

**EXHIBIT NO. \_\_\_\_ (TAD-1T)  
DOCKET NOS. UE-070725  
WITNESS: TOM DE BOER**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Amended Petition of**

**PUGET SOUND ENERGY, INC.**

**For an Order Authorizing the Use of the  
Proceeds From the Sale of Renewable Energy  
Credits and Carbon Financial Instruments**

**Docket No. UE-070725**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
TOM DE BOER  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**IN SUPPORT OF AMENDED PETITION FOR AN ORDER AUTHORIZING  
THE USE OF THE PROCEEDS FROM THE SALE OF RENEWABLE ENERGY  
CREDITS AND CARBON FINANCIAL INSTRUMENTS**

**OCTOBER 7, 2009**

**PUGET SOUND ENERGY, INC.**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
TOM DE BOER**

**CONTENTS**

I.	INTRODUCTION .....	1
II.	PROPOSAL FOR USE OF REC PROCEEDS.....	3
A.	California Receivable Offset .....	6
B.	Credit To Customers .....	9
III.	CONCLUSION.....	10

**PUGET SOUND ENERGY, INC.**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
TOM DE BOER**

**I. INTRODUCTION**

**Q. Please state your name, business address, and position with Puget Sound Energy, Inc.**

A. My name is Tom De Boer. My business address is 10885 N.E. Fourth Street Bellevue, WA 98004. I am Director, Federal and State Regulatory Affairs for Puget Sound Energy, Inc. ("PSE" or "the Company").

**Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?**

A. Yes, I have. It is Exhibit No. \_\_\_\_ (TAD-2).

**Q. What are your duties as Director, Federal and State Regulatory Affairs for PSE?**

A. As Director, Federal and State Regulatory Affairs, I manage PSE's Rates and Regulatory Department. My present responsibilities include oversight of various regulatory proceedings before the Washington Utilities and Transportation Commission ("WUTC") and the Federal Energy Regulatory Commission

1 ("FERC").

2 **Q. What is the nature of your testimony in this proceeding?**

3 A. My testimony explains and provides support for a proposal for the use of proceeds  
4 from PSE's sale of Renewable Energy Credits ("REC") and Carbon Financial  
5 Instruments ("CFI").

6 My testimony provides a general overview of the proposal and the three  
7 categories to which REC proceeds would be allocated. I provide more detailed  
8 testimony on two of the three categories—the allocation of REC proceeds to the  
9 California Receivable that PSE has held on its books for several years, and the  
10 allocation of REC proceeds as a credit to all customers by means of an offset to a  
11 regulatory asset. I also provide testimony regarding the settlement in PSE's long-  
12 disputed California Receivable litigation that led to agreements for PSE to sell  
13 three million megawatt hours ("MWh") of renewable electric energy to two  
14 California utilities, which these utilities may use to meet their California  
15 renewable portfolio standards. These sales of renewable energy to California  
16 utilities have significantly increased the REC proceeds funds available to be  
17 allocated pursuant to this Petition.

1                                   **II.      PROPOSAL FOR USE OF REC PROCEEDS**

2   **Q.      Please briefly describe the events that led to the filing of the amended**  
3                   **accounting petition and the proposal for the use of REC proceeds.**

4   A.      In April, 2007, PSE filed an accounting petition in Docket UE-070725, seeking  
5              Commission approval to defer the proceeds from the sale of RECs and CFIs and  
6              invest these proceeds in renewable energy generation resources. After filing the  
7              accounting petition, PSE engaged in discussions with other parties about the use  
8              of proceeds from the sale of these environmental attributes. Also since filing the  
9              original accounting petition, PSE has negotiated various transactions for the sale  
10             of RECs that will significantly increase the funds that PSE will receive over the  
11             next few years. In light of these developments, PSE and several other parties  
12             reached agreement on a proposal for the use of a portion of the proceeds from the  
13             sale of RECs and CFIs and have submitted joint testimony in support of this  
14             proposal. The Amended Accounting Petition and my testimony describe the other  
15             components of the proposal.

16   **Q.      Briefly describe the revenues that are included in this proposal.**

17   A.      PSE is proposing that net revenues from the sale of RECs and CFIs be allocated  
18              as outlined in the Amended Petition and supporting testimony. There are a  
19              number of costs associated with negotiating and executing the REC and CFI  
20              transactions and any energy sales that are required to comply with state  
21              requirements. By way of example, these costs include attorney fees to review

1 transaction documents, broker fees to facilitate the sale and the net costs of any  
2 associated energy sales. Other costs include, but are not limited to, royalty  
3 payments or other third party fees (such as WREGIS-related fees, the Center for  
4 Resource Solution fees and audit fees). PSE is proposing that these related costs  
5 be set-off against the REC and CFI revenues before allocating the net revenues as  
6 described below.

7 **Q. Please briefly describe the proposal for the use of proceeds from the sale of**  
8 **RECs and CFIs.**

9 A. The REC proceeds will be allocated to three broad categories under the proposal:  
10 (1) low income programs; (2) offset against the principal amount of the California  
11 Receivable; and (3) customer credit in the form of an offset of a regulatory asset.

12 Low Income Programs: PSE's existing funds (*i.e.*, prior to any California RPS-  
13 eligible electric energy sales) from the sale of RECs and CFIs amount to  
14 approximately \$10 million. PSE proposes that these existing proceeds, plus the  
15 lesser of 20% of the proceeds from additional REC sales or approximately \$10  
16 million, for a combined total not to exceed \$20 million, be dedicated to low  
17 income programs. These programs are described in more detail in the Amended  
18 Accounting Petition and the Joint Testimony supporting this proposal in the  
19 Amended Petition.

20 California Receivable Offset: PSE proposes that 40% of the REC proceeds, not  
21 to exceed \$21,062,800, be used to offset the principal amount California

1 Receivable that PSE has held on its books since the California energy crisis in  
2 2000 and 2001. This is discussed in more detail later in my testimony.

3 Credit to Customers: PSE proposes that the remainder of the REC proceeds be  
4 credited to customers by offsetting the proceeds against a regulatory asset. This is  
5 discussed in more detail later in my testimony.

6 **Q. Is the proposal in the public interest?**

7 A. Yes, as described in more detail below and in the Joint Testimony, the proposal  
8 benefits PSE's customers, the Company and low income customers and is thus in  
9 the public interest. First, the vast majority of the proceeds will be credited to  
10 primarily electric customers in the form of an offset against a regulatory asset or  
11 assets that has been previously approved for recovery by the Commission. This  
12 offset will lower customer rates in a way that reduces volatility in retail rates.  
13 Second, the Company will be able to recover some of the California Receivable  
14 that has been on its books for several years. This recovery is appropriate because  
15 it was the Company's strategy for settling this litigation by introducing REC sales  
16 into the California compliance market, and its ability to achieve this settlement,  
17 which provided this significant benefit to customers. Finally, low income  
18 customers will have increased opportunities to take advantage of energy  
19 efficiency and renewable energy, which otherwise are not available to them.

1     **A.     California Receivable Offset**

2     **Q.     What is the California Receivable?**

3     A.     PSE has held a California Receivable on its books since early 2001. This  
4           receivable reflects unpaid amounts owed to the Company from California utilities  
5           for power PSE sold to California during the California Energy Crisis. PSE sought  
6           recovery of this receivable in the litigation. The dispute involved numerous  
7           parties such as Southern California Edison (“SCE”), Pacific Gas and Electric  
8           (“PG&E”), San Diego Gas & Electric and certain other entities represented by the  
9           California Attorney General. There has been litigation in the courts and  
10          numerous proceedings before FERC over the past eight-plus years.

11    **Q.     What is the status of the California Receivable litigation?**

12    A.     PSE and several California parties agreed to settle the ongoing litigation that  
13          arose out of the California energy crisis. The California Public Utilities  
14          Commission approved the settlement and the purchase by SCE of RPS-eligible  
15          electric energy from PSE on June 18, 2009. The Federal Energy Regulatory  
16          Commission (“FERC”) approved the settlement on July 1, 2009.

17    **Q.     Please explain the key components of the settlement.**

18    A.     A key component of the settlement is that all claims by the parties for costs of  
19          power delivered and received during the California energy crisis are resolved.



1 Another key component of the settlement is PSE's sale of two million MWh of  
2 California RPS-eligible electric energy to SCE over a two-year period.

3 **Q. Earlier you referenced the sale of three million MWh of renewable energy.**  
4 **How do you account for the additional one million MWh of California RPS**  
5 **eligible electric energy that you referred to earlier in your testimony?**

6 A. PSE negotiated a second agreement to sell one million MWh of California RPS  
7 eligible electric energy to PG&E separate from the sale of the two million MWh  
8 described above. Although the settlement of the California Litigation was not  
9 contingent upon a completed agreement for the sale of RECs to PG&E, PG&E's  
10 agreement to settle the California Litigation was dependent upon PSE making an  
11 offer of sale on comparable terms to PG&E, which was ultimately consummated.

12 **Q. Why should a portion of the proceeds from the REC sales be used to offset**  
13 **the California Receivable?**

14 A. The California Litigation has been on-going at both FERC and the courts for over  
15 eight years. While PSE believed it had a strong legal position for ultimate  
16 recovery of the disputed amount, the Company had attempted on several  
17 occasions to settle this complex and highly contentious dispute without success.  
18 In late 2008, PSE developed a strategy to use REC sales to entice a settlement that  
19 would provide significant value to both customers and PSE. Without the  
20 Company's ability to negotiate this settlement of the California Litigation, the

1 sales, and the prices ultimately agreed upon for the RECs, would have not  
2 occurred. Therefore, it is appropriate that a portion of the proceeds from the sale  
3 be used to offset this receivable on PSE's books.

4 **Q. Please explain how the revenues will be allocated to satisfy the California**  
5 **Receivable.**

6 A. As I previously stated, PSE proposes that 40% of the REC funds, not to exceed  
7 \$21,062,800, that are received from the sale of RECs be allocated to offset the  
8 California Receivable.

9 **Q. Is \$21,062,800 the full amount of the California Receivable that PSE has held**  
10 **on its books?**

11 A. No. The \$21 million receivable due from California is net of approximately \$39.5  
12 million in write-offs the Company had already recognized on sales of power to  
13 California during 2000.

14 **Q. Does the amount allocated to the California Receivable include interest on**  
15 **the amount owed?**

16 A. No, the \$21 million allocation does not include any accrual of interest that FERC  
17 would have allowed on outstanding balances due from California. FERC had  
18 previously ruled that receivables from California would include interest, which  
19 would have added approximately \$13.2 million to the \$21 million receivable.

1 **Q. Why is PSE not seeking interest on the amount of the receivable?**

2 A. The Company is absorbing the cost of the forgone interest. All the Company is  
3 interested in receiving for this item is its remaining investment so that this  
4 receivable can be taken off the books without further loss.

5 **B. Credit To Customers**

6 **Q. Please explain how offsetting the REC proceeds against a regulatory asset**  
7 **will benefit customers.**

8 A. The Commission has approved a number of electric regulatory assets which are  
9 subject to recovery in a general rate case. For example, in the Company's last  
10 general rate case the Commission approved the recovery of storm damages  
11 associated with the December 2006 wind storm, over a ten-year period. As of  
12 April 1, 2010, approximately \$68.3 million of this regulatory asset will remain to  
13 be collected from customers. By offsetting REC proceeds against this storm  
14 damage regulatory asset, PSE's electric revenue deficiency in the Company's  
15 current general rate case will decrease by \$14.8 million. Additionally, because  
16 storm damage is a component of working capital, the removal of the \$68.3 million  
17 would also decrease the Company's currently filed gas revenue deficiency by  
18 approximately \$2.5 million. As a result of this offset, customers will benefit by  
19 lower rates, as compared to the rates that would have been in effect absent the  
20 offset.

1 **Q. Would customers receive a greater benefit if PSE provided a direct credit to**  
2 **customers rather than using these proceeds to offset a regulatory asset?**

3 A. No. Customers will receive the same benefit whether it is provided as a direct  
4 credit or an offset to a regulatory asset. However, a direct credit would increase  
5 rate volatility as rates will increase after the credit has been passed back.  
6 Crediting customers through the offset of a regulatory asset allows customers to  
7 receive the benefit of the credit without experiencing volatile rates.

8 **III. CONCLUSION**

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.