

**EXHIBIT NO. \_\_\_(EMM-27HC)**  
**DOCKET NO. \_\_\_\_\_**  
**2005 POWER COST ONLY RATE CASE**  
**WITNESS: ERIC M. MARKELL**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-\_\_\_\_\_**

**TWENTY-SIXTH EXHIBIT TO THE PREFILED DIRECT TESTIMONY OF  
ERIC M. MARKELL (HIGHLY CONFIDENTIAL)  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED VERSION**

**JUNE 7, 2005**



December 28, 2001

VIA FACSIMILE AND FEDERAL EXPRESS

Public Utility District No. 2 of Grant County  
30 C Street S.W.  
Ephrata, Washington 98823

Attention: Mr. Don Godard, Manager

Re: PSE's Exercise of its Rights of First Refusal

Dear Don,

Section 1(b) of the present Priest Rapids and Wanapum Power Sales Contracts between Puget Sound Energy, Inc. ("PSE") and Public Utility District No. 2 of Grant County ("Grant") provide PSE rights of first refusal as follows:

"After October 31, 2005, [October 31, 2009 for the Wanapum Contract] the Purchaser shall have the right of first refusal to purchase that proportionate part of the Priest Rapids Development Output [or Wanapum Development Output] which is then in excess of the actual and prospective needs of the District for service to ultimate consumers within the service area of the District, which the Purchaser's Power Allocation as of October, 2005 [October, 2009 for the Wanapum Contract] shall bear to the total power allocations of all of the Purchasers; provided, however, that nothing contained herein shall be construed to limit or waive any rights which the agencies in neighboring states would have had to purchase power after October 31, 2005, [October 31, 2009 for the Wanapum Contract] in the absence of this subsection . . ."

Last Friday, December 21, 2001, Portland General Electric ("PGE") filed in court a signed, three-part contract offer PGE made to Grant, which we understand Grant has represented that it is prepared to accept. The contract package filed with the court contained a "Priest Rapids Project Product Sales Contract," an "Additional Product Sales Agreement," and a "Priest Rapids Project Reasonable Portion Power Sales Contract." The court stated that the signed PGE contracts on file with the court met the right of first refusal requirement as an offer to which PSE's right of first refusal attaches.

In exercise of its right of first refusal, PSE hereby accepts the terms contained in the PGE offer with respect to PSE's proportionate part. (PSE notes that it has not been afforded reasonable time to make a thorough review of the PGE offer which PSE first

received on December 21, but that Grant has refused to extend to PSE additional time for review and consideration.) Enclosed and delivered herewith is a form of the PGE offer executed by PSE with respect to PSE's proportionate part.

Moreover, PSE understands that there may be other contract offers to Grant by other purchasers or third parties. If so, PSE has not yet been provided those contract offers to Grant. PSE believes that under the right of first refusal provision, all contract offers that Grant intends to accept should be made available for review by PSE with reasonable time to consider the terms and to make a decision on acceptance.

Please provide copies of all contract offers (with complete terms not excluding offers containing additional or extended benefits) from other parties that Grant intends to accept. To the extent those contract offers, if any, contain provisions and terms more favorable to PSE than Grant intends to accept compared to the terms in the PGE contracts, please be advised that PSE wishes to expressly accept those terms as PSE's acceptance under its rights of first refusal.

The offer Grant solicited from PSE by letter dated December 4, 2001, was less favorable to PSE in at least one area compared to the signed PGE offer. That provision related to the Priest Rapids Project Reasonable Portion Power Sales Contract. The Priest Rapids Reasonable Portion Power Sales Contract is part of the package filed with the court on December 21 and is an integral part of the PGE offer. On December 19, 2001, Grant told PSE it could not accept the Reasonable Portion Power Sales Contract without also accepting the Priest Rapids Project Product Sales Contract.

PSE understands that Grant may decide that it wishes to modify portions of the contract offer that PGE has made to Grant. If that is the case, please advise PSE immediately of the areas in which Grant intends to make changes before it intends to accept the PGE offer. PSE hereby requests to be involved in any negotiations on such provisions and requests timely notice of any such negotiations. PSE notes that Grant has apparently held meetings over the past several months with a subset of potential Priest Rapids purchasers for the purpose of negotiating and developing the contract offer that PGE signed and filed with the court on December 21, 2001. Neither Grant nor PGE provided PSE with notice of these meetings. PSE believes it would be appropriate for Grant to work with all of the potential purchasers to finalize these contracts.

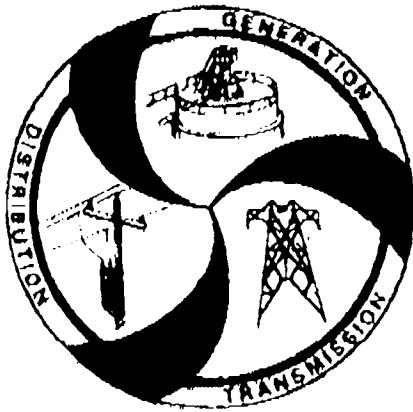
Sincerely,

Puget Sound Energy, Inc.

By:   
Its: VICE PRESIDENT, ENERGY SUPPLY

GRANT--105.01  
NEGOTIATIONS

- B. GAINES
- R. OLSON
- D. PARRISH
- S. MARSHALL
- D. KARI

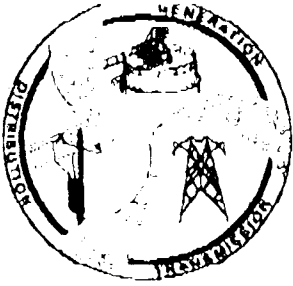


GRANT COUNTY PUD

# F A X

To:	Ralph Olsen
Fax:	425-462-3300
From:	Don Godard
Date:	12/22/01
Pages:	2, including cover page

From the desk of:  
 Mary Heston, Executive Secretary  
 Grant County PUD  
 PO Box 878  
 Ephrata WA 98823  
 (509)754-5028  
 FAX: (509)754-5695  
 E-Mail: mheston@gcpud.org

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY**

MEETING OUR CUSTOMER ENERGY NEEDS IN A COST CONSCIOUS MANNER

P. O. BOX 878 • EPHRATA, WASHINGTON 98823 • 509/754-0500

December 21, 2001

Mr. Ralph Olsen  
Puget Sound Energy, Inc.  
PO Box 97034, ORC 15  
Bellevue WA 98009-9734

VIA FACSIMILE &amp; US MAIL

Dear Ralph:

On December 19, 2001 representatives of your company spent the day in Ephrata reviewing with me and my staff contracts for sale of products from the Priest Rapids Project after 2005.

The contracts that were subject to review include:

1. Product Sales Contract (which offer power that is surplus to Grant PUD's needs and power that is made available from the Project because Grant PUD has exercised its rights to federal power),
2. Additional Products Contract (which offer non-firm power in addition to the Product Sales Contract) and
3. Reasonable Portion Contract (which offers the financial benefits of marketing 30% of the Project pursuant to a FERC approved plan).

Taken together these three contracts have the effect of Grant PUD continuing to receive its existing 36.5% of Project benefits after 2005 and the right to withdraw additional firm power (but no additional non-firm power) to meet local loads (subject to a "new large single load" limitation). All remaining benefits from the Project are made available to eligible Purchasers, at cost.

However, there is a deadline approaching that I want to be sure you do not overlook. The Product Sales Contract will be on the table for several years but in order to receive the power at cost the deadline to sign the contract is December 31, 2001. The Additional Products Contract is dependent on the Product Sales Contract. The Reasonable Portion Contract is available only until December 31, 2001. I do not believe that the existing lawsuit over the Right of First Refusal has the potential for changing these deadlines.

The purpose of this letter is to confirm that each of these three contracts is available to you. Nearly all of the current Purchasers have indicated that they intend to sign these contracts and I encourage you to participate as well. Our utilities have worked together for our mutual benefit for decades and I hope you will accept this offer to share the benefits of the Project in the decades to come.

Sincerely,

Don Godard, Manager

**Pages 5-68 of Exhibit No. \_\_\_\_ (EMM-27HC) are  
redacted as Highly Confidential  
per WAC 480-07-160**