

**EXHIBIT NO. __ (RG-1CT)
DOCKET NO. UE-13 ____
2013 PSE PCORC
WITNESS: ROGER GARRATT**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-13 ____

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

APRIL 25, 2013

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
ROGER GARRATT**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF**
3 **ROGER GARRATT**

4 **I. INTRODUCTION**

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

7 A. My name is Roger Garratt. My business address is 10885 N.E. Fourth Street
8 Bellevue, WA 98004. I am employed by Puget Sound Energy, Inc. ("PSE") as
9 the Director of Financial Planning & Strategic Initiatives.

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

12 A. Yes, I have. It is Exhibit No. ___(RG-2).

13 **Q. What are your duties as the Director of Financial Planning & Strategic**
14 **Initiatives?**

15 A. My present responsibilities include oversight of: (i) the acquisition and
16 development of electric resources for PSE; (ii) contracts for long-term electric
17 supply; (iii) PSE's emerging technology investigations and strategies;
18 (iv) PSE's five-year financial plan; and (v) PSE's 20-year load forecast.

1 **Q. What is the nature of your prefiled direct testimony in this proceeding?**

2 A. This prefiled direct testimony generally provides a description of PSE's requested
3 prudence determinations with respect to each of the following:

4 (i) the acquisition of the Ferndale Generating Station,
5 including any and all associated costs (operating,
6 transmission, etc.) related to such project;

7 (ii) the execution of the purchase power agreement for [REDACTED]
8 [REDACTED];

9 (iii) the implementation of the Federal Energy Regulatory
10 Commission ("FERC") license for the Baker River
11 Hydroelectric Project (the "Baker River Project"),
12 including any and all associated costs related to such
13 license;

14 (iv) the implementation of the FERC license for the Snoqualmie
15 Falls Hydroelectric Project (the "Snoqualmie Falls
16 Project"), including any and all associated costs related to
17 such license; and

18 (v) new and renewed firm transmission service agreements
19 with Bonneville Power Administration ("BPA").

20 **II. PSE ACTED PRUDENTLY WITH RESPECT TO**
21 **RESOURCE ACQUISITIONS AND IMPLEMENTATION**

22 **A. Overview**

23 **Q. What prudence determinations does PSE seek in this proceeding?**

24 A. PSE seeks prudence determinations in this proceeding with respect to each of the
25 following:

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- (i) the acquisition of the Ferndale Generating Station , including any and all associated costs (operating, transmission, etc.) related to such project;
- (ii) the execution of the [REDACTED];
- (iii) the implementation of the FERC license for the Baker River Project, including any and all associated costs related to such license;
- (iv) the implementation of the FERC license for the Snoqualmie Falls Project, including any and all associated costs related to such license; and
- (v) new and renewed firm transmission service agreements with BPA.

For a discussion regarding the acquisition of the Ferndale Generating Station and PSE’s decision to enter into the [REDACTED], please see the Prefiled Direct Testimony of Mr. Michael Mullally, Exhibit No. ___(MM-1HCT), and supporting exhibits thereto, and the Prefiled Direct Testimony of Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT), and supporting exhibits thereto.

For a discussion regarding the implementation of the FERC licenses for the Baker River and Snoqualmie Falls Projects, please see the Prefiled Direct Testimony of Mr. Paul K. Wetherbee, Exhibit No. ___(PKW-1CT), and supporting exhibits thereto, and the Prefiled Direct Testimony of Mr. Doug S. Loreen, Exhibit No. ___(DSL-1CT), and supporting exhibits thereto.

For a discussion regarding the new and renewed transmission service agreements with BPA, please see the Prefiled Direct Testimony of Mr. Tom DeBoer, Exhibit

1 No. ___(TAD-1T), and supporting exhibits thereto, and the Prefiled Direct
2 Testimony of Ms. Aliza Seelig, Exhibit No. ___(AS-1HCT), and supporting
3 exhibits thereto.

4 **Q. What is PSE’s understanding of the Commission’s prudence standard?**

5 A. In PSE’s 2003 Power Cost Only Rate Case proceeding, Docket No. UE-031725,
6 the Commission reaffirmed the standard it applies in reviewing the prudence of
7 power generation asset acquisitions:

8 The test the Commission applies to measure prudence is what a
9 reasonable board of directors and company management would
10 have decided given what they knew or reasonably should have
11 known to be true at the time they made a decision. This test
12 applies both to the question of need and the appropriateness of the
13 expenditures. The company must establish that it adequately
14 studied the question of whether to purchase these resources and
15 made a reasonable decision, using the data and methods that a
16 reasonable management would have used at the time the decisions
17 were made.¹

18 In addition to this generic reasonableness standard, the Commission has cited
19 several specific factors that inform the question of whether a utility’s decision to
20 acquire a new resource was prudent. These factors include the following:

- 21 • First, the utility must determine whether new resources are
22 necessary.²
- 23 • Once a need has been identified, the utility must determine
24 how to fill that need in a cost-effective manner. When a

¹ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-031725, Order No. 12, at ¶ 19 (2004).

² See e.g., *WUTC v. Puget Sound Power & Light Co.*, Docket No. UE-921262, *et al.*, Nineteenth Supplemental Order, at 11 (Sept. 27, 1994) (“Prudence Order”).

1 utility is considering the purchase of a resource, it must
2 evaluate that resource against the standards of what other
3 purchases are available, and against the standard of what it
4 would cost to build the resource itself.³

- 5 • The utility must analyze the resource alternatives using
6 current information that adjusts for such factors as end
7 effects, capital costs, impact on the utility's credit quality,
8 dispatchability, transmission costs, and whatever other
9 factors need specific analysis at the time of a purchase
10 decision.⁴
- 11 • The utility should inform its board of directors about the
12 purchase decision and its costs. The utility should also
13 involve the board in the decision process.⁵
- 14 • The utility must keep adequate contemporaneous records
15 that will allow the Commission to evaluate its actions with
16 respect to the decision process. The Commission should be
17 able to follow the utility's decision process; understand the
18 elements that the utility used; and determine the manner in
19 which the utility valued these elements.⁶

20 **Q. Did PSE's decisions to acquire the Ferndale Generating Station, enter into**
21 **the [REDACTED], and enter into new and renewed transmission contracts**
22 **meet this standard?**

23 A. Yes. PSE had a clear, documented need for capacity resources in both the near
24 and long term. PSE also performed the analyses, decision-making and
25 documentation processes expected by the Commission, as summarized in this
26 prefiled direct testimony and in the Prefiled Direct Testimonies of Mr. Michael

³ *Id.* at 11.
⁴ *Id.* at 2, 33-37, 46-47.
⁵ *Id.* at 37, 46.
⁶ *Id.* at 2, 37, 46.

REDACTED

1 Mullally, Exhibit No. ___(MM-1HCT) and Ms. Aliza Seelig, Exhibit
2 No. ___(AS-1HCT).

3 **B. The 2011 Integrated Resource Plan Informed PSE’s Resource Need**
4 **for Capacity and Renewable Resources**

5 **Q. How did PSE determine its need for capacity and renewable resources?**

6 A. PSE determined its need for capacity and renewable resources based on the
7 analyses performed for PSE’s 2011 Integrated Resource Plan (the “2011 IRP”),
8 which PSE filed with the Commission in May 2011. Please see Exhibit
9 No ___(RG-3) for a copy of the 2011 IRP. PSE subsequently updated its need for
10 capacity resources, as described in the Prefiled Direct Testimonies of Mr. Michael
11 Mullally, Exhibit No. ___(MM-1HCT) and Ms. Aliza Seelig, Exhibit
12 No. ___(AS-1HCT).

13 **C. PSE Issued a Request For Proposals (“RFP”) To Meet Its Resource**
14 **Needs**

15 **Q. How did PSE implement its strategy to meet its capacity and renewable**
16 **resources needs?**

17 A. After completing and filing the 2011 IRP, PSE commenced the 2011 RFP process
18 by filing a draft 2011 RFP with the WUTC on August 1, 2011. The WUTC
19 subsequently approved the draft 2011 RFP on October 13, 2011. PSE released
20 the 2011 RFP on October 17, 2011. Please see Exhibit No ___(RG-4) for a copy
21 of the 2011 RFP.

1 The 2011 RFP requested proposals from power producers, marketers, and power-
2 plant developers to help PSE procure approximately 385 MW of resources⁷.

3 Although PSE anticipates that energy efficiency, renewable power, and gas-fired
4 generation will continue to be its dominant sources of new power supply in
5 coming years, the 2011 RFP sought any viable power-supply offer or technology
6 that could be in operation by 2016. PSE also indicated that it would consider
7 various contract arrangements, such as investment in existing power plants,
8 ownership of new plants, or long-term PPAs.⁸

9 Please see the Prefiled Direct Testimony of Mr. Michael Mullally, Exhibit
10 No. ___(MM-1HCT), for a detailed description of the 2011 RFP process and
11 evaluation.

12 **D. PSE Evaluated Resource Alternatives Using Current Information**
13 **That Adjusted For Appropriate Factors and Risks**

14 **Q. How did PSE evaluate proposals submitted in response to the 2011 RFP?**

15 A. PSE engaged in a comprehensive process to evaluate the costs and risks
16 associated with each proposal, both as individual projects and when viewed as
17 potential additions to PSE's resource portfolio. PSE evaluated the proposals in
18 two phases based on the criteria set forth in its 2011 RFP. PSE designed these
19 criteria to take into account qualitative and quantitative factors impacting the
20 decision whether to acquire a potential resource. They included consideration of

⁷ Please see Exhibit No. ___(RG-4) at page 6.

1 end effects, dispatchability, transmission costs, capital costs, impact on PSE's
2 credit quality, and project feasibility, among other factors.

3 **Q. How did PSE evaluate self-build opportunities and unsolicited proposals**
4 **submitted after the commencement of the 2011 RFP?**

5 A. PSE examined its self-build opportunities and unsolicited proposals submitted
6 after the commencement of the 2011 RFP using the same due diligence criteria,
7 analytic rigor, and models as it did for the other 2011 RFP proposals to find the
8 resources with the lowest levelized costs, highest portfolio benefits, and lowest
9 risk profiles. PSE reviewed the projects to determine if they fit PSE's need, and if
10 they did, the costs were then compared to other reasonably executable
11 alternatives.

12 **E. PSE Informed and Involved its Board of Directors and Energy**
13 **Management Committee**

14 **Q. Has PSE actively involved its Board of Directors and Energy Management**
15 **Committee in its resource acquisition process?**

16 A. Yes. PSE involved its Board of Directors (the "Board of Directors") and Energy
17 Management Committee (the "EMC") in the resource acquisition process. The
18 Resource Acquisition Group made several presentations to the Board of Directors
19 and the EMC regarding the status of PSE's analyses of the many potential
20 resource opportunities it was considering to meet its need for additional resources.

⁸ *Id.* at pages 13-15.

1 The Board of Directors and the EMC were thereby advised of the management
2 team's evaluation methods, key assumptions, and results as the 2011 RFP
3 evaluation progressed, including evaluations and conclusions regarding self-build
4 opportunities and resources that came to PSE's attention outside of the 2011 RFP
5 process.

6 **1. PSE Informed and Involved its Board of Directors and EMC**
7 **in the Decision to Acquire the Ferndale Generating Station**

8 **Q. Please describe the internal approval process for the acquisition of the**
9 **Ferndale Generating Station.**

10 A. PSE staff regularly kept PSE's EMC informed and involved in the decision to
11 acquire the Ferndale Generating Station. Please see Exhibit No. ___(RG-5HC)
12 for a compilation of pertinent presentations made to the EMC regarding the
13 acquisition of the Ferndale Generating Station.

14 PSE staff also regularly kept PSE's Board of Directors informed and involved in
15 the decision to acquire the Ferndale Generating Station. Please see Exhibit
16 No. ___(RG-6HC) for a copy of the presentation to the Board of Directors for the
17 acquisition of the Ferndale Generating Station.

1 **Q. What activity followed the approval by the Board of Directors of the decision**
2 **to acquire the Ferndale Generating Station?**

3 A. PSE and Tenaska Washington Partners, L.P. closed the sale of the Ferndale
4 Generating Station on November 15, 2012.

5 **2. PSE Informed and Involved its EMC in the Decision to Enter**
6 **Into the [REDACTED]**

7 **Q. Please describe the internal approval process for the [REDACTED].**

8 A. Please see the Prefiled Direct Testimony of Mr. Paul Wetherbee, Exhibit
9 No. ___(PKW-1CT), and the exhibits thereto, and the Prefiled Direct Testimony
10 of Mr. Michael Mullally, Exhibit No. ___(ML-1HCT), and the exhibits thereto,
11 for a discussion of the internal process for the decision to enter into the

12 [REDACTED].

13 **3. PSE Informed and Involved its EMC in the Decisions to Enter**
14 **Into New or Renewed Transmission Contracts with BPA**

15 **Q. Please describe the internal approval process for the new or renewed**
16 **transmission contracts with BPA.**

17 A. Please see the Prefiled Direct Testimony of Mr. Tom DeBoer, Exhibit
18 No. ___(TAD-1T), and the exhibits thereto, for a discussion of the internal
19 process for the new or renewed transmission contracts with BPA.

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1 **F. PSE Kept Contemporaneous Records of its Evaluation and Decision**
2 **Processes**

3 **Q. Did PSE keep contemporaneous records of its evaluation and decision**
4 **processes?**

5 A. Yes. The testimony listed below and the exhibits submitted in support of each of
6 the following pieces of testimony demonstrate PSE's contemporaneous
7 documentation of its evaluation and decision processes:

- 8 (i) this prefiled direct testimony;
- 9 (ii) the Prefiled Direct Testimony of Mr. Michael Mullally,
10 Exhibit No. ___(MM-1HCT);
- 11 (iii) the Prefiled Direct Testimony of Ms. Aliza Seelig, Exhibit
12 No. ___(AS-1HCT);
- 13 (iv) the Prefiled Direct Testimony of Mr. Paul K. Wetherbee,
14 Exhibit No. ___(PKW-1CT);
- 15 (v) the Prefiled Direct Testimony of Mr. Tom DeBoer, Exhibit
16 No. ___(TAD-1T), and
- 17 (vi) the Prefiled Direct Testimony of Mr. Douglas S. Loreen,
18 Exhibit No. ___(DSL-1T).

19 **III. CONCLUSION**

20 **Q. Does that conclude your prefiled direct testimony?**

21 A. Yes, it does.