

**EXHIBIT NO. ___(PKW-1T)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: PAUL K. WETHERBEE**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-09___
Docket No. UG-09___**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
PAUL K. WETHERBEE
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MAY 8, 2009

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
PAUL K. WETHERBEE**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **PAUL K. WETHERBEE**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is Paul K. Wetherbee, and my business address is 10885 N.E. Fourth
7 Street, Bellevue, Washington 98004. I am employed by Puget Sound Energy, Inc.
8 (“PSE” or the “Company”) as a Manager, Resource Development.

9 **Q. Have you prepared an exhibit describing your education, relevant**
10 **employment experience, and other professional qualifications?**

11 A. Yes, I have. It is Exhibit No. ___(PKW-2).

12 **Q. What is the purpose of your testimony?**

13 A. In my testimony, I will:

- 14 1. describe the Company’s consideration of alternatives leading up to and
15 following the Company’s determination to reject the White River
16 Hydroelectric Project (the “Project”) original license issued in 1997 by the
17 Federal Energy Regulatory Commission (“FERC”);
- 18 2. describe PSE’s due diligence activities regarding the sale of the Project
19 assets;

- 1 3. present a status update regarding the Company's Application for
2 Authorization to Transfer Assets of the White River Hydroelectric Project
3 ("Application");
- 4 4. request Commission approval of the appropriateness of the Cascade Water
5 Alliance ("Cascade") transaction sale, and
- 6 5. provide an update of the on-going activities regarding the proposed sale of
7 the Project surplus property, which consists of approximately 2,400 acres of
8 undeveloped real property near or adjacent to the White River ("Surplus
9 Property").

10 **Q. Why is PSE proposing to sell its assets related to White River?**

11 A. PSE operated the Project without a federal license from 1911 to 1983. During
12 this time, the Project was believed to be exempt from the licensing requirements
13 of the Federal Power Act. However, FERC made a jurisdictional determination
14 and required the Company to apply for a license in November 1983. From 1984
15 through 1997, White River operated under FERC jurisdiction pending issuance of
16 a license. In December 1997, FERC issued an original license for the Project.
17 PSE appealed the 1997 FERC license based on economic consequences
18 associated with implementing the license. In 1998, PSE joined with interested
19 parties to form the Lake Tapps Task Force ("Task Force") to work collaboratively
20 to develop an economically viable offer of settlement to FERC. The Task Force
21 developed an extensive list of alternate ways to improve Project economics and
22 achieve an acceptable settlement. The preferred alternative identified by the Task
23 Force included a new FERC license for the Project and the acquisition of an
24 additional municipal water right, thereby allowing the Lake Tapps reservoir to be

1 used both for hydropower and for an additional beneficial use as a regional
2 municipal water supply.

3 In November 2003, in connection with the Company's effort to obtain a new
4 FERC license for the Project, NOAA Fisheries issued a Draft Biological Opinion
5 addressing the needs of certain aquatic species listed under the Endangered
6 Species Act. The Draft Biological Opinion contained mandatory terms and
7 conditions (limiting flows available for hydropower production and other
8 requirements) that rendered the ongoing operation of the Project as a hydropower
9 facility uneconomic, compared to the cost of alternative resources. In December
10 2003, with no viable option to maintain hydropower operations, the Company
11 rejected the FERC license, and on January 15, 2004, the Company discontinued
12 hydropower operations at the Project.

13 **Q. What is the timeline of the major events of the Project since FERC issued the**
14 **Original License?**

15 A. Efforts to resolve the future of the Project have involved many stakeholders,
16 agencies, processes, and decisions. For reference, the following table outlines the
17 major milestone events and approximate dates.

Event Date	Description
December 1997	FERC issued Original License and PSE appeals
Spring 1998	PSE joins with interested parties to convene Lake Tapps Task Force to develop options with the aim of saving the Project and Lake Tapps
January 2000	PSE applies for Municipal Water Right
August 2001	PSE enters Memorandum of Understanding with Cascade Water Alliance to negotiate the acquisition of the municipal water right
June 2003	Washington State Department of Ecology ("Ecology") issues Report of Examination granting new municipal water rights; Appeals filed before the Pollution Control Hearing Board
October 2003	NOAA Fisheries issues Draft Biological Opinion with requirements rendering the Project uneconomic
January 2004	PSE rejects FERC license, halts hydropower operations at the Project
April 2005	PSE and Cascade execute a Term Sheet for the sale of municipal water rights applications and certain Project assets
July 2004	Pollution Control Hearing Board remands Report of Examination to Ecology to evaluate non-hydropower project operations
February 2006	PSE signs Letter of Intent with Cascade Land Conservancy ("the Conservancy") for sale (with rights to assign) of Surplus Property
October 2006	Ecology issues revised draft remanded Report of Examination for public comment
December 2006	PSE executes Purchase and Sale agreement with the Conservancy for sale of the Surplus Lands. Transaction provides the Conservancy with assignment rights
September 2007	Cities of Auburn, Bonney Lake, and Sumner offer to purchase certain Project assets
January 2008	The Conservancy terminates Purchase and Sale Agreement for the White River Surplus Lands
April 2008	PSE executes Purchase and Sale Agreement with Cascade for White River Project Assets and Water Right Applications
March 2009	PSE files application with the Commission requesting authorization to sell certain Project assets to the Cascade Water Alliance

1 **Q. What are the properties associated with the transactions that you are**
2 **discussing in your testimony?**

3 A. The Second Exhibit to my Prefiled Direct Testimony, Exhibit No. ___(PKW-3),
4 shows a generalized map of the Project, vicinity features, and the real property
5 associated with the transactions I will discuss in my testimony. Areas that are
6 shaded orange are part of the Cascade transaction and are to be transferred at
7 closing. These features include the barrier dam, headworks, flowline, reservoir,
8 inlet and penstock, powerhouse, and tailrace. Areas shown in green are the
9 Surplus Property that I will discuss in detail later in my testimony. The gray areas
10 are properties that PSE retained for their development potential.

11 **Q. Please describe the Company's efforts to recoup its investment in the Project**
12 **following the decision to cease hydroelectric operations.**

13 A. Subsequent to the Company's decision to reject the FERC license and discontinue
14 hydropower operations, the Company continued to evaluate and pursue
15 alternatives for Project retirement and asset disposition. These alternatives
16 include the following:

- 17 1. sale of the water rights and the assets required to operate the Lake Tapps
18 Reservoir as a resource for a municipal water supply to Cascade or any
19 other qualified buyer;
- 20 2. sale of the Surplus Property;
- 21 22 3. sale of the surplus Project equipment;
- 23 24

- 1 4. sale of the diversion dam and related properties to U.S. Army Corps of
2 Engineers (“Corps”); and
3
- 4 5. sale of the water rights and the assets required to operate the Lake Tapps
5 Reservoir to Pierce County or the Lake Tapps Community as a
6 recreational resource.
7

8 PSE and Cascade executed an Asset Purchase Agreement (“Agreement”) on April
9 23, 2008, for the sale of the water rights and the assets required to operate the
10 Lake Tapps Reservoir to Cascade as a resource for a municipal water supply. The
11 proposed sale is expected to close in the third calendar quarter of 2009. This
12 transaction is discussed in detail below. As a result of pursuing this alternative,
13 the Lake Tapps Reservoir will be preserved as a recreational resource and
14 therefore eliminates from any further consideration a sale of the reservoir to either
15 Pierce County or to the Lake Tapps Community. Although PSE did negotiate a
16 “right of first offer” with the Lake Tapps Community exercisable in the event
17 PSE was unable to sell the reservoir as a municipal water supply, at no time
18 during the extended period that PSE marketed these assets did PSE ever receive a
19 formal offer from either Pierce County or the Lake Tapps Community to purchase
20 these assets.

21 PSE did not complete a sale of the diversion dam and related properties to the
22 Corps. These properties are included in the sale to Cascade, and PSE anticipates
23 that Cascade will ultimately transfer these properties to the Corps. In 2004, PSE
24 entered into an interim operating agreement with the Corps. Under this
25 agreement, the Corps assumed financial responsibility for ongoing operations of

1 the dam. Over the period of this agreement, PSE has collected remittance from
2 the Corps, fully reimbursing PSE's cost for interim operations of the dam.
3 Working with the Task Force, PSE also prompted the Corps to initiate a process
4 to acquire and rebuild the diversion dam. By assuming the cost of rebuilding the
5 diversion dam (\$15 million to \$30 million), the Corps assumed a substantial cost
6 that any purchaser of the Lake Tapps reservoir (Cascade, in this case) would have
7 otherwise had to incur. Any purchaser of the reservoir faced with these costs
8 would be expected to assert them as a discount against the purchase price. The
9 arrangements PSE has made with the Corps since 2004 have therefore preserved
10 and enhanced the value of this asset.

11 All surplus Project equipment that was in a condition to be redeployed for utility
12 operations has been so redeployed. The Company subsequently had an
13 equipment appraisal prepared by Ritchie Bros. Auctioneers. Based on this
14 appraisal, PSE determined that the estimated cost to remove any additional
15 surplus plant and equipment was greater than the value of such equipment. These
16 assets (and any further costs or liabilities associated with these assets) are
17 included in the properties being transferred to Cascade.

18 **II. SALE OF WHITE RIVER ASSETS AND PENDING WATER**
19 **RIGHTS TO CASCADE WATER ALLIANCE AND**
20 **ALTERNATIVES**

21 **A. Asset Purchase Agreement with Cascade**

1 **Q. Please describe the Agreement between PSE and Cascade.**

2 A. As stated above, PSE and Cascade executed the Agreement on April 23, 2008.
3 Please see the Third Exhibit to my Prefiled Direct Testimony, Exhibit
4 No. ___(PKW-4), for a copy of the Agreement. Cascade is a public entity formed
5 by interlocal agreement between the cities of Bellevue, Issaquah, Kirkland,
6 Redmond and Tukwila, Covington Water District, Sammamish Plateau Water and
7 Sewer District and Skyway Water and Sewer District. These entities formed
8 Cascade to develop a regional water supply and a watershed management
9 partnership for the purpose of, among other things, acquiring constructing,
10 owning, operating, maintaining and managing water supply facilities. At closing,
11 Cascade will acquire certain Project assets, including the diversion dam, flow line
12 properties, Lake Tapps Reservoir, the flowline works from Lake Tapps to the
13 White River Powerhouse, the Powerhouse, and the tailrace, water rights and water
14 right applications. Exhibits C-1, D-1, O, T, W and X to the Agreement contain a
15 list of Project assets being transferred to Cascade.

16 Pursuant to the Agreement, the sale price of the assets sold to Cascade is
17 \$30,000,000, which includes:

- 18 1. \$25,000,000 in a single cash payment at closing.
19 2. \$5,000,000 after satisfaction of either of the two following conditions:
20 (a) Issuance of the Municipal Water Rights with the Cascade
21 Flow Regime or

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(b) Issuance of the Municipal Water Rights with a flow regime acceptable to the Muckleshoot Indian Tribe and the Puyallup Tribe of Indians.

The total consideration PSE received from Cascade includes additional payments received by PSE from Cascade pursuant to a series of precedent agreements wherein Cascade secured the rights of exclusive dealings while it pursued its due diligence efforts. These additional payments included:

1. \$225,000 pursuant to a Memorandum of Understanding entered into in August of 2001; and
2. \$3,000,000 pursuant to a Letter of Intent entered into in August of 2003.

In addition to the \$3,225,000 referenced above, PSE will receive reimbursement of process and operational costs incurred over the term of these agreements. The total cost reimbursement due PSE pursuant to these agreements is still being determined, but is anticipated to be approximately \$8 million.

Q. Does the aggregate sale price of \$33,225,000 reflect the fair market value of the assets being sold to Cascade at the time of sale?

A. Yes. Throughout the period of negotiations with Cascade and other parties, PSE obtained and updated appraisals and valuations of these assets. PSE relied on these appraisals and valuations in making its decision to enter into this transaction. PSE considered the valuations and appraisals for the Project assets with respect to real property and the water rights and water right applications.

1 PSE obtained real estate appraisals of the flume and outfall properties and the
2 Lake Tapps bedlands. The appraisal was prepared by Darin Shedd, MAI
3 (Principal and Vice President of the firm Allen Brackett Shedd). PSE had the
4 Lake Tapps bedlands appraised as “dry land” in order to have a point of
5 comparison of the value of the decommissioned asset (retiring the reservoir and
6 the associated hydraulic works and underlying properties) to the value of the
7 reservoir as a “going concern.” The results of this appraisal are summarized as
8 follows:

- 9 • “Dry land” real estate value of the bedlands (highest and best use):
10 \$11,000,000
- 11 • Real estate value of the flume and outfall properties (highest and
12 best use): \$11,400,000.

13 Please see the Fourth Exhibit to my Prefiled Direct Testimony, Exhibit
14 No. ___(PKW-5), for a copy of PSE’s appraisals and valuations.

15 The flume and outfall properties are not currently in a condition for sale for their
16 highest and best use. In order to obtain the highest and best use value for these
17 properties, the existing plant and facilities (*e.g.*, flume, pipes, fish screens,
18 penstocks, etc.) would need to be removed and the property restored to some level
19 of marketability. Alternatively, PSE could sell these properties “as is” and accept
20 a discount that a purchaser would require to assume the cost and risk of
21 decommissioning these facilities. To quantify these costs, PSE retained the
22 engineering firm HDR to prepare a retirement cost estimate. Please see the Fifth

1 Exhibit to my Prefiled Direct Testimony, Exhibit No. ____ (PKW-6), for a copy of
2 this cost estimate. The HDR analysis concludes that the cost to decommission
3 these facilities would be approximately \$15,000,000. As such, the “as is” value
4 of the flume and outfall properties is a negative value of approximately
5 \$3,600,000. Thus, taken together, the highest and best real estate value of the
6 bedlands and the flume and outfall properties is approximately \$7,600,000.

7 PSE also sought to determine the value the water rights independent of the real
8 property. The market for water rights is very limited and it is difficult to find
9 comparable sales, especially for a unique asset like Lake Tapps. Also, the value
10 of these rights is very much dependent on the value of the use of the water. Thus,
11 the value of the hydropower water right is dependent upon the ability of the
12 owner to gainfully apply this right to the beneficial use of hydropower
13 production. To assess this value, PSE considered the flow regimes associated
14 with the current application for a municipal water right as an indication of the
15 flow régime that the Washington State Department of Ecology (“Ecology”) would
16 likely approve in connection with any request to re-establish hydropower
17 operations. Including costs imbedded in the 1997 FERC license, the cost today to
18 generate at the Project is within a range of \$218 per MWh to \$279 per MWh.
19 This makes the hydropower water right an asset of little or no value.

20 In contrast to the hydropower water right, the new municipal “water rights” are
21 not yet rights. They are applications for new water rights. Ecology has yet to

1 issue a final decision on these applications, and consequently the value of the
2 applications is subject to discount due to regulatory uncertainty and litigation risk.

3 To assist PSE is assessing the value of these water right applications, PSE
4 retained WestWater Research LLC (“WestWater”) and obtained a series of
5 valuation analyses over a period ranging from 2004 to 2007. PSE considered and
6 relied upon this information during the course of its negotiations with Cascade
7 and others. When a final agreement with Cascade was imminent, PSE asked
8 WestWater to opine on a sale that allocated \$15,000,000 to the water right
9 applications. WestWater concluded:

10 It is the appraiser’s opinion the proposed price for the water right
11 application of \$15 million appropriately balances the risk to the buyer
12 with market values for water rights established through contracts where
13 the level of payment is contingent upon the volume of water for transfer.

14 Page 8 of July 25, 2007 memorandum from Clay Landry to Paul Wetherbee.

15 Please see the Sixth Exhibit to my Prefiled Direct Testimony, Exhibit
16 No. ___(PKW-7) for the results of WestWater’s analyses, including the above-
17 referenced memorandum.

18 The sum of the value of the real estate assets and the value of the water right
19 applications collectively comprise the fair market value of the assets being sold to
20 Cascade. If the real estate value (less decommissioning costs) at the time of sale
21 is added to the value of the water right applications at the time of sale, the fair
22 market value of the assets being transferred to Cascade at the time of sale is

1 approximately \$22,600,000. Combining these values, however, likely overstates
2 the fair market value of these assets. This is because it adds all of the “dry land
3 value” of the reservoir to the value of a reservoir that is being sold as a going
4 concern. The going concern value of the reservoir is already captured in the
5 \$15,000,000 value of the municipal water right applications. Alternatively, if you
6 back out all of the dry land value (\$11,000,000) of the \$15,000,000 going concern
7 value, the fair market value of the assets being sold is approximately \$11,400,000
8 (\$15,000,000 for the reservoir as going concern plus the negative \$3,600,000
9 highest and best use real estate value of the flume and outfall properties).
10 Assuming that some, but not all, of the dry land value is captured in the going
11 concern value, then the fair market value of the assets being sold to Cascade, at
12 the time of the sale, is an amount within a range of \$11,400,000 to \$22,600,000.

13 **Q. Has PSE sought Commission authorization of the sale to Cascade?**

14 A. Yes. On March 13, 2009, PSE filed an application in Docket No. UE-090399
15 seeking Commission authorization to sell certain assets related to the Project to
16 Cascade.

17 **B. Other Alternatives Considered by PSE**

18 **Q. Please summarize PSE’s analysis of a sale of the Diversion Dam and Related**
19 **Properties to the U. S. Army Corps of Engineers (“Corps”).**

1 A. In 2003, PSE and the Corps entered an interim agreement that reimburses PSE for
2 costs associated with operating the diversion dam as a fish passage facility for the
3 Corps' Mud Mountain Dam. Under the agreement, the Corps has reimbursed
4 PSE for the costs of operating the diversion dam. The Corps is also pursuing a
5 process to secure authority and appropriations to acquire the diversion dam and a
6 limited amount of surrounding property as a fish passage facility. PSE and the
7 Corps met in February 2008 to review the status of this process. PSE was advised
8 that the Corps would not be in a position to move forward with any property
9 acquisition until the fourth quarter of 2009, or possibly the first quarter of 2010.
10 The property the Corps would have acquired in connection with this effort is
11 included in the property to be sold to Cascade. The Agreement between Cascade
12 and PSE, however, provides for ultimate ownership of the dam by the Corps.
13 Please see the Third Exhibit to my Prefiled Direct Testimony, Exhibit No.
14 ____ (PKW-4), at page 24 for more information regarding the diversion dam.

15 The Corps's interest in acquiring the diversion dam is to secure fish passage for
16 the Mud Mountain Dam flood control project. If the transaction is approved and
17 closes, the Corps's future fish passage needs will be addressed by contract
18 between Cascade and the Corps. If the sale does not close, the Corps's fish
19 passage needs will continue to be addressed by the Company's current contracts
20 with the Corps. It should be noted, however, that by assuming the cost of
21 rebuilding and operating the diversion dam, the Corps has assumed substantial
22 costs that a purchaser of the reservoir (Cascade in this case) would have otherwise

1 had to incur and would discount against the purchase price. Currently planned for
2 construction, the Corps' rebuild of the diversion dam is estimated cost in the
3 range of \$15 million to \$30 million.

4 **Q. Please summarize PSE's analysis of a sale of Lake Tapps to Pierce County or**
5 **Lake Tapps Community.**

6 A. On March 31, 2004, the Company reached agreement with the Lake Tapps
7 Community regarding future management of the Lake Tapps reservoir and
8 entered into a Reservoir Management Agreement. Please see the Seventh Exhibit
9 to my Prefiled Direct Testimony, Exhibit No. ___(PKW-8), for a copy of the
10 Reservoir Management Agreement. The agreement provides the Lake Tapps
11 Community the right of first and final offer in the event that the Company
12 terminates the agreement. If the Cascade transaction is approved and closes,
13 Cascade will take assignment of the Reservoir Management Agreement and
14 assume the Company's obligations under that agreement.

15 Neither Pierce County nor the Lake Tapps Community has expressed a present
16 interest to acquire the Lake Tapps properties. Rather, Pierce County has entered
17 into a Memorandum of Understanding with Cascade in support of Cascade's
18 efforts to acquire Lake Tapps reservoir and develop a municipal water supply
19 project. Please see the Eighth Exhibit to my Prefiled Direct Testimony, Exhibit
20 No. ___(PKW-9) for a copy of this Memorandum of Understanding. The rights
21 of first and final offer in the Reservoir Management Agreement were drafted, by

1 mutual agreement of the Company and the Lake Tapps Community, to exclude a
2 transaction with Cascade. This reflected the community's preference, at the time,
3 that Cascade bear the cost and risk of acquiring and operating the reservoir.

4 **Q. Why did PSE choose to sell the hydro property and pending water rights to**
5 **Cascade Water Alliance over these other alternatives?**

6 A. A municipal water supply project remains a viable alternative for future use and
7 development by a regional water purveyor. A sale of those Project assets to
8 Cascade that are necessary to develop a municipal water supply project, for the
9 sale price of \$33,225,000 is a reasonable and prudent disposition of surplus
10 property, as compared to other alternatives (i.e., sale to the Lake Tapps
11 Community or a sale to other cities). Pursuing the sale to Cascade is also
12 consistent with the subsequent sale of the diversion dam to the Corps. A sale to
13 Cascade does not preclude any alternatives for disposition of the Surplus
14 Property.

15 A sale to Cascade that preserves the reservoir is also consistent with the public
16 interest. Public interests advanced by preserving the reservoir include the
17 following:

- 18 • Lake Tapps is one of the most popular recreational areas in the state of
19 Washington. Pierce County and the City of Bonney Lake maintain park and
20 recreational facilities along the reservoir that would be lost if the reservoir
21 were to be retired.

- 1 • Nearly 1,700 homes line approximately 47 miles of shoreline. The Pierce
2 County Assessor's Office has estimated that retirement of the reservoir would
3 result in a diminished value of properties around the reservoir in amounts of
4 somewhere between \$130 million and \$180 million. This substantial loss of
5 tax revenue would negatively affect local and regional public services.
- 6 • Additional resources to meet the growing demand for municipal water supply
7 from the reservoir are needed to supplement other existing resources in the
8 region. This demand for additional water is reflected in Cascade's interest in
9 acquiring these assets in order to develop a new municipal water supply
10 system.
- 11 • Operation of the Project maintains water quality in the reservoir. Were the
12 Project to be retired, many of the residential communities surrounding Lake
13 Tapps might need to modify septic systems, or in some cases, construct
14 sewers. Costs associated with constructing sewers to serve these residents are
15 unknown but could be in the tens of millions of dollars.
- 16 • The reservoir also provides substantial aquifer recharge for nearby
17 communities that rely upon the aquifer for domestic water purposes. The
18 consequence of loss of the reservoir on these water supply resources could be
19 substantial. Lake Tapps also provides significant aquifer recharge for
20 wetlands.
- 21 • Fish passage for the U.S. Army Corps of Engineers' Mud Mountain Dam
22 would be lost if the Project were to be retired. As noted above, benefits to the
23 fishery associated with Project prompted the Corps interest in acquiring and
24 rebuilding the White River diversion dam.
- 25 • The terms and conditions of the new municipal water right will sequester
26 approximately 500 acres of riparian corridor for fish and wildlife habitat.

27 Working through the Task Force, the Company joined with local elected officials,
28 community leaders and various federal and state agencies to collaboratively
29 recoup its investment and dispose of the White River assets consistent with these
30 public interests. This effort extended over a seven-year period and provided the
31 framework for retiring the hydropower project (without incurring expensive
32 decommissioning obligations) and identifying an interest in and pursuing

1 applications for a new municipal water right. These collaborative efforts created
2 a new economic basis for preserving the reservoir and the many public benefits
3 associated with the reservoir.

4 III. SURPLUS PROPERTY

5 **Q. Does the Cascade transaction include all of the Project's assets?**

6 A. No. Cascade agreed to purchase the water right applications and Project assets,
7 but did not agree to purchase the Surplus Property. Efforts to sell the Surplus
8 Property are ongoing. In 2006, the Company entered into an agreement with the
9 Cascade Land Conservancy ("the Conservancy") to acquire Surplus Property with
10 the intention to assign its interest to a secondary purchaser. From December 2006
11 to November 2007, the Conservancy contacted regional stakeholders and
12 participants in an effort to develop secondary assignees as described in the
13 agreement. Based on reports from the Conservancy, PSE understands that the
14 Conservancy held discussions with the Muckleshoot Indian Tribe, the
15 Washington State Department of Natural Resources, and several interested
16 municipalities to develop a secondary assignee package for the transaction.
17 Ultimately, these efforts proved unsuccessful. On January 15, 2008, the
18 Conservancy notified PSE that it had not identified a secondary purchaser and
19 would not fund the earnest money, thus terminating the agreement.

20 **Q. What are PSE's plans for the Project's Surplus Property?**

1 A. After the expiration of the Conservancy transaction, PSE considered expressions
2 of interests in the Surplus Property from several regional entities. Two parties
3 have come forward as potential purchasers: the City of Buckley (“Buckley”),
4 potentially with Pierce County, and/or the Conservancy, and the Muckleshoot
5 Indian Tribe. Buckley has expressed a desire to purchase certain parcels
6 downstream of the diversion dam near Wolshlagal Basin for riparian management
7 purposes. PSE is prepared to initiate good faith negotiations with the Buckley,
8 and PSE anticipates entering into a purchase and sale agreement with Buckley in
9 2010.

10 The Muckleshoot Indian Tribe has expressed a desire to purchase the bulk of the
11 remaining Surplus Property, which totals approximately 2,000 acres. In two
12 letters to PSE, the Muckleshoot Indian Tribe has stated its intention to complete a
13 fair market value transaction for the properties. The Company is prepared to
14 initiate good faith negotiations with the Muckleshoot Indian Tribe, and PSE
15 anticipates executing a purchase and sale agreement with the Muckleshoot Indian
16 Tribe in 2010. Please see the Ninth Exhibit to my Prefiled Direct Testimony,
17 Exhibit No. ___(PKW-10), for a copy of the letters from Muckleshoot Indian
18 Tribe to PSE.

19 **Q. Did the Company’s application in Docket UE-090399 address the Surplus**
20 **Property from the Commission?**

1 A. Yes. PSE requested waiver of requirements to file for further authorization to
2 transfer the Surplus Property because the Company has informed the Commission
3 of its plans with regard to the Surplus Property. Once the contemplated sale(s) of
4 Surplus Property is/are completed, PSE will seek a Commission order approving
5 the appropriateness of the transaction(s).

6 **Q. How does PSE propose to account for the proceeds of a sale to Cascade and**
7 **the sale of the Surplus Property?**

8 A. The ratemaking treatment related to White River costs and sale proceeds was
9 established in Docket No. UE-032043.¹ Accordingly, PSE will defer the proceeds
10 from the sale of White River assets, booking them to a separate 182.3 account and
11 treating the return on this credit balance account through the power cost
12 mechanism as a variable cost item. PSE will bring the issue of the application of
13 proceeds from the sale and disposition of all Project proceeds—including the sale
14 of the Surplus Property—to the Commission for consideration in PSE’s next rate
15 case after the sale of all the Project assets and Surplus property is completed.

16 **IV. CONCLUSION**

17 **Q. Does this conclude your testimony?**

18 A. Yes, it does.

¹See *In the Matter of the Petition of Puget Sound Energy, Inc., For an Accounting Order Authorizing Deferral and Recovery of Investment and Costs Related to the White River Hydroelectric Project*, Docket No. UE-032043 (consolidated), Order No. 6 at ¶¶ 251–53 (February 18, 2005).