to notice content and procedures, through negotiation or other structured collaborative process by the conclusion of the existing TOU pilot. In the event these issues are not resolved, the Participating Parties will resort to the expedited procedural schedule for litigation adopted pursuant to Section II.C.

**3. Equity Capital and Return on Equity**

13. The issue of a fair rate of return on equity (i.e., cost of common equity and equity capital structure) for purposes of the pending General Rate Case will be resolved as follows: pro forma Equity Capital Ratio shall be set at 40%, and Return on Equity (ROE) shall be set at 11%. The 11% ROE takes into account the development and implementation of a Power Cost Adjustment (PCA) consistent with the principles stated herein for a PCA, as described in Section II.C.1, below.

14. The cost of equity capital determined pursuant to this Section II.B.3. shall be applicable to rates from the effective date of rates arising out of the pending General Rate Case until the cost of equity capital is addressed by the Commission in a subsequent PSE rate case.

**4. Equity Growth Tracking**

15. The Participating Parties hereby agree to a mechanism that will both verify and enforce PSE's obligation to achieve an equity capital ratio based on the following target threshold schedule:

- December 31, 2003: 34%
- December 31, 2004: 36%
- December 31, 2005: 39%
- December 31 of Subsequent Years: 39 %

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One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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16. Such mechanism is set forth in the form of the gas and electric discount tariff schedules attached to this Settlement Stipulation as Exhibit A. If the Company fails to reach a target threshold, the overall general rates will be reduced by 2%, as set forth in Exhibit A. After approval of this Settlement Stipulation, the discount tariffs are self-executing and, once approved as part of approval of this Settlement Stipulation, will not require Commission approval to implement any rate reduction or increase.

17. PSE and all other Participating Parties agree not to seek or support any amendment, modification, alteration or rescission of the settlement terms establishing the equity capital ratio mechanism before the Commission or any other forum by any form of application, petition, complaint, request, or any other formal or informal procedure. Nothing in this Section II.B.4. precludes the filing of a general rate case or a complaint against general rates and should not be construed as a stay-out period or rate plan. By entering into this Settlement Stipulation, no party waives its right to seek judicial enforcement of the equity growth tracker mechanism, or of the order approving the equity growth tracker in the Settlement Stipulation.

18. Once a 39% equity capital ratio is achieved, PSE will maintain at least that equity capital ratio until the conclusion of its next general rate case. Failure to do so will result in a 2% overall reduction in general rates pursuant to the discount tariffs in Exhibit A.

**C. Issues to Be Addressed in Collaborative Processes**

19. The Participating Parties agree to use good faith efforts to resolve all remaining issues in the General Rate Case through negotiation or other structured collaborative process. It is the intent of the Participating Parties to resolve issues so that general electric rates will go into effect no later than July 1, 2002 and general gas rates will go into effect no later than September 1, 2002. Any resolution of any issue that results from these collaborative or negotiation processes would be subject to Commission review and

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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approval. In those instances, if any, where agreement cannot be reached after good faith negotiations, the Participating Parties will resort to the expedited procedural schedule developed in accordance with this Settlement Stipulation.

20. The Participating Parties will, after consultation and coordination with other parties involved, develop an expedited, informal procedural schedule for each identified collaborative process. Such schedule shall include, but not be limited to, scheduling guidelines aimed to achieve the applicable goal on a timely basis, discovery pursuant to WAC 480-09-480 with expedited turn-around for responses to data requests, and issue identification. Upon consensus of the parties participating in a collaborative process, the terms and conditions of such process may be changed and memorialized in writing.

21. The parties will consult with the Administrative Law Judge on or before April 1, 2002, to develop an appropriate litigation schedule, to be implemented if it becomes necessary, consistent with the terms and conditions of this Settlement Stipulation.

**1. Power Cost Adjustment Mechanism**

22. The Participating Parties agree that a power cost adjustment mechanism (PCA) which properly shares the risk of power cost variations between customers and shareholders is appropriate and will be implemented as part of the General Rate Case. The Participating Parties will provide notice to all parties and include all interested parties in an attempt in good faith pursuant to a collaborative process to resolve the design of such PCA no later than May 31, 2002. If the parties are unable to agree on the design of a PCA, that issue will be litigated and resolved on a schedule that would place a PCA in effect on or before September 1, 2002.

**2. Revenue Requirement, Rate Spread and Rate Design**

23. The Participating Parties will provide notice to all parties and include all interested parties in an attempt in good faith

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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pursuant to a collaborative process to resolve remaining electric and gas revenue requirement, rate spread and rate design issues in the following order:

1. issues concerning the Company's revenue requirement with respect to its electric operations, except for allocation of common costs between the gas and electric operations;
2. issues concerning allocation of common costs between the Company's gas and electric operations;
3. issues concerning electric rate spread and rate design;
4. issues concerning the Company's revenue requirement with respect to its gas operations; and
5. issues concerning gas rate spread and rate design.

The Participating Parties may address issues outside of the order set forth above if it is deemed efficient to do so by all impacted parties. In addition, adjustments to electric or gas revenue requirements may be addressed outside of the order set forth above in order to accommodate collaborative resolution of issues raised by other parties in the General Rate Case that increase PSE's costs and related revenue requirement, including but not limited to: cost, revenue and incentive recovery mechanisms; energy efficiency and affordability programs for low-income customers; energy efficiency programs for all customer classes; and gas Rule No. 28 and electric Schedules 70, 71 and 72 (underground conversions and facility relocations). The inability to resolve one or more of the above listed five issues shall not preclude resolution of any other issue.

24. Electric rate spread and design shall be based on the net rate in effect on July 1, 2001 after transfer of the former Schedule 94 residential exchange credit to general rates in Schedules 7, 8, 10 ,11, 12, 29 35, 56, 59, and the TOU residential customers covered by Schedule 307.

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One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
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25. The Participating Parties intend to resolve the electric portion of the revenue requirement, rate spread and rate design collaborative by May 31, 2002, so that electric general rates will be put into effect on or before July 1, 2002. The Participating Parties intend to resolve the gas portion of this collaborative by July 31, 2002, so that natural gas general rates will be put into effect on or before September 1, 2002. If the parties are unable to agree on revenue requirements, rate spread or rate design for electric or gas or both, the unresolved issues will be litigated and resolved on a schedule that would put electric general rates into effect on or before September 1, 2002 and gas rates into effect on or before November 1, 2002.

**3. Good Faith Negotiations Over Remaining Issues in General Rate Case**

26. The Participating Parties will negotiate in good faith with the remaining parties to the General Rate Case to resolve other issues and concerns by May 31, 2002, including but not limited to issues regarding: cost, revenue and incentive recovery mechanisms; energy efficiency and affordability programs for low-income customers; energy efficiency programs for all customer classes; and gas Rule No. 28 and electric Schedules 70, 71 and 72 (underground conversions and facility relocations). If the parties are unable to agree on an issue, it shall be litigated and resolved on a schedule that would put general electric rates into effect on or before September 1, 2002 and general gas rates into effect on or before November 1, 2002.

**4. Effective Date of Rates in General Rate Case**

27. New general electric rates will go into effect on or before July 1, 2002 if the remaining issues in the pending General Rate Case are settled through the collaborative process or negotiations. New general gas rates will go into effect on or before September 1, 2002 if the remaining issues in the pending General Rate Case are settled through the collaborative process or negotiation.

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
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28. If the parties are unable to agree with respect to any of the remaining issues, the unresolved issues will be litigated and resolved on a schedule that will result in general electric rates with an effective date on or before September 1, 2002 and general gas rates with an effective date on or before November 1, 2002.

**D. Additional Matters**

**1. Special Contracts**

29. PSE and Weyerhaeuser will enter into a special contract that will permit Weyerhaeuser to supply the power requirements of its PSE-served facilities on Schedule 49 from generation owned by Weyerhaeuser, or if necessary, from market purchases. The pricing for such contract will be based on Schedule 449, without additional charges. Following the initial term, the special contract shall provide for successive renewal terms of one year. Upon termination of the special contract, Weyerhaeuser shall have the following options: 1) purchase pursuant to any retail access tariff then available, or 2) return to service under Schedule 49 or the otherwise applicable cost-based tariff. If Weyerhaeuser elects to return to a cost-based power supply tariff, it shall compensate PSE for any long-run incremental resource costs that PSE incurs to provide such service.

30. This special contract will be subject to the provisions of WAC 480-80-335, and it will be filed for Commission approval by April 1, 2002, with a request for consideration at the April 10, 2002 open meeting, and for an effective date of May 1, 2002. PSE will make all reasonable efforts to obtain timely approval of the special contract. Assuming that the special contract complies with the principles set forth in this Settlement Stipulation, WUTC Staff and Public Counsel will not oppose the special contract before the Commission.

**2. Settlement of Docket No.UE-011411**

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
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31. Public Counsel will dismiss its merger violation/residential exchange complaint in Docket No.UE-011411 with prejudice upon Commission approval of this Settlement Stipulation. The schedule in that case shall be held in abeyance until the proceeding is dismissed.

**E. Miscellaneous Provisions**

32. The Participating Parties agree to the following miscellaneous terms with respect to the Settlement Stipulation:

33. **Binding on Parties:** The Participating Parties agree to support the terms and conditions of the Settlement Stipulation as described above. The Participating Parties understand that this Settlement Stipulation is subject to Commission approval.

34. **Integrated Terms of Settlement:** The Participating Parties have negotiated this Settlement Stipulation as an integrated document. Accordingly, the Participating Parties recommend that the Commission adopt this Settlement Stipulation in its entirety.

35. **Procedure:** The Participating Parties shall cooperate in submitting this Settlement Stipulation promptly to the Commission for acceptance so that it may be approved and implemented no later than March 29, 2002. The Participating Parties shall request that a hearing be set no later than March 25, 2002, to present the Settlement Stipulation, and shall each make a witness or witnesses available to answer questions in support of this Settlement Stipulation or provide such other indication of support as the Commission or ALJ requests. The Participating Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Stipulation and to supplement the record accordingly. Any Participating Party may elect to file with the Commission, on or before March 25, 2002, a memorandum explaining this Settlement Stipulation. The Participating Parties agree to recommend the suspension of all existing due dates and hearing dates in Docket Nos. UE-011570 and UG-011571 and

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(425) 453 -  
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Docket No. UE-011411. The Participating Parties also agree to support scheduling general public hearings to solicit comments on issues pertaining to the General Rate Case before general rates go into effect.

36. If the Commission rejects all or any material portion of this Settlement Stipulation, or adds additional material conditions, each Participating Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Settlement Stipulation. If any Participating Party exercises its right of withdrawal, this Settlement Stipulation shall be void and of no effect, and the Participating Parties will support a joint motion to reinstate an expedited procedural schedule for those dates specifically suspended by the Commission pursuant to the above request.

37. **No Precedent:** The Participating Parties enter into this Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Settlement Stipulation, no Participating Party shall be deemed to have accepted or consented to the facts, principles, methods, or theories employed in arriving at the Settlement Stipulation, and except to the extent expressly set forth in this Settlement Stipulation, no Participating Party shall be deemed to have agreed that such a Settlement Stipulation is appropriate for resolving any issues in any other proceeding.

38. **Execution:** This 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 20th day of March, 2002.

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
6980

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**PUGET SOUND ENERGY, INC.**

By \_\_\_\_\_  
Kimberly Harris  
Vice President of Regulatory Affairs

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

By \_\_\_\_\_  
Simon ffitch  
Assistant Attorney General  
Public Counsel Section Chief

**KROGER CO.**

By \_\_\_\_\_  
Michael L. Kurtz  
Attorney for Kroger Co.

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION  
STAFF**

By \_\_\_\_\_  
Robert Cedarbaum  
Shannon Smith  
Assistant Attorneys General

**INDUSTRIAL CUSTOMERS OF  
NORTHWEST UTILITIES**

By \_\_\_\_\_  
Bradley Van Cleve  
Attorney for ICNU

**NORTHWEST INDUSTRIAL  
GAS USERS**

By \_\_\_\_\_  
Edward A. Finklea  
Attorney for NWIGU

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**AT&T WIRELESS SERVICES, INC.**

**SEATTLE STEAM COMPANY**

By \_\_\_\_\_

Kris Calvin, C.P.M.

Its: Commodity Manager

By \_\_\_\_\_

James G. Young

Its: President

**NW ENERGY COALITION and  
NATURAL RESOURCES DEFENSE  
COUNCIL**

By \_\_\_\_\_

Danielle Dixon

Policy Associate, NW Energy Coalition

SETTLEMENT STIPULATION AND  
APPLICATION FOR COMMISSION  
APPROVAL OF SETTLEMENT - 15

[07771-0082/011570, PSE, Settlement Stipulation, 3-20-02.doc]

PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453 -  
6980

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**EXHIBIT A**

[Gas and Electric Schedules 119]

SETTLEMENT STIPULATION AND  
APPLICATION FOR COMMISSION  
APPROVAL OF SETTLEMENT - 16  
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PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
6980