EXHIBIT NO. ___(CAP-1T)
DOCKET NO. UE-082128
WITNESS: CHRISTINE A. PHILIPPS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC**. For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order	**Docket No. UE-082128**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF CHRISTINE A. PHILIPPS ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 13, 2009

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF CHRISTINE A. PHILIPPS

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

A. My name is Christine Philipps. My business address is 10885 NE Fourth Street, Bellevue, WA 98004. I am the Director, Federal 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. ___(CAP-2).

Q. Please explain your duties as Director, Federal Regulatory Affairs for PSE.

A. I am responsible for the strategy, policy and overall direction of the Company's interest regarding federal regulatory issues. I am responsible for leading the implementation of the Company's corporate compliance program including monitoring operational compliance units and analyzing risk assessments based on federal regulations. I have held this position at PSE since January 15, 2009. Prior to that time, I was Manager of Resource Acquisition for PSE.

Q. Please describe your prior duties as Manager of Resource Acquisition for PSE.

A. I was responsible for acquiring long term electric generating resources for the Company's supply portfolio. I led due diligence reviews including financial feasibility analyses, engineering review, operations review, environmental review, legal review and real estate review. I negotiated or participated in the negotiation of commercial agreements across a range of resource additions. I was part of the team that developed PSE's 2007 Integrated Resource Plan ("IRP") providing input in the development of the capital costs for PSE's generic assumptions about future resource costs, and reviewing the Company's existing electric resources and any future acquisition activity that would impact PSE's resource need. I was involved in PSE's 2008 request for proposals ("RFP") process, which developed from the Company's 2007 IRP. I led the commercial negotiations for PSE's acquisition of the Mint Farm Energy Center ("Mint Farm") from Wayzata Opportunities Fund, LLC ("Wayzata") and Mint Farm Power LLC.

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

A. My testimony (1) describes PSE's need to acquire electric generation resources such as Mint Farm, based on the Company's 2007 IRP and (2) demonstrates that Mint Farm is appropriate to meet the Company's need.

Q. Please describe your role in the Company's 2007 IRP process.

A. As mentioned above, one of my functions was to support and participate in the Company's 2007 IRP planning process by providing insight into market trends as

well as factors influencing capital costs. I supported the information gathering activity to identify the capital costs for a variety of potential resource additions to be used in support of the generic resource cost assumptions for PSE's generic resource portfolio. In addition to providing information for input assumptions, I participated in discussions to develop the final resource strategy.

Q. Please describe your role in PSE's 2008 RFP process.

A. I actively participated as leader of the Company's 2008 RFP process. I also led the business and commercial team, which was one of more than fifteen PSE teams representing specific areas of expertise that participated in the weekly RFP evaluation meetings. I reviewed all the proposals, along with my team, to determine if there were any fatal flaws that may yield a project infeasible. Among the more significant areas of focus for the proposed projects were: (1) price risk; (2) transmission risk; (3) development/siting risk; (4) technology risk; and (5) execution risk. I participated in the selection of the "candidate short list" at the conclusion of Phase I of the evaluation process as well as the selection of the final short list at the conclusion of Phase II in June 2008. Mint Farm was selected as one of the projects on the final short list.

Q. Did the Company's 2007 IRP identify a need to acquire additional electric resources?

A. Yes. The 2007 IRP process identified a need to replace, renew and acquire nearly 700 average Megawatts (aMW) of electric resources by 2011, more than 1,600 aMW by 2015, and 2,570 aMW by 2025. The 2007 IRP *capacity* need was identified to be nearly 2,300 Megawatts ("MW") by 2015, and over 3,200 MW by 2020. Of the 2,300 MW of capacity need to be met by 2015, at least 1,234 MW of capacity additions were projected to be from gas-fired combined cycle electric generating plants.

Q. Did the IRP identify the type of electric generation resources that PSE will need to acquire to meet this need?

A. Yes. The Company's demand forecast and analysis of existing resources that was applied in PSE's IRP resulted in a forward-looking portfolio made up of the lowest reasonable cost long-term resources. The IRP recognized that the bulk of these resources will be gas-fired combined cycle combustion turbines ("CCCT"). In fact, the single largest type of new energy resource reflected in the Company's IRP is from gas-fired CCCT plants like Mint Farm. A copy of PSE's 2007 IRP was filed with the Petition in this docket, and Chapter 1: Executive Summary at I-4 to I-7 is provided as Exhibit No. ___(CAP-3).

Q. Please describe Mint Farm and its development history.

A. The Mint Farm Energy Center is a modern, natural gas-fired combined cycle generating facility. The maximum capacity of the plant is 311 MW when everything is operating. The baseload capacity is rated at 260 MW, plus 37 MW of duct fire capability, and under emergency circumstances, an incremental 14MW can be produced through steam augmentation. The machine is clean, quiet, well designed, and in near new condition. The generating facility is situated on approximately 11.42 acres of land located within the Mint Farm Industrial Park in Longview, Washington. The site was originally developed by Avista Power in partnership with Steag AG, a large German power producer. Avista Power sold the development assets to Mirant Corporation ("Mirant") in 2001. In August 2002, construction on the partially completed facility was suspended due to Mirant's financial distress and ultimate bankruptcy. The project was estimated to be 34% complete. Wayzata Investment Partners, LLC, an affiliate of Wayzata, acquired the project from Mirant in December 2005 for $27 million through a bankruptcy auction process. At the time of the acquisition by Wayzata, the assets had been laid up by Stone and Webster. Wayzata completed construction in 2007 and began commercial operation in January 2008. The station includes gas delivery facilities, an electrical switchyard, certain real property, and other facilities. The plant's turbines, fired by natural gas, employ "combined-cycle" technology that generates electricity using both a natural gas cycle and a steam cycle. The process provides higher operating efficiencies, lower fuel costs, and lower air emissions. The

primary plant equipment consists of a General Electric Frame 7FA model combustion turbine and generator,[1] a Foster-Wheeler Heat Recovery Steam Generator and a Siemens-Fuji KN steam turbine and generator. With a heat rate of approximately 7,000 Btu per kWh, Mint Farm is one of the most efficient generating facilities in the Western Electricity Coordinating Council region.

Q. How does Mint Farm respond to the needs identified in the Company's 2007 IRP?

A. The acquisition of Mint Farm is consistent with the strategy identified in PSE's 2007 IRP. The acquisition of Mint Farm provides the Company with a cost-effective and environmentally sound way to generate power that helps reduce PSE's resource deficit in the near term.

The combined cycle process at Mint Farm is a highly efficient process that provides greater operating efficiencies, lower fuel costs, and lower emissions. The operational flexibility of the plant provides the Company with the ability to dispatch the plant when it is determined to be the most efficient, low cost and reliable resource to meet system load or demand.

Q. Did the Company's evaluation of the proposals submitted through the RFP process demonstrate that Mint Farm is an appropriate resource to meet PSE's

[1] The GE 7FA gas turbine is a mature, well understood machine with greater than 1,000 units installed around the world providing power at 98 percent reliability, and this one is nearly identical in design and operation to the machine currently in use at PSE's Goldendale Generating Facility.

need for additional electric generation resources?

A. Yes. Mint Farm was identified as a leading resource in the 2008 RFP process in part for the following reasons: (1) Mint Farm's attractive price, at approximately $241 million or $800/kW, which was one of the lowest cost resources identified in the 2008 RFP; (2) Mint Farm's low heat rate of approximately 7,000 Btu/kWh, which allows Mint Farm to dispatch more frequently (among the most efficient CCCT plants in the WECC region); (3) Mint Farm's potential to provide ancillary services such as load following; and (4) Mint Farm's greater transmission reliability due to its location on the west side of the state. When compared to the other short-listed projects submitted in response to PSE's RFP, Mint Farm was identified as superior overall, when considering price, transmission, development and execution risk along with operational flexibility.

Q. Please explain what you mean by Mint Farm's "transmission reliability."

A. As a west-side resource, Mint Farm provides not only needed energy but also transmission reliability. The project holds long-term firm transmission on the BPA line that delivers to PSE's load center at Covington. The Company is in the process of moving Mint Farm out of BPA's balancing authority and into PSE's own balancing authority to ensure greater control of the resource and potential for load following and other ancillary services capabilities.

Early on in the review process, it was apparent that the firm transmission capacity held by Mint Farm provided certainty and reduced risk to PSE and its customers.

As the region has become more transmission constrained, projects without firm transmission capacity are likely to experience a reduced level of service. These projects may not receive firm capacity until 2012/2013 at the earliest when BPA estimates completion of the McNary/John Day infrastructure project.

Q. Were there other aspects of the Mint Farm proposal that led PSE to conclude that Mint Farm is an appropriate resource to meet PSE's need?

A. Yes. The fact that Mint Farm was an existing plant with known and quantifiable costs was also significant. Construction of new generating resources had experienced significant price escalation due to the broader global energy market and demand for key commodities such as steel and concrete. Capital costs for new CCCT projects were estimated to be approximately 60% higher than the offered price from Wayzata for Mint Farm. Further, during the due diligence period, there was little room for price risk as Wayzata stated that the purchase price offer would not change.

Additionally, Mint Farm is one of only two remaining merchant plants, and new plants will require permitting review and approval. The permitting process for new generating resources can be challenging and can result in lengthy processes of review and appeal, as well as higher capital costs. It is estimated that it may take approximately five years to permit and construct a new gas-fired generating facility.

Mint Farm also performed well in PSE's quantitative analysis of the proposals submitted in the 2008 RFP. The prefiled direct testimony of Mr. W. James Elsea,

Exhibit No. ___(WJE-1), provides additional description of the quantitative analysis of Mint Farm.

Q. What steps did PSE take following the RFP process to acquire Mint Farm?

A. I was assigned as lead negotiator in April 2008. As lead negotiator for the PSE commercial team, I began discussions with Wayzata in May 2008 to acquire Mint Farm.[2] A non-binding letter of intent was entered into between PSE and Wayzata on June 5, 2008, at which point an exclusive 60-day due diligence period began. Concurrent with the due diligence efforts, I also began negotiating the terms and conditions of the Membership Interests Purchase Agreement. Definitive agreements were executed September 24, 2008. Closing occurred December 5, 2008.

Q. Please explain how PSE intends to utilize Mint Farm?

A. As discussed in the prefiled direct testimony of Mr. A. Paul Bruning, Exhibit No. ___(APB-1), Mint Farm is designed to run at a baseload capacity factor above 90%, and PSE intends to operate it in that manner whenever it is economically feasible to do so. Mint Farm's actual operation will vary based on its ability to be

[2] Timing was precipitated by the fact that Wayzata's proposal stated it would expire in May 2008. Interestingly, most of the proposals received in PSE's 2008 RFP process included an expiration date, which in part may be attributable to rising market prices and participation in other RFPs that were running concurrently with PSE's. It was clear that RFP respondents wanted to pursue all available options to obtain the best and highest price.

economically dispatched, which is discussed in more detail in the prefiled direct testimony of Mr. David Mills, Exhibit No. ___(DEM-1). Economic dispatch typically increases the use of more efficient generating units which leads to better fuel utilization, lower fuel usage, and reduced air emissions that would come from less efficient generation. With Mint Farm's advanced gas turbine technology and its low heat rate, the plant is among the most efficient in the WECC region.

Q. Please summarize your testimony.

A. In its 2007 IRP, PSE identified a need to acquire nearly 2,570 aMW of electric resource generation by 2025. The bulk of these resources will be gas-fired CCCT plants like Mint Farm. Mint Farm adds 311 MW of capacity and 247 aMW of winter energy, which is a significant contribution to meeting PSE's 2012 January energy need of 700 aMW and brings PSE closer to meeting its longer term energy need.

Q. Does that conclude your testimony?

A. Yes, it does.