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**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Petition of**

**PUGET SOUND ENERGY**

**for (i) Approval of a Special Contract  
for Liquefied Natural Gas Fuel Service  
with Totem Ocean Trailer Express, Inc.  
and (ii) a Declaratory Order Approving  
the Methodology for Allocating Costs  
Between Regulated and Non-regulated  
Liquefied Natural Gas Services**

**Docket No. UG-151663**

**Declaration of Roger Garratt in  
Support of the Brief of Puget Sound  
Energy**

1. I, ROGER GARRATT, hereby declare under penalty of perjury under the laws of the State of Washington that the following are true and correct:

2. I am the Director of Strategic Initiatives at Puget Sound Energy (“PSE”).

3. I have personal knowledge of the matters set forth in this Declaration.

**A. PSE’s Proposed Alternative Business Models for the Tacoma LNG Facility**

4. After PSE received Order 04 from the Commission, it considered proceeding with the Tacoma LNG Facility under four alternative business models.

5. First, PSE considered an “all regulated” business model where PSE would own the entirety of the facility and offer both peaking service and LNG fuel sales pursuant to Commission jurisdiction.

Declaration of Roger Garratt in  
Support of Brief of Puget Sound Energy

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Fax: 425.635.2400

1           6.       Second, PSE considered a hybrid regulated/non-regulated business model  
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3 where PSE would also own the entirety of the Tacoma LNG Facility and would offer  
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5 peaking service pursuant to the jurisdiction of the Commission, but LNG fuel sales services  
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7 would occur on a non-regulated basis, subject to a Commission disclaimer over jurisdiction  
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9 over such sales.  
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11           7.       Third, PSE considered a model similar to the hybrid regulated/non-regulated  
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13 model, but PSE would instead develop a smaller version of the Tacoma LNG Facility that  
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15 would allow it to provide only the jurisdictional peaking service and the non-regulated LNG  
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17 fuels sales services to TOTE.  
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20           8.       Finally, PSE considered a model where PSE would co-own the Tacoma LNG  
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22 Facility as a tenant in common with a non-regulated affiliate. Through this model, PSE  
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24 would offer peaking service pursuant to Commission jurisdiction, and PSE's non-regulated  
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26 affiliate would offer LNG fuel sales services on a non-regulated basis. PSE has determined  
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28 that the fourth alternative business model in which PSE would offer jurisdictional peaking  
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30 service and a non-regulated affiliate of PSE (tentatively named "Puget LNG") would offer  
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32 sales of LNG for use as a transportation fuel. Under this scenario, the non-regulated affiliate  
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34 of PSE would not request that the Commission regulate such sales.  
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39           9.       In reviewing the alternative business models, PSE determined that the "all  
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41 regulated" model was infeasible for several reasons. For example, under the all-regulated  
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43 model, PSE would have offered a tariff service and would have likely renegotiated its  
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45 agreement with TOTE. PSE also believed it would not be possible to obtain a determination  
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1 under the all-regulated model by the summer of 2016, in time for PSE's investors to make  
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3 their mid-year decision regarding whether to move forward with the project.  
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6 10. As to the third alternative business model option, PSE determined that the  
7  
8 smaller Tacoma LNG Facility alternative was also infeasible because the cost savings  
9  
10 associated with reducing plant capacity was too small. A smaller LNG facility would have  
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12 also resulted in PSE's core gas customers losing the benefit from the economies of scale  
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14 offered by construction of the larger Tacoma LNG Facility which would be used to meet  
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16 PSE's peaking needs, and would be used to provide fuel to TOTE and transportation fuel to  
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18 other entities at a small cost increase. The disparity between the cost savings from the  
19  
20 smaller facility and the reduced plant capacity would not be cost-effective. PSE is fully  
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22 committed to using LNG as a transportation fuel source and believes that (i) the current  
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24 uncertainty associated with decreases in global petroleum prices are a temporary  
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26 phenomenon, and (ii) the phase in of additional regulations on ship emissions by the  
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28 International Maritime Organization over the next decade will accelerate the marine  
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30 industry's conversion to LNG ships.  
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35 11. As to the second and fourth alternative business models, PSE considered the  
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37 "hybrid regulated/non-regulated" and "non-regulated affiliate" alternative business models  
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39 to be substantially similar because each model would have resulted in regulated peak  
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41 shaving services and non-regulated LNG fuel sales services. The primary difference  
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43 between the two relates to the ownership structure associated with each service. Under the  
44  
45 "hybrid regulated/non-regulated" alternative business model, PSE would own all of the  
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Declaration of Roger Garratt in  
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1 Tacoma LNG Facility and would provide both regulated peaking services and non-regulated  
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3 LNG fuel sales services. Under the “non-regulated affiliate” alternative business model, PSE  
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5 would own only those portions of the Tacoma LNG Facility (approximately 44%) necessary  
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7 to provide regulated peaking services, and Puget LNG would own those portions of the  
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9 Tacoma LNG Facility (approximately 56%) necessary to provide non-regulated fuel sales  
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11 services.  
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15 12. After considering the two options, PSE elected to pursue the “non-regulated  
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17 affiliate” alternative business model because PSE believed that it provided (i) better  
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19 differentiation between regulated and non-regulated services, and (ii) better protection to  
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21 core natural gas customers from the risks associated with the non-regulated LNG fuel  
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23 services including the risks related to the approximately 26 percent of the capacity of the  
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25 Tacoma LNG Facility that is unsubscribed and the risks related to providing an unregulated  
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27 fuel sales service.  
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31 **B. Ownership Interests Between PSE and Puget LNG**  
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33 13. Under PSE’s proposed “non-regulated affiliate” alternative business model,  
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35 all offers for sales of LNG from the Tacoma LNG Facility for use as transportation fuel  
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37 would be made by an affiliate of PSE that would not be subject to the jurisdiction of the  
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39 Commission. Puget LNG would be a newly-formed, wholly-owned direct subsidiary of  
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41 Puget Energy. Puget LNG would acquire an overall approximately 56% ownership share of  
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43 the Tacoma LNG Facility and compensate PSE for Puget LNG’s percentage share of PSE’s  
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45 then-existing development and construction costs for the Tacoma LNG Facility. The portion  
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1 of capital costs previously allocated to TOTE sales would now be non-regulated fuel sales  
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 3 from the Tacoma LNG Facility. The Puget LNG ownership share of approximately 56% is  
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 5 based upon the allocation of projected closing costs (less AFUDC). Under the alternative  
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 7 business model now proposed by PSE, the portion of capital costs previously allocated to  
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 9 TOTE sales would now be non-regulated fuel sales from the Tacoma LNG Facility.  
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	Peak Shaving	Non-Regulated Fuel Sales	Total
Closing Costs Less AFUDC	\$136,422,724	\$174,282,082	\$310,704,805

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 20 14. This proposed allocation methodology would result in (i) approximately 44%  
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 22 of the projected capital costs of the Tacoma LNG Facility being allocated to PSE for  
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 24 regulated services, and (ii) approximately 56% of the projected capital costs of the Tacoma  
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 26 LNG Facility being allocated to Puget LNG for non-regulated sales of LNG for use as  
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 28 transportation fuel.  
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 31 15. These approximate capital cost allocations do not suggest that PSE will hold  
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 33 a 44% undivided interest and that Puget LNG will hold a 56% undivided interest in each of  
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 35 the facilities that comprise the Tacoma LNG Facility. Rather, each entity will hold an  
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 37 undivided interest in each of the facilities that comprise the Tacoma LNG Facility based  
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 39 upon the capital allocation factors between regulated peak shaving and non-regulated LNG  
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 41 fuel sales initially proposed by PSE in this proceeding. This allocation will ensure that  
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 43 (i) each entity will own an ownership interest in each of the facilities that is commensurate  
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1 with such entity's projected use of such facility, and (ii) neither entity will own an  
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3 ownership interest in a facility that it will not use.  
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5 **C. Ownership Agreement Between PSE and Puget LNG**  
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8 16. Puget Energy has not yet created Puget LNG. The business and affairs of  
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10 Puget LNG would be managed under the direction and control of a Board of Managers or  
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12 Board of Directors. Puget Energy, the sole member or shareholder of Puget LNG, would  
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14 designate each of the members of the Board of Managers or Board of Directors. It is not  
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16 expected that Puget LNG would have employees or have any purpose other than to hold its  
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18 interests in the Tacoma LNG Facility because PSE would serve as the operator of the  
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20 Tacoma LNG Facility and Puget LNG would compensate PSE for its portion of the costs of  
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22 operating the plant, as discussed in more detail below.  
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26 17. After its creation, Puget LNG and PSE would enter into an Ownership  
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28 Agreement that would provide generally for the rights and obligations of each of Puget LNG  
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30 and PSE with regard to the Tacoma LNG Facility. Under the Ownership Agreement,  
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32 Puget LNG would acquire all of the bunkering facilities associated with the Tacoma LNG  
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34 Facility and (i) a 90% undivided interest as a tenant-in-common in the liquefaction facilities,  
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36 (ii) a 21% undivided interest as a tenant-in-common in the storage facilities, (iii) a 75%  
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38 undivided interest as a tenant-in-common in the truck loading facilities, and (iv) a 54%  
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40 undivided interest as a tenant-in-common in the common facilities. Puget LNG would  
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42 compensate PSE for 56% of PSE's then-existing development and construction costs for the  
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44 Tacoma LNG Facility. The Ownership Agreement would require a final accounting based  
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1 on actual costs and a reassignment of interests based on that final accounting. The capital  
2 investment of each of Puget LNG and PSE would thereafter be in proportion to their  
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on actual costs and a reassignment of interests based on that final accounting. The capital investment of each of Puget LNG and PSE would thereafter be in proportion to their respective ownership interests.

18. Puget LNG and PSE would also enter into an Operating Agreement under which PSE would have management responsibility for operating the Tacoma LNG Facility. Pursuant to the terms and conditions of the Operating Agreement, PSE would serve as the operator of the Tacoma LNG Facility, and Puget LNG would compensate PSE for its portion of the costs of operating the plant. The Operating Agreement would provide generally that the costs of operating the Tacoma LNG Facility be shared by Puget LNG and PSE in proportion to the usage of the Tacoma LNG Facility based on the approved cost allocation methodology.

19. Puget LNG would also take distribution system transportation service to the Tacoma LNG Facility pursuant to a PSE rate schedule or a special contract with PSE, either of which would be subject to the jurisdiction of this Commission.

20. After the creation of Puget LNG, PSE would assign the TOTE Fuel Supply Agreement to Puget LNG pursuant to section 21.2 of that agreement. PSE would also assign its obligations concerning the provision of short-term LNG supply to TOTE to Puget LNG.

Executed this 15th day of April, 2016, at Bellevue, Washington.

  
\_\_\_\_\_  
Roger Garratt

Declaration of Roger Garratt in  
Support of Brief of Puget Sound Energy