

**EXHIBIT NO. ___(DEM-14)
DOCKET NOS. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: DAVID E. MILLS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
DAVID E. MILLS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JANUARY 17, 2012



PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY

P.O. Box 1231, Wenatchee, WA 98807-1231 • 327 N. Wenatchee Ave., Wenatchee, WA 98801
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December 20, 2011

Mr. Brennan Mueller
Energy Contract Administrator
Puget Sound Energy, Inc.
10885 NE 4th St. PSE-09S
Bellevue, WA 98004-5591

Re: Debt Reduction Charge (DRC) and Capital Recovery Charge (CRC)
Section 7.01 (F) and (G) of Power Sales Agreement Dated February 1, 2006

Dear Brennan:

In accordance with the Section 7.01 (F) and (G) of the Power Sales Agreement dated February 1, 2006 by and between the District and Puget Sound Energy, Inc., the District must designate a percentage each year with respect to the Debt Reduction Charge (DRC) and the Capital Recovery Charge (CRC). If the District fails to make a designation for any year, the percentage shall be the greater of the default rate or the last effective percentage designation for each charge. The "default rate" for the DRC is 2.5% and for the CRC is 25%. The last effective percentage designation was 3% for the DRC and 50% for the CRC set December 13, 2010 for the period beginning January 1, 2012.

For the period beginning January 1, 2013, the District will continue to retain the percentage designation of 3% for the DRC and 50% for the CRC. In addition, District projections reflect the current designations will remain unchanged for the next few years. Should the designation change, notice will be provided to you in accordance with the Agreement.

If you have any questions, do not hesitate to call me.

Regards,

A handwritten signature in black ink that reads "Kelly Boyd". The signature is fluid and cursive.

Kelly Boyd
Chief Financial Officer

MINUTES OF REGULAR MEETING OF THE COMMISSION
OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

December 13, 2010

The regular meeting of the Commission of Public Utility District No. 1 of Chelan County, Washington, was held in the office of the District, 327 North Wenatchee Avenue, Wenatchee, Washington, on December 13, 2010, at the hour of 1:01 p.m., pursuant to proper notice thereof.

Commissioners present were Dennis Bolz, Randy Smith, Carnan Bergren, Norm Gutzwiler and Ann Congdon. In attendance were General Manager John Janney, General Counsel Carol Wardell and Clerk of the Board Sheila Salmon. Various staff members were also in attendance.

Others in attendance: Bob Huber, Bill Stokes and Christine Pratt (Wenatchee World).

Construction Inspector Gordon Boon led the Pledge of Allegiance and provided a safety minute.

President Bolz presented the Consent Agenda Items for adoption. He asked if any item on the Consent Agenda should be transferred to the Regular Agenda for further review. No items were requested to be transferred to the regular Agenda. President Bolz presented the Consent Agenda items for adoption as follows:

The minutes of the regular meeting held on November 29, 2010 and the regular meeting (study session) held on December 6, 2010 were presented for approval.

The Auditor's memorandum, dated December 7, 2010, supporting documentation and the District's Computer Report, which certify, pursuant to RCW 42.24.080, that the District received certain goods, services and other considerations specified therein and described as follows were presented for approval:

1. Claims certified by the Auditor for payment and authorization for the Auditor to issue warrants payable by the Treasurer for services, goods and other considerations received by the District in the total amount of \$3,484,171.95;
2. Approval of Customer Deposit Returns payment dated December 7, 2010 in the amount of \$3,890.28; and
3. Approval of the net Payrolls, Warrant Nos. 225639 through 225707 and Advice Nos. 519006 through 519641 for the period ending 11/21/2010 in the amount of \$1,506,085.67.

RESOLUTION NO. 10-13597 RATIFYING FIELD WORK ORDER NO. 1,
AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO.

MINUTES OF REGULAR MEETING OF THE COMMISSION

December 13, 2010

Page 2

10-06 WITH MARINE INDUSTRIAL CONSTRUCTION, LLC OF VANCOUVER, WASHINGTON AND AUTHORIZING PAYMENT OF RETAINAGE

RESOLUTION NO. 10-13598 RATIFYING FIELD WORK ORDER NOS. 1 THROUGH 4, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 10-10 WITH SELLAND CONSTRUCTION, INC. OF WENATCHEE, WASHINGTON AND AUTHORIZING PAYMENT OF RETAINAGE

RESOLUTION NO. 10-13599 RATIFYING CHANGE ORDER NO. 3, AUTHORIZING FINAL ACCEPTANCE OF WORK PERFORMED UNDER BID NO. 06-08 WITH MITSUBISHI ELECTRIC OF WARRENDALE, PENNSYLVANIA AND AUTHORIZING PAYMENT OF RETAINAGE

RESOLUTION NO. 10-13600 AUTHORIZING THE TRANSFER OF FUNDS FROM THE DISTRIBUTION SYSTEM TO THE NETWORKS SYSTEM BASED ON TWO PERCENT (2%) OF THE BASE RETAIL ELECTRIC REVENUES

A motion was made by Commissioner Gutzwiler, seconded by Commissioner Bergren and carried to adopt the Consent Agenda consisting of the minutes of the regular meeting held on November 29, 2010 and the regular meeting (study session) held on December 6, 2010, the above listed vouchers and Resolution Nos. 10-13597 through 10-13600, which are on file in the offices of the District.

Next, Commissioners considered the following resolutions.

RESOLUTION NO. 10-13601 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO A TASK AUTHORIZATION SERVICES AGREEMENT (SA NO. 10-242) WITH WASHINGTON DEPARTMENT OF FISH AND WILDLIFE TO PERFORM HATCHERY MONITORING AND EVALUATION ACTIVITIES REQUIRED IN THE LICENSES FOR THE ROCKY REACH AND ROCK ISLAND HYDROELECTRIC PROJECTS

RESOLUTION NO. 10-13602 AUTHORIZING AMENDMENT NO. 3 TO SERVICES AGREEMENT (SA NO. 05-200) WITH OKANAGAN NATION ALLIANCE OF WESTBANK, BRITISH COLUMBIA TO EXTEND THE SERVICES AGREEMENT THROUGH DECEMBER 31, 2011 TO PROVIDE SERVICES RELATED TO THE DISTRICT'S HABITAT CONSERVATION PLANS' OKANOGAN RIVER SOCKEYE OBLIGATION

Following discussion by Commissioners, a motion was made by Commissioner Smith, seconded by Commissioner Gutzwiler and carried adopting Resolution Nos. 10-13601 and 10-13602, which are on file in the offices of the District.

MINUTES OF REGULAR MEETING OF THE COMMISSION
December 13, 2010
Page 3

Commissioner Gutzwiler excused himself from the meeting at 1:29 p.m. for 10 minutes.

RESOLUTION NO. 10-13603 AUTHORIZING THE GENERAL MANAGER TO ENTER INTO TASK AUTHORIZATION SERVICE AGREEMENTS (SA NOS. 11-006 AND 11-019) WITH STRATEGIES 360, INC. OF SEATTLE, WASHINGTON FOR CONSULTING SERVICE

District staff identified consulting needs to support stakeholder engagement and ongoing federal and state government relations. These services include supporting the District staff and Board by conducting stakeholder research; assisting with strategic plan implementation; providing communications support; conducting the annual quantitative customer survey; and continuing to support the District in satisfying legislative and public policy objectives. The work is not to exceed \$245,000.

Following discussion by Commissioners, a motion was made by Commissioner Congdon, seconded by Commissioner Smith and carried adopting Resolution No. 10-13603, which is on file in the offices of the District. President Bolz, Commissioner Congdon and Commissioner Smith voted in support of the resolution. Commissioner Bergren did not vote.

Commissioner Gutzwiler returned to the meeting at 1:39 p.m.

RESOLUTION NO. 10-13604 ESTABLISHING THE CAPITAL RECOVERY CHARGE AND DEBT REDUCTION CHARGE RELATED TO LONG-TERM POWER SALES CONTRACTS

District staff recommended that the Debt Reduction Charge (DRC) be established at 3% effective January 1, 2012. In addition, staff recommended the Capital Recovery Charge (CRC) be established at 50% effective January 1, 2012. The base shall remain at \$25,000,000 (in 2004 dollars).

Alcoa Northwest Energy Manager Bob Huber asked Commissioners to consider setting rates at the default rate for the DRC at 2.5% and CRC at 25%.

Following discussion by Commissioners, a motion was made by Commissioner Congdon, seconded by Commissioner Smith and carried unanimously adopting Resolution No. 10-13604, which is on file in the offices of the District.

Next, Water Resources Manager Ron Slabaugh updated the Board on the Chelan Ridge Water System Plan (Plan). Washington Department of Health (DOH) regulations require plan updates every six years. Manager Slabaugh reported that the Chelan Ridge System is in good condition and should be capable of providing continued reliable service. It is anticipated that no capital improvements will be necessary during the next 20 years. The DOH requires a public review period and Board adoption of the Plan prior to issuing final approval. A hearing for public

MINUTES OF REGULAR MEETING OF THE COMMISSION

December 13, 2010

Page 4

comment and adoption of the Plan will be held at a regularly scheduled Board meeting in January 2011.

Next, Utility Services Director John Stoll discussed the 2011 Water / Wastewater 5-percent rate increase proposed to take effect April 1, 2011. The increase was factored into the 2011 budget approved by the Commission on December 6, 2011. The notice policy for rate proceedings (Resolution 80-6286) requires three informational meetings be conducted in at least three separate locations within the Chelan County and to occur not more than thirty days nor less than fifteen days prior to pending rate proceedings. The rate committee proposed a 5-percent increase across all rate components and classes; no increase to System Development Charges but to remove the charges from the rate schedule and include the charge in Fees and Charges; and to incrementally increase the Dryden water system toward postage stamp rate.

A motion was made by Commissioner Congdon to combine the public informational meetings and hearings for consideration of a Water / Wastewater rate increase and for consideration of an extension of the 9-percent surcharge on electric bills through the end of 2011. The motion was seconded by Commissioner Bergren and carried.

A motion was made by Commissioner Congdon to hold three informational meetings on January 10, 11, and 18, 2011, and two public hearings on February 7, 2010 at the regularly scheduled meeting. The motion was seconded by Commissioner Smith and carried.

A motion was made by Commissioner Congdon to convene one informational meeting in each of the following locations: Entiat, Cashmere and Wenatchee. The location of each meeting will be determined at a future meeting depending upon meeting room availability. The motion was seconded by Commissioner Gutzwiler and carried.

A motion was made by Commissioner Smith to convene each of the informational meetings at 5:30 p.m. The motion was seconded by Commissioner Congdon and carried.

A motion was made by Commissioner Smith to hold two public hearings at the regularly scheduled meeting on February 7, 2011 for consideration of a Water / Wastewater rate increase and consideration of an extension of the 9-percent surcharge on electric bills through the end of 2011. The motion was seconded by Commissioner Gutzwiler and carried.

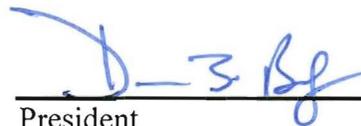
Next, Commissioners reported on the various meetings each attended during the weeks of November 29, 2010 and December 6, 2010.

General Manager John Janney informed Commissioners that the Lake Chelan snowpack is currently at 80% and overall snowpack at 60-70%. He added that it is still early in the season and accumulation levels may change.

MINUTES OF REGULAR MEETING OF THE COMMISSION
December 13, 2010
Page 5

General Counsel Carol Wardell reported on the District's action against the Department of Revenue for refund of privilege taxes paid in the amount of \$178,635.00. The case has been settled and dismissed. The District will receive a credit for the full amount claimed towards the spring of 2011 tax billing.

There being no further business, the meeting was adjourned at 2:36 p.m.



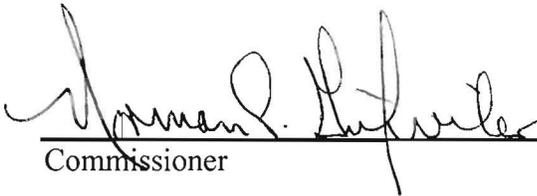
President



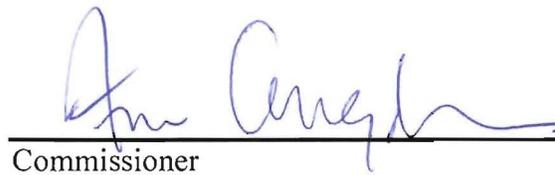
Vice President



Secretary



Commissioner



Commissioner