

**PUGET SOUND ENERGY
Electric Tariff G**

**SCHEDULE 121
ELECTRICITY CONSERVATION INCENTIVE MECHANISM**

APPLICABILITY:

To all bills for Electric Service calculated under all schedules contained in this tariff and all retail contracts for Electric Service except where explicitly exempted, for the duration of the three year pilot which commenced in January 2007 and will run through December 2009.

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PURPOSE:

This schedule implements surcharges or refunds based on the amount of energy savings achieved through the services and programs offered under Schedule 83 and schedules numbered between 200 and 299.

DEFINITIONS:

Avoided Cost is the conservation cost effectiveness standard for the entire electric program portfolio in effect at the time of the Company's 2008-2009 electric conservation program tariff filing (Schedules 200-270); and is based on the Company's 2007 Integrated Resource Plan (IRP). The avoided cost value may be updated if conditions warrant and with review and agreement of the Conservation Resource Advisory Group (CRAG). The current Avoided Cost value is \$108 per MWh.

Baseline Target is the average megawatt hours of electricity saved annually from energy efficiency programs. The Baseline Target will be set on an annual basis, with joint consensus of the Company and the CRAG. For 2009, the Baseline Target is 278,000 megawatt hours (MWh) or 31.7 average megawatts of electricity.

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Band – Incentive Bands are the ranges of megawatt hours saved in excess of the Baseline Target for which an incentive payment is calculated.

- Band A – 140% up to 150%
- Band B – 130% up to, but not including 140%
- Band C – 120% up to, but not including 130%
- Band D – 110% up to, but not including 120%
- Band E – 100% up to, but not including 110%
- Band F – 100%

Band – Dead Band is the range of megawatt hours not saved in relation to Baseline Target for which there is neither an incentive nor penalty payment.

- Band G – 90% up to, but not including 100%

Band – Penalty Bands are the ranges of megawatt hours not saved in relation to the Baseline Target for which a penalty payment is calculated.

- Band H – 80% up to, but not including 90%
- Band I – 70% up to, but not including 80%
- Band J – 60% up to, but not including 70%
- Band K – 50% up to, but not including 60%
- Band L – Less than 50%

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Incentive Calculation is the calculation done to determine the total amount of the incentive that the Company earns through meeting or exceeding the Baseline Target and is the sum of the MWh Incentive and the Shared Savings Incentive.

Incremental Penalty is the total MWh subject to penalty within each band, see Table 1 below for the Incremental Savings for each band.

Incremental Savings is the total MWh savings within each band, see Table 1 below for the Incremental Savings for each band.

MWh Incentive is the dollar amount per MWh of the volume of electricity saved. See Table 1 below for rates for each band.

MWh Penalty is the dollar amount per MWh of the volume of electricity not saved. See Table 1 below for rates for each band

Net Shared Incentive is the rate per MWh calculated by subtracting the TRC per MWh from the Avoided Cost per MWh. In 2008 this is \$108 per MWh Avoided Cost minus \$63 per MWh Total Resource Cost resulting in \$45 per MWh Net Shared Incentive.

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Shared Savings Incentive is calculated by multiplying the MWh of electricity saved by the Net Shared Incentive, to which the Shared Savings Incentive Rate is then applied.

Shared Savings Incentive Rate is the percentage prescribed to each band when calculating the Shared Savings Incentive. See Table 1 below for rate for each band.

Threshold of Band is the upper threshold of the MWh savings achieved in each band as shown in Table 1 below.

Total Resource Cost (TRC) is calculated according to the Company's actual program results and updated annually. The current TRC value based on 2008 actual amounts is \$63 per MWh.

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Table 1 – Values for 2009 incentive/penalty calculation. Values will be updated for 2010.

BAND	(1)	(2)	(3)	(4)	(5)
A	140.0%-150.0%	\$ 20.00	100%	27,800	416,722
B	130.0%-139.9%	\$ 20.00	80%	27,800	388,922
C	120.0%-129.9%	\$ 20.00	40%	27,800	361,122
D	110.0%-119.9%	\$ 20.00	20%	27,800	333,322
E	100.0%-109.9%	\$ 20.00	10%	27,522	305,522
F	100%	\$ 10.00	5%	--	278,000
G	90.0%-99.9%	\$ 75.00	0%	27,800	278,000(6)
H	80.0%-89.9%	\$ 75.00	0%	27,800	250,200
I	70.0%-79.9%	\$ 80.00	0%	27,800	222,400
J	60.0%-69.9%	\$ 85.00	0%	27,800	194,600
K	50.0%-59.9%	\$ 90.00	0%	27,800	166,800
L	Under 50.0%	\$ 95.00	0%	27,800	139,000

- (1) Range of incentive or penalty as a percent of Baseline Target
- (2) MWh Incentive (Bands A–F) or MWh Penalty (Bands G–L) which is a rate in dollars per MWh.
- (3) Shared Savings Incentive Rate – the percentage of savings that are eligible for the incentive.
- (4) Incremental Savings (Bands A–F) or Incremental Penalty (Bands G–L) in MWh.
- (5) Threshold of Band – for each band the threshold of the MWh savings achieved.
- (6) The Threshold of Band is 277,999,999 kWh which rounds to 278,000 MWh.

CALCULATION:

Following each program year, it will be determined if the Company qualifies for an incentive or is subject to a penalty based on the Company's Annual Report on Conservation Results which is filed with the Commission on or before February 15. Additionally, in order to be eligible to receive an incentive, the Company must show the following:

- (a) That at least 75% of the projected savings in both sectors were achieved. The sectors are residential and commercial/industrial. For purposes of calculating the sector savings only, savings attributed to self-directing industrial Customers under Schedule 258 and the Northwest Energy Efficiency Alliance in Schedule 254 are to be excluded.
- (b) The weighted average measure life of the total program portfolio has met a minimum life of nine (9) years.
- (c) PSE's portfolio of programs, in aggregate, are cost-effective from both the Utility Cost and Total Resource Cost (TRC) perspectives.

Of the total incentive, 75% of the full incentive amount will be collected in the year after programs have been implemented, the remaining 25% of the incentive will be collected the following year.

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INCENTIVE CALCULATION METHODOLOGY:

Step one is to calculate the incentive for reaching the Baseline Target as follows: To calculate MWh Incentive multiply the MWh Baseline Target (278,000 MWh) by \$10. To calculate the Shared Savings Incentive multiply the MWh Baseline Target (278,000 MWh) by the Net Shared Incentive (\$45, for example) and multiply the result by the Shared Savings Incentive Rate (5%). The total incentive for achieving the Baseline Target is the sum of the MWh Incentive (\$2,780,000) and the Shared Savings Incentive (\$625,500) which in this example would be \$3,405,500.

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Step two is to calculate the incentive for each of the bands above the Baseline Target band that are exceeded. For each band that is exceeded (excluding the Baseline Target band) calculate the incentive using the Incremental Savings in the band. To calculate the MWh Incentive multiply the Incremental Savings by \$20. To calculate the Shared Savings Incentive multiply the Incremental Savings by the Net Shared Incentive (\$45, for example) and multiply the result by the Shared Savings Incentive Rate for the band (10% for Band E). The total incentive for exceeding the band is the sum of the MWh Incentive and the Shared Savings Incentive. Add the total for each of the bands exceeded together to get the total incentive for step two.

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Step three is to calculate the incentive for achieving savings within a band. First calculate the MWh of incremental savings by subtracting the Threshold of Band MWh from the actual MWh of savings achieved. Then calculate the MWh Incentive by multiplying the MWh of incremental savings by \$20. To calculate the Shared Savings Incentive multiply the MWh of incremental savings by the Net Shared Incentive (\$45, for example) and multiply the result by the Shared Savings Incentive Rate for the Band (20% for Band D). Add the MWh Incentive and the Shared Savings Incentive to get the total for this step.

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Step four is to calculate the total incentive for achieving savings which is done by adding together the results of steps one through three above.

PENALTY CALCULATION METHODOLOGY:

Step one, when the Company fails to reach at least 90% of the Baseline Target of energy savings (there is no penalty or incentive if the Company has energy savings between 90% and 99.9% of the Baseline Target), is to calculate the penalty for each of the bands below the Baseline Target (Band F) where the Company did not achieve any level of savings in the band. For example, if the actual savings achieved are 75% of the Baseline Target, no savings were achieved in Bands G and H. To calculate the MWh Penalty for each band where no savings were achieved, multiply the Incremental Penalty by the MWh Penalty for the band. Repeat this step for each band where the Company did not achieve any level of savings and add the results together.

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Step two is to calculate the penalty for savings not achieved within a band. To calculate the MWh of savings not achieved within a band which are subject to penalty, subtract the Threshold of Band for the band in which the actual savings fall from the actual MWh savings achieved. For example if the actual savings achieved are 208,500 MWh which is equal to 75% of the Baseline Target, the savings are in Band I which has a Threshold of Band of 222,400 MWh. The calculation of the MWh subject to penalty in this example is then 222,400 MWh minus 208,500 MWh or 13,900 MWh. The MWh subject to penalty are then multiplied by the MWh Penalty for the band. Following the same example the MWh Penalty would be \$80 per MWh multiplied by 13,900 MWh which is equal to \$1,112,000.

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Step three is to calculate the total penalty for not achieving the Baseline Target, which is done by adding together the results of steps one and two above.

Step four is for the Company to determine whether there are any mitigating factors that the Commission should consider before the penalty is assessed. The Company may ask the Commission for mitigation of the penalty amount provided the Company can demonstrate that factors occurred after annual energy efficiency targets were established and (i) such factors are beyond the Company's control, and (ii) the factors affected Customer participation in the Company's energy efficiency programs. Factors may include, but are not limited to, significant local economic recession or major natural disaster.

MONTHLY RATE:

Incentive amounts earned by the Company and penalty amounts to be paid by the Company will be included in the calculation of rates under Schedule 120 as follows: 75% of the full amount in the Schedule 120 rate year immediately after the amount is calculated and 25% in the following rate year. For example, the final 25% of the 2009 incentive or penalty amount will be included in Schedule 120 rates from April 1, 2011 through March 31, 2012.

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ADJUSTMENTS:

Rates in this schedule and those rates reflected in the schedules for electric service to which the charges under this schedule apply, are subject to adjustment by such other schedules in this tariff as may apply.

GENERAL RULES AND PROVISIONS:

Service under this schedule is subject to the General Rules and Provisions in this tariff (Schedule 80) as they may be modified from time to time and other schedules of such tariff that may from time to time apply as they may be modified from time to time.

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