

**EXHIBIT NO. KJH-8HCT
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: KIMBERLY J. HARRIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-090704
Docket No. UG-090705**

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF
KIMBERLY J. HARRIS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

DECEMBER 17, 2009

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF
KIMBERLY J. HARRIS**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF**
3 **KIMBERLY J. HARRIS**

4 **I. INTRODUCTION**

5 **Q. Are you the same Kimberly J. Harris who provided in this proceeding**
6 **prefiled direct testimony, Exhibit No. KJH-1HCT, on May 8, 2009, on behalf**
7 **of Puget Sound Energy, Inc. (“PSE”)?**

8 A. Yes.

9 **Q. What is the purpose of your prefiled rebuttal testimony?**

10 A. This rebuttal testimony responds to the direct testimony of Mr. David
11 Nightingale, Exhibit No. DN-1THC, witness for the Washington Utilities and
12 Transportation Commission (“Commission Staff”), and the direct testimony of
13 Mr. Scott Norwood, Exhibit No. SN-1HCT, witness for the Public Counsel
14 section of the Washington State Attorney General’s Office (“Public Counsel”),
15 with respect to issues of prudence associated with the acquisition of resources
16 pursuant to PSE’s resource acquisition program.

17 Neither Commission Staff nor Public Counsel challenges the prudence of PSE’s
18 acquisition of (i) Fredonia Units 3 and 4 and (ii) the Wild Horse Wind Project
19 Expansion. Additionally, neither Commission Staff nor Public Counsel
20 challenges the prudence of PSE’s execution of power purchase agreements with

1 the following counterparties: (i) Credit Suisse; (ii) Barclay’s Bank; (iii) Puget
2 Sound Hydro; and (iv) Qualco Energy. Finally, no party challenged the
3 appropriateness of the sale of the White River Assets by PSE to the Cascade
4 Water Alliance.

5 Although Commission Staff does not challenge the prudence of PSE’s acquisition
6 of the Mint Farm Energy Center, Public Counsel asserts that “PSE’s decision in
7 August 2008 to acquire the Mint Farm facility was imprudent.” Exhibit No. SN-
8 1HCT at 3.

9 **Q. On what basis does Public Counsel challenge the prudence of PSE’s**
10 **acquisition of the Mint Farm Energy Center?**

11 A. Public Counsel makes five arguments in challenging the prudence of PSE’s
12 acquisition of the Mint Farm Energy Center:

- 13 • Public Counsel asserts that PSE did not have a need to
14 acquire the Mint Farm Energy Center to meet PSE’s native
15 system capacity and energy need.
- 16 • Public Counsel asserts that “the [REDACTED] PPA was
17 clearly superior to the Mint Farm acquisition from an
18 economic benefit perspective.”
- 19 • Public Counsel asserts that PSE presentations to its Board
20 of Directors “appear to present an unduly favorable
21 assessment of the Mint Farm facility which deemphasizes
22 concerns identified by the Mint Farm due diligence
23 analyses.”
- 24 • Public Counsel asserts that a desire to increase rate base
25 and provide additional shareholder return motivated PSE to

1 select the acquisition of the Mint Farm Energy Center
2 instead of the [REDACTED] power purchase agreement.

- 3 • Public Counsel asserts that the risk of potential curtailment
4 of energy deliveries from the Mint Farm Energy Center
5 exists because of inadequate firm transmission capacity,
6 inadequate gas transportation capacity, and no backup fuel
7 capability at the plant.

8 PSE addresses each of these arguments below and in the Prefiled Rebuttal
9 Testimony of Mr. Roger Garratt, Exhibit No. RG-53HCT, the Prefiled Rebuttal
10 Testimony of Mr. W. James Elsea, Exhibit No. WJE-21HCT, and the Prefiled
11 Rebuttal Testimony of Mr. R. Clay Riding, Exhibit No. RCR-6T.

12 **II. PSE'S ACQUISITION OF THE MINT FARM** 13 **ENERGY CENER WAS PRUDENT**

14 **A. PSE Has Demonstrated a Need to Acquire the Mint Farm Energy** 15 **Center to Meet PSE's Energy and Capacity Needs**

16 **Q. Does Public Counsel suggest that PSE failed to demonstrate a need to** 17 **acquire the Mint Farm Energy Center to meet PSE's energy and capacity** 18 **needs?**

19 A. Yes. Public Counsel suggests that PSE failed to demonstrate a need to acquire
20 the Mint Farm Energy Center to meet PSE's energy and capacity needs and cites
21 to a presentation to PSE's Board of Directors dated August 4, 2008, which
22 "indicated that the plant would create surplus capacity on PSE's system through
23 2011." Exhibit No. SN-1HCT at page 9, lines 4-6. Public Counsel's suggestion
24 is overly simplistic and ignores the dramatic long-term need for PSE to acquire

1 electric resources to replace expiring and retiring resources and meet its
2 renewable portfolio standard obligations. In short, Public Counsel's need analysis
3 is incomplete and fails to consider all of the evidence presented.

4 **Q. Does PSE project a need for PSE to acquire additional electric resources?**

5 A. Yes. To meet the projected base load demand of PSE's customers, the 2007 IRP
6 projected that PSE would need to acquire "nearly 700 aMW of electric resources
7 by 2011, more than 1,600 aMW by 2015, and 2,570 aMW by 2027." Exhibit
8 No. KJH-5 at page 8. Electric resources constitute both supply-side and demand-
9 side resources, such as conservation and energy efficiency.

10 Before beginning the 2008 RFP process, PSE reevaluated the load resource
11 balance and updated the need with PSE's most recent demand forecast and supply
12 side resource additions. PSE's projected energy need for resources for the 2008
13 RFP, after accounting for energy efficiency and acquired resources, was
14 approximately 150 aMW in January 2011. PSE's projected capacity need for
15 resources for the 2008 RFP, after accounting for energy efficiency and acquired
16 resources, was approximately 208 MW in 2011. *See* Exhibit No. WJE-1HCT,
17 Exhibit No. WJE-3, and Exhibit No. WJE-21HCT at page 4, line 14, through
18 page 5, line 5.

19 As described in the Prefiled Direct Testimony of David E. Mills, PSE updated its
20 planning standard in November 2008 to target the amount of capacity needed in

1 order for PSE to achieve a 5% loss of load probability. *See* Exhibit No. DEM-
2 1CT at page 23, line 5, through page 24, line 19.

3 This new planning standard increased PSE's capacity needs by approximately
4 300 MW in the early years and by approximately 500 MW in the later years of the
5 20-year planning horizon. *See* Exhibit No. DEM-5C.

6 Finally, the 2009 IRP projects that PSE will need to acquire 676 MW of electric
7 resources and energy efficiency by 2012, 1,084 MW by 2015, and 2,453 MW by
8 2020. These 2009 IRP numbers include the addition of the Mint Farm Energy
9 Center and the Barclay's 4-year seasonal PPA and reflect pessimistic growth
10 projections to reflect the economic downturn. *See* Exhibit No. WJE-21HCT at
11 page 5, line 9, through page 7, line 4.

12 In short, PSE continues to have a need to acquire electric resources to replace
13 expiring and retiring resources and meet its renewable portfolio standard
14 obligations. Public Counsel's suggestion that PSE failed to demonstrate a need to
15 acquire the Mint Farm Energy Center to meet PSE's energy and capacity needs is
16 unfounded and ignores the extensive evidence to the contrary.

17 **Q. Did PSE present evidence demonstrating the need to acquire the Mint Farm**
18 **Energy Center to meet PSE's energy and capacity needs?**

19 A. Yes. My prefiled direct testimony in this proceeding describes the manner in
20 which PSE has extensively documented its need to acquire additional power

1 resources now and well into the future. See Exhibit No. KJH-1HCT at page 12,
2 line 15, through page 15, line 6. Additionally, PSE provided a copy of the 2007
3 IRP, Exhibit No. KJH-5, and the 2008 RFP, Exhibit No. KJH-6, each of which
4 demonstrates PSE's needs for energy and capacity. Additionally, PSE completed
5 its 2009 IRP in July 2009, and an electronic copy of the plan is readily available
6 on PSE's website at [http://www.pse.com/SiteCollectionDocuments/2009IRP/
7 2009%20IRP_chap_web.pdf](http://www.pse.com/SiteCollectionDocuments/2009IRP/2009%20IRP_chap_web.pdf). Given this evidence demonstrating PSE's need to
8 acquire electric resources to meet PSE's growing energy and capacity needs, it is
9 unclear why Public Counsel focuses on a short-term capacity surplus to the
10 exclusion of long-term needs.

11 **B. PSE's Quantitative Analyses Support the Acquisition of the Mint**
12 **Farm Energy Center**

13 **Q. Does Public Counsel suggest that PSE failed to demonstrate the quantitative**
14 **benefits of acquiring the Mint Farm Energy Center?**

15 A. Yes. Public Counsel suggests that other resources provided greater cost benefits
16 to PSE than the Mint Farm Energy Center: "PSE's Phase II analysis . . . showed
17 that three of the five shortlisted gas-fired bids were expected to provide higher
18 portfolio benefits and/or higher benefit ratios than the Mint Farm project."
19 Exhibit No. SN-1HCT at page 11, lines 15-18. Again, Public Counsel's
20 suggestion is overly simplistic and focuses exclusively on one cost benefit metric
21 (portfolio cost impact) to the exclusion of any other important cost consideration,

1 such as capital costs, financing costs, operation and maintenance costs, fuel and
2 fuel transportation costs, fixed and variable power purchase agreement costs,
3 transmission costs, and ancillary services costs. *See* Exhibit No. WJE-1HCT at
4 page 11, line 5, through page 14, line 14.

5 **Q. Did PSE present evidence with respect to the various resource cost**
6 **considerations that PSE considered?**

7 A. Yes. The Prefiled Direct Testimony of Mr. W. James Elsea, Exhibit No. WJE-
8 1HCT, the supporting exhibits to such prefiled direct testimony, the Prefiled
9 Rebuttal Testimony of Mr. W. James Elsea, Exhibit No. WJE-21HCT, the
10 supporting exhibit to such prefiled rebuttal testimony, and the RFP overview
11 documentation, Exhibit No. RG-3HC, provide extensive evidence regarding the
12 resource cost considerations that PSE considered. Additionally, the workpapers
13 of Mr. W. James Elsea provide several DVD-ROMs of raw data and modeling
14 results used by PSE in such analysis. Given this extensive quantitative analysis
15 provided by PSE in support of its acquisition of the Mint Farm Energy Center, it
16 is unclear why Public Counsel focuses on one cost category to the exclusion of all
17 others. In short, Public Counsel's quantitative analysis is incomplete and fails to
18 consider all of the evidence presented.

1 **C. PSE's Qualitative Analyses Support the Acquisition of the Mint Farm**
2 **Energy Center**

3 **Q. Does Public Counsel suggest that PSE failed to demonstrate the qualitative**
4 **benefits of acquiring the Mint Farm Energy Center?**

5 A. Yes. Public Counsel asserts that PSE presentations to its Board of Directors
6 “appear to present an unduly favorable assessment of the Mint Farm facility
7 which deemphasizes concerns identified by the Mint Farm due diligence
8 analyses.” Exhibit No. SN-1HCT at page 13, lines 8-10. In an attempt to support
9 this assertion, Public Counsel cites to select portions of a due diligence report
10 prepared by North American Energy Services Company (“NAES”) but fails to
11 provide the overall assessment of NAES or discuss the plans that PSE put into
12 place to address the few areas of concerns raised by NAES to which Public
13 Counsel cites. Again, Public Counsel’s suggestion is overly simplistic and
14 selectively focuses on the few areas of concern that NAES had with respect to the
15 Mint Farm Energy Center.

16 **Q. Did the NAES due diligence report raise significant concerns with respect to**
17 **the Mint Farm Energy Center?**

18 A. No. As discussed in the Prefiled Rebuttal Testimony of Roger Garratt, Public
19 Counsel cites select portions of the NAES due diligence report but fails to
20 acknowledge the overall assessment of NAES, discuss the due diligence
21 performed by PSE itself and its other consultants, or take into account the plans

1 that PSE included to address the few areas of concern raised by NAES as cited by
2 Public Counsel. *See* Exhibit No. RG-53HCT. In fact, the NAES due diligence
3 report concluded as follows:

4 The plant facilities and equipment appeared to be in good
5 condition, particularly considering that construction of the plant
6 was suspended for approximately four years. There were no
7 obvious signs or indications of leaks and housekeeping was good.
8 The construction punchlist was down to one item when the due
9 diligence visit took place. From an operational perspective, the
10 plant is essentially brand new with little run time.

11 Exhibit No. RG-54C at page 3. Given this conclusion, it is difficult to understand
12 why Public Counsel would suggest that PSE misled its Board of Directors in any
13 fashion when it provided the following conclusion in its report to the Board of
14 Directors, which is similar to the conclusion of the NAES due diligence report:

15 The overall conclusion of PSE's technical due diligence team is
16 that the plant is clean, quiet, well designed, and in near new
17 condition. While plan construction was interrupted for a period of
18 approximately five years, components of the plant that had been
19 installed were properly laid up to prevent corrosion.

20 Operations and maintenance at the plant appear to have been
21 carried out by conscientious and experienced personnel guided by
22 good procedures.

23 Exhibit No. RG-7HC at page 168.

24 **Q. Does Public Counsel address all of the qualitative factors considered by PSE**
25 **in acquiring the Mint Farm Energy Center?**

26 A. No. Public Counsel fails to address many of the multifaceted and structured
27 evaluation processes to assess the merits of proposals with regard to meeting

1 PSE's need.

2 Additionally, PSE evaluates each proposal according to the following qualitative
3 criteria: (i) compatibility with resource need; (ii) risk management; (iii) public
4 benefits; and (iv) strategic and financial considerations. These qualitative factors
5 are discussed in the Prefiled Rebuttal Testimony of Mr. Roger Garratt, Exhibit
6 No. RG-53HCT, and the 2008 RFP, Exhibit No. KJH-6.

7 **Q. Did PSE present evidence with respect to the various qualitative**
8 **considerations that PSE considered?**

9 A. Yes. The Prefiled Direct Testimony of Mr. Roger Garratt, Exhibit No. RG-
10 1HCT, the supporting exhibits to such prefiled direct testimony, the Prefiled
11 Rebuttal Testimony of Mr. Roger Garratt, Exhibit No. RG-53HCT, and the
12 supporting exhibits to such prefiled rebuttal testimony provide extensive evidence
13 regarding the qualitative considerations that PSE considered. Given this
14 extensive qualitative analysis provided by PSE in support of its acquisition of the
15 Mint Farm Energy Center, it is unclear why Public Counsel focuses solely on a
16 few minor issues in a due diligence resource to the exclusion of all other
17 considerations. In short, Public Counsel's qualitative analysis is incomplete and
18 fails to consider all of the evidence presented.

1 **D. Public Counsel Erroneously Suggests That PSE Selected the**
2 **Acquisition of the Mint Farm Energy Center for No Other Reason**
3 **Than To Add Ratebase and Increase Shareholder Return**

4 **Q. Does Public Counsel suggest a motive for PSE to select the acquisition of the**
5 **Mint Farm Energy Center over the [REDACTED] power purchase**
6 **agreement?**

7 A. Yes. Public Counsel erroneously suggests that PSE selected the acquisition of the
8 Mint Farm Energy Center for no other reason than to add ratebase and increase
9 shareholder return:

10 The acquisition of Mint Farm potentially benefits PSE's
11 shareholders by increasing the Company's rate base by
12 approximately \$230 million, and thereby providing an opportunity
13 for additional shareholder return in the range of \$25 million per
14 year. In contrast the [REDACTED] PPA bid would have
15 produced no significant shareholder benefit for PSE since there is
16 no return component on purchased power costs. Other than this
17 difference, I see no reason why PSE would have been motivated to
18 select the Mint Farm acquisition over an option such as the
19 [REDACTED] PPA that was evaluated by PSE to provide
20 superior economic benefits to PSE's customers while representing
21 a less risky option than Mint Farm from the standpoints of timing
22 of initial deliveries, operational performance, and power
23 deliverability.

24 Exhibit No. SN-1HCT at page 18, line 13, through page 19, line 5.

25 **Q. Does PSE use a shareholder metric to compare projects for resource**
26 **acquisition?**

27 A. No. As stated above, PSE evaluates each proposal according to the following
28 criteria: (i) compatibility with resource need; (ii) cost; (iii) risk management;

1 (iv) public benefits; and (v) strategic and financial considerations. Details of
2 these criteria are spelled out above and in PSE's report on the 2008 All
3 Generation Sources RFP. *See* Exhibit No. RG-3HC at page 13. These criteria
4 consider the benefit to PSE's customers, and PSE does not weight these criteria in
5 any manner that would favor proposals that could potentially benefit
6 shareholders.

7 **Q. If there are no criteria that consider shareholder benefit, then why does**
8 **Public Counsel suggest that PSE's motivation for the acquisition of the Mint**
9 **Farm Energy Center was a desire to build ratebase and increase shareholder**
10 **returns?**

11 A. Public Counsel suggests that PSE's motivation for the acquisition of the Mint
12 Farm Energy Center was a desire to build ratebase and increase shareholder
13 returns. Public Counsel bases this suggestion on an incomplete and incorrect
14 assessment of PSE's need that short-sightedly focuses only on the first two years
15 of the projected 30+ year life of the Mint Farm Energy Center. Public Counsel
16 also appears to draw this conclusion based upon an incomplete review of PSE's
17 quantitative analysis, as discussed above and in the Prefiled Rebuttal Testimony
18 of Mr. W. James Elsea, Exhibit No. WJE-21HCT.

1 **E. The Mint Farm Energy Center Has Adequate Firm Transmission**
2 **Capacity and Gas Transportation Capacity**

3 **Q. Does Public Counsel suggest that PSE acquired the Mint Farm Energy**
4 **Center in spite of inadequate firm gas transportation capacity and**
5 **insufficient firm transmission rights?**

6 A. Yes. Public Counsel suggests that PSE acquired the Mint Farm Energy Center in
7 spite of inadequate firm gas transportation capacity and insufficient firm
8 transmission rights:

9 At the time it decided to acquire Mint Farm, PSE was aware
10 that it did not have adequate firm gas transportation capacity to
11 supply the full requirements of the Mint Farm facility, and the
12 Company knew that it did not have sufficient firm transmission
13 rights to deliver the full output of the Mint Farm facility to its
14 system.

15 Exhibit No. SN-1HCT at page 16, lines 3-7.

16 **Q. Does PSE agree with Public Counsel's assessment that the lack of firm gas**
17 **transportation was another risk associated with the acquisition of Mint**
18 **Farm?**

19 A. No. The presentation to the Board of Directors discussed in detail the various
20 strategic options available to PSE to acquire firm gas transportation. PSE
21 developed a strategy based on its knowledge of the supply and demand for
22 transportation in the region. Please see the Prefiled Rebuttal Testimony of
23 Mr. R. Clay Riding, Exhibit No. RCR-6T, for additional detail regarding PSE's

1 gas transportation strategy and implementation.

2 **Q. Does PSE have firm transmission for the Mint Farm Energy Center when**
3 **the facility is generating at full capacity?**

4 A. Although PSE has 293 MW of firm point-to-point transmission from BPA to
5 PSE's service territory, the Mint Farm Energy Center baseload generating
6 capacity at ISO conditions is 296 MW. PSE therefore does not have 3 MW of
7 firm transmission to cover all of the baseload and duct-fired generation. PSE
8 does not consider the firm transmission deficit of 3 MW to be a risk to owning the
9 Mint Farm Energy Center, and PSE has identified methods to manage this minor
10 issue. Please see the Prefiled Rebuttal Testimony of Mr. Roger Garratt for a
11 discussion of PSE's strategy for managing transmission from the Mint Farm
12 Energy Center.

13 **III. PUBLIC COUNSEL APPEARS TO**
14 **PREJUDGE THE PRUDENCE OF THE**
15 **LOWER SNAKE RIVER WIND ENERGY PROJECT**

16 **Q. Is PSE requesting a prudence determination in this proceeding regarding the**
17 **Lower Snake River Wind Energy Project or any portion thereof?**

18 A. No. As discussed in the Prefiled Direct Testimony of Mr. Roger Garratt, PSE is
19 not requesting a prudence determination in this proceeding regarding the Lower
20 Snake River Wind Energy Project or any portion thereof. PSE will request a
21 prudence determination of the Lower Snake River Wind Energy Project or any

1 portion thereof when, and if, projects are brought online. PSE simply provided
2 testimony regarding the Lower Snake River Wind Energy Project in an effort to
3 keep the Commission and parties apprised of PSE's development activities.

4 *See* Exhibit No. RG-1HCT at page 91, lines 8-16.

5 IV. CONCLUSION

6 **Q. Please summarize your conclusions.**

7 A. Public Counsel's prudence analysis is incomplete and fails to consider all of the
8 evidence presented. In asserting that PSE did not act in a prudent manner in
9 acquiring the Mint Farm Energy Center, Public Counsel selectively relies on data
10 out of context and focuses on relatively minor issues. Even in addressing these
11 relatively minor issues, Public Counsel fails to acknowledge that PSE considered
12 such issues and incorporated remedies for such issues in its analysis. In short,
13 Public Counsel's purported evidence does not, in any way, demonstrate that
14 PSE's acquisition of the Mint Farm Energy Center was anything other than
15 prudent.

16 The Commission should enter an order that finds PSE's acquisition of the
17 following resources to be prudent: (i) Fredonia Units 3 and 4; (ii) the Wild Horse
18 Wind Project Expansion; and (iii) the Mint Farm Energy Center. The
19 Commission should also enter an order that finds PSE's execution of power
20 purchase agreements with the following counterparties to be prudent: (i) Credit
21 Suisse; (ii) Barclay's Bank; (iii) Puget Sound Hydro; and (iv) Qualco Energy.

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Finally, the Commission should enter an order that finds PSE's sale of the White River Assets to the Cascade Water Alliance to be prudent.

Q. Does that conclude your prefiled rebuttal testimony?

A. Yes.