EXHIBIT NO. RCR-6T
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: R. CLAY RIDING

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 (NONCONFIDENTIAL) OF R. CLAY RIDING ON BEHALF OF PUGET SOUND ENERGY, INC.

DECEMBER 17, 2009

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF R. CLAY RIDING

CONTENTS

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF R. CLAY RIDING

I. INTRODUCTION

Q. Are you the same R. Clay Riding who provided prefiled direct testimony and supplemental direct testimony in these dockets on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

A. Yes, I filed prefiled direct testimony, Exhibit No. RCR-1CT and two supporting exhibits (Exhibit No. RCR-2 and Exhibit No. RCR-3). Subsequently, I filed supplemental direct testimony in these dockets, Exhibit No. RCR-4CT.

Q. What topics are you covering in your prefiled rebuttal testimony?

A. I respond to the testimony of Public Counsel Witness Scott Norwood asserting that PSE has, or had, inadequate pipeline capacity to serve the Mint Farm Generating Station ("Mint Farm"). Additionally, I address certain misunderstandings regarding the purpose for which the Company has acquired Westcoast Energy firm pipeline capacity as set forth in the Joint Testimony of Mr. Alan P. Buckley testifying on behalf of the Staff of the Washington Utilities and Transportation Commission and Mr. Donald Schoenbeck, testifying on behalf of the Industrial Customers of Northwest Utilities (collectively referred to as the

"Joint Parties").

II. PSE HAS ADEQUATE CAPACITY TO SERVE MINT FARM

Q. It has been asserted by Public Counsel that a potential risk of the Mint Farm acquisition was that PSE did not have sufficient firm pipeline capacity to serve Mint Farm at the time PSE decided to acquire Mint Farm. (Direct Testimony of Scott Norwood at p. 16). Was there sufficient firm capacity to deliver full requirements to Mint Farm at the time of acquisition?

A. Yes. With respect to Northwest Pipeline ("NWP") capacity, as part of the Mint Farm acquisition process PSE evaluated its combined capacity portfolio position and developed a Mint Farm pipeline capacity strategy. Certain circumstances contributed to PSE's deliberate actions in acquiring additional NWP capacity: (i) the final closing date on the Mint Farm acquisition was unknown, which necessitated a flexible plan; (ii) PSE has been working with various parties to facilitate longer-range regional pipeline infrastructure additions, which again requires flexibility in an interim plan; and (iii) it was determined that PSE had sufficient capacity within its combined portfolio to bolster interim capacity needs for Mint Farm, largely due to the acquisition (for core gas customers) of additional NWP capacity associated with the 2008 expansion of Jackson Prairie storage for customers of PSE's natural gas portfolio (also known as the "Core Gas Book"). It is important to note that PSE currently controls approximately

1,180,000 million British thermal units ("MMBtu") per day of NWP pipeline capacity in its combined portfolio. This amount of capacity was determined to be more than sufficient to serve the full firm requirements of both PSE's Core Gas Book customers and the customers of PSE's power generation portfolio ("Power Book") through the winter of 2008-2009. A market-based transfer price is charged to the Power Book by the Core Gas Book, in the event that Core Gas Book resources are used to facilitate deliveries to PSE generating facilities.

Q. Would the aforementioned surplus capacity in the Core Gas Book be sufficient on a long-term basis to cover the needs of the Power Book?

A. No, the resources in the Core Gas Book were acquired for those customers and would eventually be required to serve them. Therefore during the Mint Farm acquisition process, PSE negotiated several contracts to purchase capacity in anticipation of the Mint Farm acquisition, including: 9,000 MMBtu per day commencing January 1, 2009; 11,210 MMBtu per day commencing April 1, 2009; and 25,000 MMBtu per day commencing November 1, 2009 (the 25,000 MMBtu per day was available earlier, but PSE determined it could readily serve the plant with existing capacity until November 1, 2009) – these packages total 45,210 MMBtu per day, which is sufficient for baseload Mint Farm operations. The 11,210 MMBtu per day package of capacity is long term, while the other two are of shorter term, but can be extended indefinitely at PSE's option. Such optionality has been retained to keep longer range pipeline

expansion project options open. The optionality, and access to additional resources, is further illustrated by the steps PSE has taken as identified in my supplemental testimony, Exhibit No. RCR-4CT. To be clear, PSE controls sufficient capacity for Mint Farm on a long-term basis.

Q. Was capacity on Cascade Natural Gas sufficient to serve Mint Farm when it was acquired?

A. Yes. PSE spent considerable time determining the best avenue for procuring adequate Cascade Natural Gas ("Cascade") distribution capacity. PSE held several discussions with Cascade, and with representatives of a major Cascade firm distribution capacity holder in Longview. It was determined, and confirmed by Cascade, that sufficient capacity existed if PSE were to take assignment of an existing long-term firm capacity contract that is no longer needed or used by that customer. Further, it was determined that sufficient capacity could be created with a relatively modest NWP-Cascade interconnect upgrade, which is the scenario that was ultimately used for planning purposes (since the upgrade could be covered without an increase in rates charged to PSE). Upon commercial close of the Mint Farm acquisition, PSE took assignment of the short-term 15,000 MMBtu per day Cascade distribution agreement held by Mint Farm's developer. PSE then combined that capacity with unsold, available capacity, and PSE and Cascade amended the agreement to provide for 30,000 MMBtu per day

of firm distribution capacity, which remains under PSE's control unless PSE chooses to terminate it.

Q. Why didn't PSE acquire the full 52,000 MMBtu per day of firm distribution capacity to serve Mint Farm at the time it acquired the plant?

A. Several large industrial customers had severely curtailed operations in the Longview area and were not utilizing the firm capacity they hold on Cascade's system. PSE initiated discussions with the majority holder of such underutilized firm distribution capacity and determined that the industrial end-user was very interested in assigning its firm capacity, since it no longer had a use for it. The end-user also had notified Cascade that it would like Cascade to market the capacity. PSE could have readily taken assignment of the capacity concurrent with the acquisition of the plant; however, such capacity is under a long-term agreement, and PSE wanted to explore alternative options, as discussed in my prefiled direct testimony, Exhibit No. RCR-1CT. Given that the customer was no longer using the capacity, had offered to permanently assign the capacity and had requested Cascade to market the capacity, PSE determined that such capacity would likely remain unused (given the very limited market in the Longview area) and thus be available to Mint Farm on a highly reliable basis until such time as PSE had investigated the other alternatives. It now appears that such other options are not feasible for a variety of reasons, so PSE has commenced negotiations to take assignment of the existing unused long-term contract to

secure the remaining 22,000 MMBtu per day required to serve Mint Farm with permanent firm capacity.

Q. At the time of acquisition of Mint Farm, or any time since, did PSE consider it possible that gas supply to the plant would be curtailed?

A. No. For the reasons discussed above, PSE considers it highly unlikely that gas supply to Mint Farm would be curtailed, unless there are major operational issues with the natural gas transportation infrastructure that results in the curtailment of firm service. PSE held and still holds sufficient firm NWP capacity to ensure delivery of adequate gas supply to Cascade's system for Mint Farm. In addition, PSE held and still holds sufficient firm distribution capacity, when combined with unused firm capacity on Cascade's system, to adequately serve the gas requirements of Mint Farm.

Q. Is it accurate to claim the lack of capacity to serve the generating facility at the time of the decision to acquire Mint Farm was a potential risk associated with ownership of the generating facility?

A. No. It is unlikely that at the time it is considering the acquisition of any gas-fired generating facility that PSE would hold enough long-term, excess pipeline capacity to supply the full requirements of the facility—buying capacity in advance of a decision to purchase a particular plant could be considered risky since acquired capacity serves a particular path. Rather, PSE would do just as it

did with Mint Farm – during the acquisition process, develop a capacity strategy to ensure it will have adequate pipeline capacity to supply the requirements of the facility. Indeed, PSE's flexible plan has been validated. Gas has been successfully delivered to Mint Farm whenever market conditions warranted plant operations, including the recent cold weather event in early December 2009, during which record demands were recorded on both NWP and PSE.

III. PSE ACQUIRED WESTCOAST T-SOUTH CAPACITY TO IMPROVE THE RELIABILITY AND PREDICTABILITY OF SUPPLY BY DIVERSIFYING SUPPLY RISKS

Q. What misunderstanding do you wish to correct with regard to Westcoast Pipeline capacity?

A. The Joint Parties presume that PSE has acquired the Westcoast T-South gas pipeline capacity to capture some assumed market price differential between Station 2 and Sumas. (Joint Testimony at pages 14-19). While such value may materialize, it is certainly not the primary reason for holding T-South capacity.

Q. What is PSE's primary reason for holding T-South capacity?

A. PSE has acquired Westcoast Energy T-South capacity in order to improve the reliability and predictability of supply to its generation portfolio by diversifying supply risks.

British Columbia originated supply can move to markets at Sumas (via Westcoast Energy T-South); markets in the Midwest United States. (via Alliance Pipeline);

or to markets in Alberta and east (via Westcoast's interconnect with TransCanada's Alberta System). Currently only 70% of Westcoast Energy's T-South capacity of approximately 1,800,000 MMBtu per day to the NWP interconnect is contracted. Of this, approximately 67% or 850,000 MMBtu per day is held by load serving utilities (including PSE) or industrial end-users. The remaining 33% or 420,000 MMBtu per day is held by producers and marketers. During high demand periods, the 530,000 MMBtu per day of unsold capacity is oftentimes fully utilized to serve demand at Sumas, including southern British Columbia. It can be reasonably assumed that firm capacity held by utilities and end-users is committed to serving firm customer requirements and thus not available for purchase to serve PSE's generation requirements. It may also be reasonably assumed that firm capacity held by producers and marketers is dedicated, at least in large part, to longer-term firm gas supply sales agreements at Sumas. If the gas supply at Sumas that is backed by firm T-South pipeline capacity is generally not available to be acquired by PSE on a seasonal or short-term basis, PSE must then rely on gas supply that is not necessarily dedicated to the Sumas market. PSE is committed to assuring that sufficient supply is available at Sumas in high demand periods, which means that some supply needs to be obtained at Station 2 before it can be redirected to other markets.

Even with the additional acquisition of 20,000 MMBtu per day of Westcoast capacity, PSE only holds approximately 68,000 MMBtu per day of T-South capacity in its generation portfolio, or approximately 50% of PSE's firm gas

requirements at Sumas (for PSE plants having no back-up fuel), which is in excess of 140,000 MMBtu per day. PSE power generation can also call on as much as an additional 400,000 MMBtu per day to serve peaking facilities. While these additional facilities have backup fuel available, most of the time these plants are less expensive to operate on natural gas. By holding T-South capacity PSE diversifies its potential exposure to reliance on the gas supply that is made available at Sumas.

Q. If reliability and predictability of supply are the primary reasons for holding T-South capacity, how should the market price differential between Station 2 and Sumas be considered for PSE's rate-making purposes?

A. The price differential should be considered at the contractable differential, which is best measured by market quotes or actual gas supply contracts, consistent with the pricing for all gas purchases for gas-fired generation. Historical prices, or price differentials, may or may not have any bearing on future prices; therefore, the appropriate methodology is to consistently apply forward price curves and market quotes that are developed primarily by third-party forecasters or market makers.

Q. Why are settled (historical) daily price differentials between Sumas and Station 2 inappropriate for valuing the benefit of the T-South capacity?

A. First, PSE purchases term gas at Station 2 pursuant to its energy management practices and policies based on the expected demand for power generation requirements; such term supplies are purchased at monthly indices or at fixed prices, and oftentimes priced as a derivative of the AECO or Sumas first-of-the-month indices. Accordingly, for rate making purposes, PSE applies monthly forward pricing for its projected requirements during the rate period using price projections developed by third-party forecasters and/or market indicators.

Second, daily prices reflect the actual settled price of interruptible gas supply, not the firm supply committed in annual, seasonal or monthly contracts that PSE employs to purchase gas supply for generating requirements. Historical daily settled prices simply reflect the market conditions of a distinct period, the selection of which can show vastly different results; market conditions can vary greatly depending on a number of conditions, including localized supply and demand balance, infrastructure constraints, competing fuels and overall price levels.

Finally, the old axiom "past performance may not be indicative of future results" certainly applies in the Pacific Northwest gas market. PSE is not using 2007 and 2008 gas prices in this proceeding; nor should it use, or be forced to use, an historic period to establish the basis differential between Station 2 and Sumas.

IV. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.