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 PARTIAL SETTLEMENT AGREEMENT RE: ELECTRIC RATE SPREAD, RATE DESIGN AND LOW INCOME ENERGY ASSISTANCE

I. INTRODUCTION

1 This Partial Settlement Agreement ("Settlement Agreement") is entered into in order to compromise and settle all issues concerning electric rate spread and rate design, and low-income electric energy assistance, raised in this consolidated proceeding, pursuant to WAC 480-07-730(2). This Settlement Agreement sets forth both the rate spread that the parties agree should be applied to any electric revenue requirement the Commission determines at the conclusion of litigation on contested revenue requirement issues and the rate design that will be applied to produce the total revenue requirement. This Settlement Agreement also sets forth the parties agreement regarding increased funding for low-income electric energy assistance.

II. PARTIES

2 This Settlement Agreement is entered into by: Puget Sound Energy, Inc. ("PSE" or "the Company"); the Staff of the Washington Utilities and Transportation Commission ("Staff"); the Public Counsel Section of the Attorney General's Office ("Public Counsel"); the Kroger Co., on behalf of its Fred Meyer Stores and Quality Food Centers divisions

("Kroger"); the Industrial Customers of Northwest Utilities ("ICNU"); the Federal Executive Agencies ("FEA"); the NW Energy Coalition ("NWEC"); and the Energy Project (collectively referred to hereinafter as the "Parties" and each individually as a "Party").

III. BACKGROUND

3 On February 15, 2006, PSE filed revised tariff schedules in Docket No. UE-060266 to effect an increase in its base prices to its electric customers of $140 million (8.72%) (plus a tracker for depreciation expense). PSE also filed revised tariff schedules in Docket No. UG-060267 to effect an increase in its base prices to its gas customers of $40.4 million (4.21%) (plus a tracker for depreciation expense). The filings were based on normalized results of operations for the test period ending September 30, 2005. On February 22, 2006, the Commission suspended and consolidated the filings (collectively referred to hereinafter as the "General Rate Case").

4 On May 12, 2006, the Company filed revised tariff sheets to update its Power Cost Baseline Rate in compliance with the Commission's Order No. 04 in Docket No. UE-050870.[1] The filing proposed to increase electric rates by $94.2 million (5.96%) annually. The filing was approved by Commission Order No. 01 in Docket No. UE-060783, effective July 1, 2006. On July 10, 2006, the Company filed supplemental testimony that revised its electric revenue requirement to take into account the PCORC update filing, updated power cost projections, and some other items. Consequently, a proposed increase in electric rates

[1] Docket No. UE-050870 was a Power Cost Only Rate Case. Commission Order No. 04 in that proceeding required PSE to file a revised Schedule 95 to update its Power Cost Baseline Rate for the period July 1, 2006 through December 31, 2006. The Company's May 12 filing, which was assigned Docket No. UE-060783, complied with that Order.

of $43.6 million remains at issue in the General Rate Case (not including the proposed depreciation tracker, which also remains at issue).

5 A pre-hearing conference in the General Rate Case was held on March 21, 2006. The Commission subsequently granted the petitions to intervene of Kroger, ICNU, FEA, NWEC, and the Energy Project.[2]

6 Each Party conducted discovery on the Company's prefiled direct testimony and tariff filing. The Parties then undertook settlement discussions for purposes of resolving or narrowing the contested issues in the General Rate Case. The Parties reached agreement on electric rate spread and rate design that should be applied to the revenue requirement that the Commission ultimately determines is appropriate in the General Rate Case. Thus, the Parties agreed to the manner in which PSE's electric revenue requirement should be allocated among the various customer classes and rate schedules, and to the way in which PSE will recover its revenues from within its various rate schedules. The Parties also reached agreement on increased funding for low income electric energy assistance.

7 The Parties now wish to present their agreement for Commission consideration. The Parties therefore adopt the following Settlement Agreement, which is entered into by the Parties voluntarily to resolve matters in dispute among them regarding electric rate spread and rate design and low income electric energy assistance in the interests of expediting the orderly disposition of the General Rate Case. The Settlement Agreement is being filed with the Commission as a "Partial Settlement" pursuant to WAC 480-07-730(2).

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[2] The Commission also granted the petitions to intervene of the Northwest Industrial Gas Users ("NWIGU") and Seattle Steam. Those parties are not included in this Settlement Agreement since their interest lies with PSE's request to increase rates charged to natural gas customers. The Parties are authorized to state that NWIGU and Seattle Steam do not oppose this Settlement Agreement.

8 The Parties understand that only subsections 1-3 of Section IV of this Settlement Agreement are subject to Commission approval, and hereby respectfully request that the Commission issue an order approving those subsections of this Settlement Agreement. In recognition that this is a partial settlement of this proceeding, the Parties request that the Commission hear evidence concerning their settlement of electric rate design, rate spread and low-income issues as part of the hearings that are set before the Commission commencing September 18, 2006, at the conclusion of the presentation of evidence on contested revenue requirements issues. The Parties anticipate filing supporting documentation for their Settlement Agreement, pursuant to WAC 480-07-740(2), no later than August 23, 2006.[3]

IV. AGREEMENT

1. Electric Rate Spread

9 Any revenue requirement increase or decrease from the General Rate Case will be allocated among the various customer classes and rate schedules in proportion to the rate spread proposed by PSE in its direct testimony and exhibits, such that the total change in revenue requirement, including the increase already approved in Docket Nos. UE-050870 and UE-060783 and made effective July 1, 2006, will be in proportion to the PSE proposed increase, by class, in the general rate case.[4] Notwithstanding the foregoing, in the event of a revenue requirement decrease from this general rate case, Transportation Schedules 449/459

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[3] This is the same date that the Company's rebuttal testimony and exhibits, and other Parties' cross-answering testimony and exhibits, are due on any remaining contested issues.

[4] At the conclusion of the General Rate Case, Schedule 95 will be zeroed out and the current Schedule 95 surcharge, including the July 1, 2006 increase granted previously in Docket Nos. UE-050870 and UE-060783, will be transferred to base electric rates. The portion of the Schedule 95 rate that is associated with Docket No. UE-060783 will be included in the rate spread and rate design set forth in this Settlement Agreement.

will remain unchanged and rates for Firm Resale will decrease in proportion to the increase already received in Docket No. UE-060783.

2. Electric Rate Design

10 This section describes how total revenue requirement increases to each class will be applied to the rate components at the conclusion of the General Rate Case. Total revenue requirement includes the increase already approved in Docket No. UE-060783 and made effective July 1, 2006.

a. Schedule 7, Residential

i. All rate elements receive a uniform percentage increase.

b. Schedule 24, General Service

i. All rate elements receive a uniform percentage increase.

c. Schedule 25, General Service

i. Basic charge receives 200% of the class average percentage increase.

ii. First energy block receives the class average percentage increase.

iii. Demand charges receive 125% of the class average percentage increase.

iv. Reactive power charge receives the class average percentage increase.

v. Remaining increase applied to the tail-block energy charge.

d. Schedule 29, Pumping Service

i. Basic charge equal to Schedule 24.

ii. All other rate elements receive a uniform percentage increase.

e. Schedule 26, Secondary Voltage

i. Basic charge receives the class average percentage increase.

ii. Demand charges set equal to Schedule 31, adjusted for losses.

iii. Reactive power charge receives the class average percentage increase.

iv. Remaining increase applied to the energy charge.

f. Schedule 31, Primary Voltage

i. Increase basic charge to $295.

ii. Increase demand charge 125% of the average class increase.

iii. Apply average increase to the reactive power rate.

iv. Remaining increase applied to the energy charge.

g. Schedule 40, Campus Rate

i. Basic charge increases equal to Schedule 31, Schedule 26 and 25 for the respective voltage levels.

ii. Distribution charges will be calculated as set forth in the tariff.

iii. Remaining increase applied to the production and transmission charges, adjusted for voltage.

h. Schedule 46/49, High Voltage

i. Increase demand charge 125% of the class average increase.

ii. Apply remaining increase to the energy charge.

i. Schedule 449/459, Transportation

i. Increase the basic charge by 200% of the class average percentage increase.

ii. Spread remaining increase on a uniform percentage basis to HV and PV demand charges.

3. <u>Low-Income Energy Assistance</u>

11 The amount ($5.7 million) currently provided by PSE under Schedule 129 for low-income electric energy assistance will be increased by $1,225,000 (net of taxes and revenue sensitive items), which is the electric portion (70%) of a $1,750,000 increase. The Parties agree not to oppose inclusion of $525,000 of additional low-income energy assistance in the companion natural gas proceeding, Docket No. UG-060627, but nothing in this agreement implies that the gas portion has been accepted or adopted. These additional funds for electric low-income assistance shall be derived from a uniform increase in the Schedule 129 tariff rider effective the program year beginning October 1, 2006. The Company will file a revision to Schedule 129 no later than September 1, 2006 in order to implement the terms of this subsection regarding electric low income assistance.

4. Miscellaneous Provisions

12 a. The Parties agree to support the terms and conditions of this Settlement Agreement as a settlement of all contested issues in the above-captioned consolidated proceedings regarding electric rate spread and rate design, and low-income electric energy assistance.

13 b. This Settlement Agreement represents an integrated resolution of electric rate spread and rate design issues, and electric low-income energy assistance. Accordingly, the Parties recommend that the Commission adopt and approve subsections 1-3 of Section IV of this Settlement Agreement in their entirety.

14 c. The Parties shall cooperate in submitting this Settlement Agreement promptly to the Commission for approval of subsections 1-3 of Section IV above, and shall cooperate in developing supporting testimony as required in WAC 480-07-740(2)(b). The Parties agree to support the Settlement Agreement throughout this proceeding, provide witnesses to

sponsor such Settlement Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the Settlement Agreement in its entirety.

15 d. In the event the Commission rejects subsections 1-3 of Section IV of the Settlement Agreement, the provisions of WAC 480-07-750(2) shall apply. In the event the Commission accepts those subsections of the Settlement Agreement upon conditions not proposed herein, each Party reserves the right, upon written notice to the Commission and all other parties to this proceeding within five (5) days of the Commission order, to state its rejection of the conditions. In such event, the Parties immediately will request that hearings be held on the appropriateness of the conditions or upon other electric rate spread, rate design or low income rate assistance proposals of the Parties. In any further proceedings triggered by this paragraph, the Parties agree to cooperate in development of a hearing schedule that concludes such proceeding at the earliest possible date. Any further proceedings triggered by this paragraph shall not delay any compliance filing of PSE ordered by the Commission and such compliance filing shall remain in effect pending any further proceedings.

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

methods, or theories employed by PSE or any other party in arriving at the terms of this Settlement Agreement are precedents in any other proceeding.

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

18 g. All Parties agree:

i. to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Settlement Agreement. This right of advance review includes a reasonable opportunity for a Party to request changes to the text of such announcements. However, no Party is required to make any change requested by another Party; and

ii. to include in any news release or announcement a statement that Staff's recommendation to approve the settlement is not binding on the Commission itself. This subsection does not apply to any news release or announcement that otherwise makes no reference to Staff.

DATED: July 25th, 2006

PUGET SOUND ENERGY, INC.

By _____
Kimberly Harris
Senior Vice President Regulatory Policy and Energy Efficiency

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF

By _____
Robert Cedarbaum
Assistant Attorney General
Attorney for Commission Staff

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INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

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