

**EXHIBIT NO. __ (EDH-12)
DOCKET UE-200115
COLSTRIP UNIT 4 SALE
WITNESS: EZRA D. HAUSMAN, PH.D.**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

PUGET SOUND ENERGY,

**For an Order Authorizing the Sale of
All of Puget Sound Energy's Interests
in Colstrip Unit 4 and Certain of Puget
Sound Energy's Interests in the
Colstrip Transmission System**

Docket UE-200115

**EXHIBIT EDH-12 TO THE
PREFILED DIRECT TESTIMONY OF
EZRA D. HAUSMAN, PH.D.
ON BEHALF OF THE SIERRA CLUB**

October 2, 2020

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket UE-200115
Puget Sound Energy
Application Authorizing Sale of PSE Interest in Colstrip Unit 4**

SIERRA CLUB DATA REQUEST NO. 006:

If both energy purchased under the PPA and “Energy replacement” as shown in Exhibit CLS-06 are assumed to be priced at the hourly Mid-C price, please confirm and explain why PSE assumes it would choose to hedge the cost of the energy replacement and not that of the PPA energy.

Response:

Puget Sound Energy (“PSE”) does not fully hedge its portfolio, and PSE would hedge the proposed power purchase agreement with NorthWestern Energy pursuant to the procedures in place for its overall hedging strategy. Hedging a portion of the proposed power purchase agreement with NorthWestern Energy would provide some protection from an increase in market rates. The unhedged portion could allow customers to benefit from potential decreases in market rates.

In addition, the structure of the proposed power purchase agreement with NorthWestern Energy provides a hedge because PSE pays the greater of the floor price (dispatch cost) and the difference between the market price and the O&M base equivalent. For example if the O&M base equivalent is \$10/MWh, PSE would pay the floor price if the difference between Mid-C price and the floor price (margin) is less than \$10/MWh. If the difference is greater than the \$10/MWh, PSE would pay an incremental amount above the \$10/MWh.