

EXHIBIT NO. ____ (EMM-10HC)
DOCKET NO. UE-07 ____
2007 PSE PCORC
WITNESS: ERIC M. MARKELL

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-07 ____

**NINTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ERIC M. MARKELL
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

MARCH 20, 2007

Puget Sound Energy, Inc.
ENERGY MANAGEMENT COMMITTEE MEETING

* * * MEETING MINUTES * * *

Thursday, October 19, 2006

(MEYDENBAUER CONFERENCE ROOM)

Attendees

Committee Members: Bert Valdman, Tom DeBoer (proxy granted by Kimberly Harris), Sue McLain, Steve Secrist (proxy granted by Jennifer O'Connor), Eric Markell
Non-Voting Members: Jim Eldredge, Paul Wiegand, Roger Garratt, Mike Stranik, Salman Aladin, Chris Janak
Others Attending: Jim Elsea

Agenda Minutes

A. Standards of Conduct Requirements and Guidelines

Tom DeBoer, PSE's Standards of Conduct Chief Compliance Officer, reviewed the Standards of Conduct in consideration of the Committee membership that includes PSE employees whose responsibilities cover transmission activities, as well as PSE employees whose responsibilities cover merchant activities. Compliance with FERC's Standards of Conduct will necessarily limit the EMC's topics of discussion as is set forth in the Energy Resources Committee Charter adopted August 4, 2004. The Committee was cautioned against discussing transmission topics which weren't in the public domain.

Consent/Administrative Agenda

Jim Elsea reminded the EMC members that the September 8, 2006 EMC Meeting minutes were previously reviewed and approved by the Committee in advance of this meeting.

Decision Agenda

B. Approval of Recommendation of Goldendale Purchase Agreement

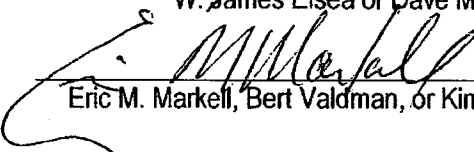
Roger Garratt presented analysis and a staff recommendation in connection with the acquisition of Goldendale. The Committee asked questions and discussed aspects of the recommendation and transaction. The discussion included the Company's gas hedging strategy for the potential acquisition. It was agreed that Goldendale should not be included in the Company's gas hedging and optimization activity unless and until the Company is successful in acquiring the facility in the bankruptcy auction. After discussion, the Committee unanimously approved staff's recommendation to the President and CEO and Company's Board of Directors that the Company enter into definitive purchase agreements with Calpine Corporation to acquire the Goldendale Energy Center a 277 MW natural gas-fired combined cycle generating facility located in Goldendale, Washington through participation in the bankruptcy auction process, upon achievement of commercial terms satisfactory to the President and CEO, the Senior Vice President of Energy Resources, and the General Counsel.

Redacted

Recorded as Secretary:


W. James Elsea or Dave Mills

Accepted by the EMC:


Eric M. Markell, Bert Valdman, or Kimberly Harris

All administrative and presentation materials are available in the EMC files and are also available on the X
Drive secure file location: X:\#EMC_Meetings\061019 EMC Meeting

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Per WAC 480-07-160

X:\#EMC_Meetings\061019 EMC Meeting\Record of Approval - Minutes 061019.doc

From: McLain, Sue
Sent: Monday, November 06, 2006 4:43 PM
To: Elsea, Jim
Subject: RE: REVISED EMC Meeting Minutes Oct 19th 2006

I meant to let you know that I approve these minutes.

Sue

From: DeBoer, Tom
Sent: Thursday, October 26, 2006 8:15 AM
To: Elsea, Jim
Cc: Harris, Kimberly
Subject: RE: REVISED EMC Meeting Minutes Oct 19th 2006

Looks good to me as revised.

From: Secrist, Steve
Sent: Wednesday, October 25, 2006 11:07 AM
To: Elsea, Jim
Cc: O'Connor, Jennifer
Subject: RE: REVISED EMC Meeting Minutes Oct 19th 2006

As Jen's proxy for the meeting, I approve.

From: Markell, Eric
Sent: Wednesday, October 25, 2006 11:00 AM
To: Elsea, Jim; Valdman, Bert; McLain, Sue; Harris, Kimberly; O'Connor, Jennifer; DeBoer, Tom; Secrist, Steve
Cc: Eldredge, Jim; Wiegand, Paul; Garratt, Roger; Stranik, Mike; Aladin, Salman; Janak, Christopher D; Emmert, Stephen K; Mills, David E
Subject: RE: REVISED EMC Meeting Minutes Oct 19th 2006

I approve these minutes as changed.

EMM

From: Elsea, Jim
Sent: Wednesday, October 25, 2006 8:31 AM
To: Valdman, Bert; McLain, Sue; Markell, Eric; Harris, Kimberly; O'Connor, Jennifer; DeBoer, Tom; Secrist, Steve
Cc: Eldredge, Jim; Wiegand, Paul; Garratt, Roger; Stranik, Mike; Aladin, Salman; Janak, Christopher D; Emmert, Stephen K; Mills, David E
Subject: REVISED EMC Meeting Minutes Oct 19th 2006

EMC Members,

X:\#EMC_Meetings\061019 EMC Meeting\Record of Approval - Minutes 061019.doc

We have revised the minutes to reflect a suggestion from Jim Eldredge and correction of a typographical error. The revisions are shown below and are contained in the attached word document. Please review and respond by email whether or not you recommend approval of the minutes.

Approval of Recommendation of Goldendale Purchase Agreement

Roger Garratt presented analysis and a staff recommendation in connection with the acquisition of Goldendale. The Committee asked questions and discussed aspects of the recommendation and transaction. The discussion included the Company's gas hedging strategy for the potential acquisition. It was agreed that Goldendale should not be included in the Company's gas hedging and optimization activity unless and until the Company is successful in acquiring the facility in the bankruptcy auction. After discussion, the Committee unanimously approved staff's recommendation to the President and CEO and Company's Board of Directors that that the Company enter into definitive purchase agreements with Calpine Corporation to acquire the Goldendale Energy Center a 277 MW natural gas-fired combined cycle generating facility located in Goldendale, Washington through participation in the bankruptcy auction process, upon achievement of commercial terms satisfactory to the President and CEO, the Senior Vice President of Energy Resources, and the General Counsel.

Thanks,
Jim Elsea
81-3632

From: Eldredge, Jim
Sent: Monday, October 23, 2006 2:48 PM
To: Elsea, Jim
Subject: RE: EMC Meeting Minutes Oct 19th 2006

Jim, this committee does not have the approval to authorize the purchase of Goldendale. Our Board of Directors has this responsibility.

Our EMC management committee can accept staff's recommendation and agree with it.

James W. Eldredge
Vice President Corporate Secretary
and Controller
Puget Sound Energy, Inc.
10885 NE 4th Street PSE-12S
Bellevue, WA 98009-5591
(425) 462-3135 Phone
(425) 462-3300 Fax
jim.eldredge@pse.com

From: Wiegand, Paul
Sent: Monday, October 23, 2006 1:19 PM
To: Elsea, Jim
Subject: RE: EMC Meeting Minutes Oct 19th 2006

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See my "that that" nit pick.

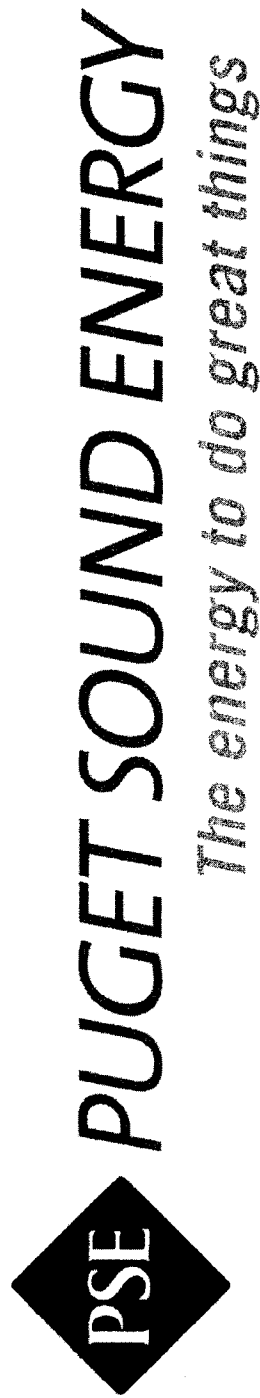
From: Secrist, Steve
Sent: Monday, October 23, 2006 11:02 AM
To: Elsea, Jim
Cc: O'Connor, Jennifer
Subject: RE: EMC Meeting Minutes Oct 19th 2006

looks good to me.

From: Elsea, Jim
Sent: Monday, October 23, 2006 10:41 AM
To: Valdman, Bert; McLain, Sue; Markell, Eric; Harris, Kimberly; O'Connor, Jennifer; DeBoer, Tom; Secrist, Steve
Cc: Eldredge, Jim; Wiegand, Paul; Garratt, Roger; Stranik, Mike; Aladin, Salman; Janak, Christopher D; Emmert, Stephen K; Mills, David E
Subject: EMC Meeting Minutes Oct 19th 2006

Attached for your review and approval are the minutes from last week's EMC meeting.

Thanks,
Jim Elsea
81-3632



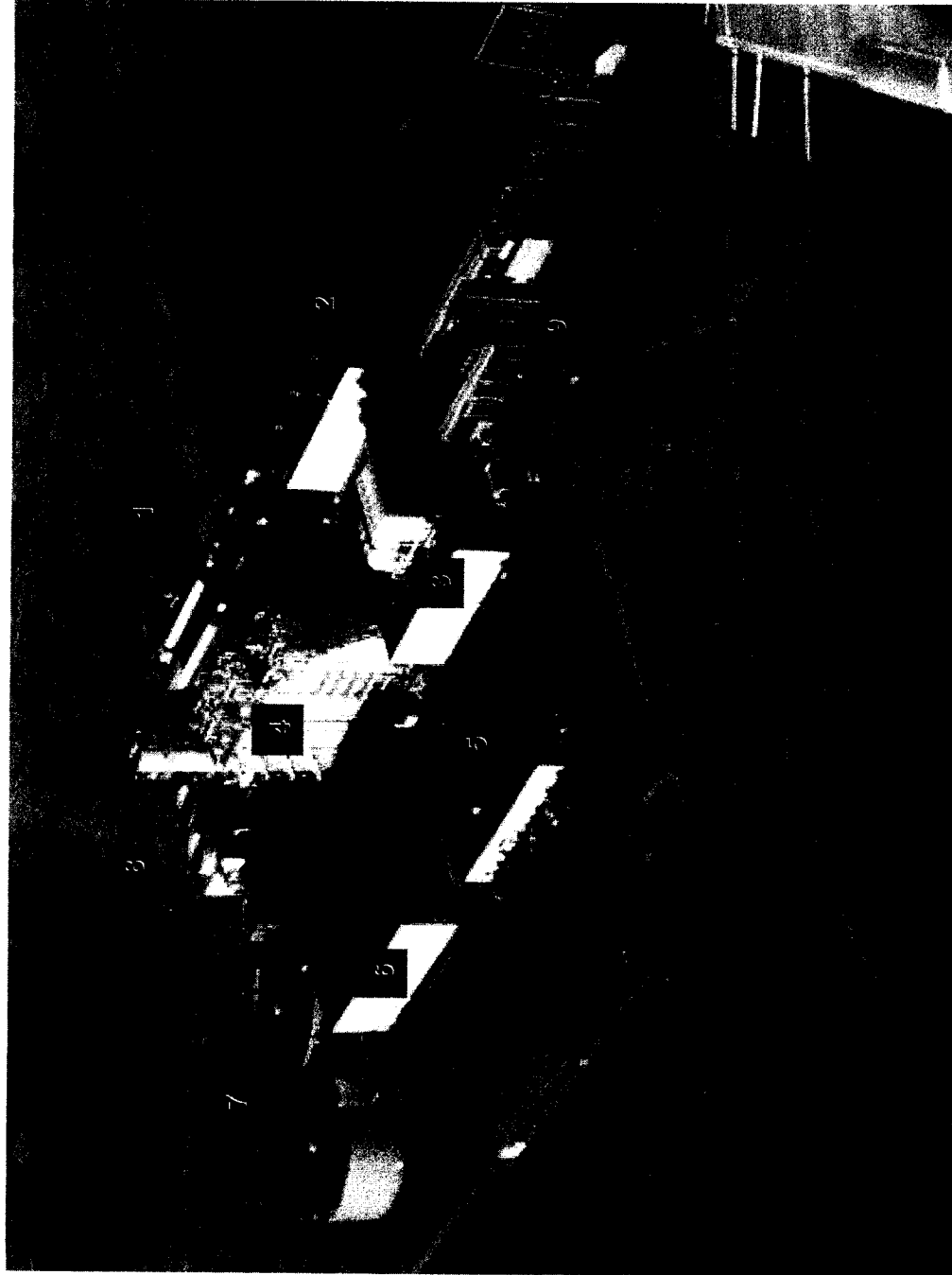
Acquisition of the Goldendale Energy Center PSE Energy Management Committee

Roger Garratt
Director, Resource Acquisition

EMC Recommendation

- The Energy Management Committee recommends to the President and CEO and the Company's Board of Directors that the Company enter into definitive purchase agreements with Calpine Corporation to acquire the Goldendale Energy Center a 277 MW natural gas-fired combined cycle generating facility located in Goldendale, Washington through participation in the bankruptcy auction process, upon achievement of commercial terms satisfactory to the President and CEO, the Senior Vice President of Energy Resources, and the General Counsel.

Goldendale is a 277 MW Natural Gas-Fired Combined Cycle ("CCCT") Generating Facility



1. Air-Cooled
Condenser

2. Steam Turbine and
Generator

3. Gas Turbine and
Generator

4. HRSG

5. Administration
Building

6. Water Treatment
Building

7. (2) 2.5 million
gallon water tanks

8. Wet Cooling Tower

9. Transformers &
Switchyard

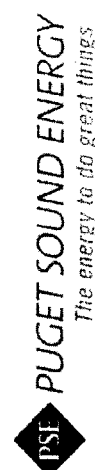


PUGET SOUND ENERGY
The energy to do great things

Facility Overview

Commercial:	September 2004
Location:	West of the City of Goldendale, WA; Goldendale Industrial Park
Size:	252 MW natural gas-fired combined cycle plant; incremental 25 MW duct fire capability
Heat Rate:	[REDACTED]
Technology:	1x1; GE 7FA turbine (Model 7241); Hitachi HRSG w/ duct burner; 90-MW Hitachi steam turbine; 115-MW Siemens generator; hybrid wet/dry cooling
Fuel:	[REDACTED]
Gas Transport:	NWPL 5.1 mile lateral (50,350 Dth/d); NWPL mainline transportation to be acquired by [REDACTED]
Transmission:	315 MW Klickitat PUD to BPA Harvalum Substation (contract term through June 2032) 250 MW from BPA Harvalum to Mid-C (contract term 2004-2023)
Water Supply:	30-year agreement with the City of Goldendale. Sanitary and wastewater discharged to City of Goldendale sewer system; stormwater is directed to drainage ditch across the facility to 2 detention ponds
Operation:	170 starts; 8445 hours of operation (Sept 04 - Sept 06)
O&M:	No Long Term Service Agreement (O&M will be performed by PSE)
Levelized Cost:	[REDACTED] (based on August '06 gas update)
Gas Cost:	[REDACTED] (20-year levelized cost)

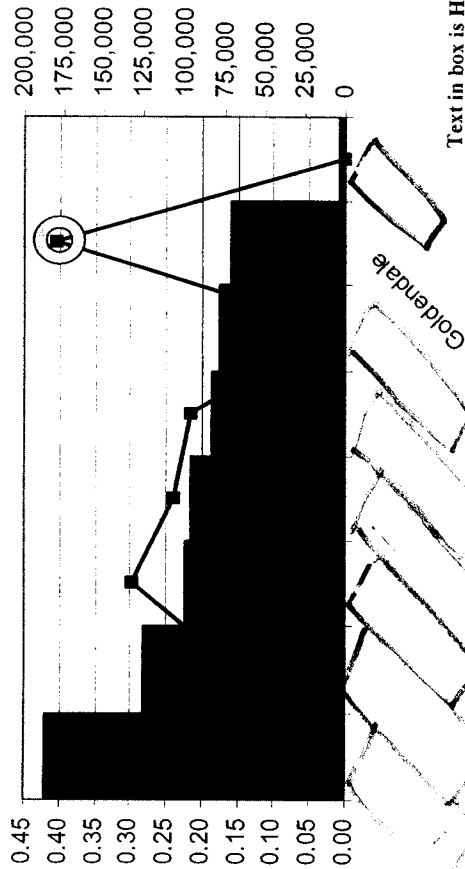
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Among the short-listed projects, Goldendale has superior portfolio benefit, reasonable levelized cost and benefit ratio



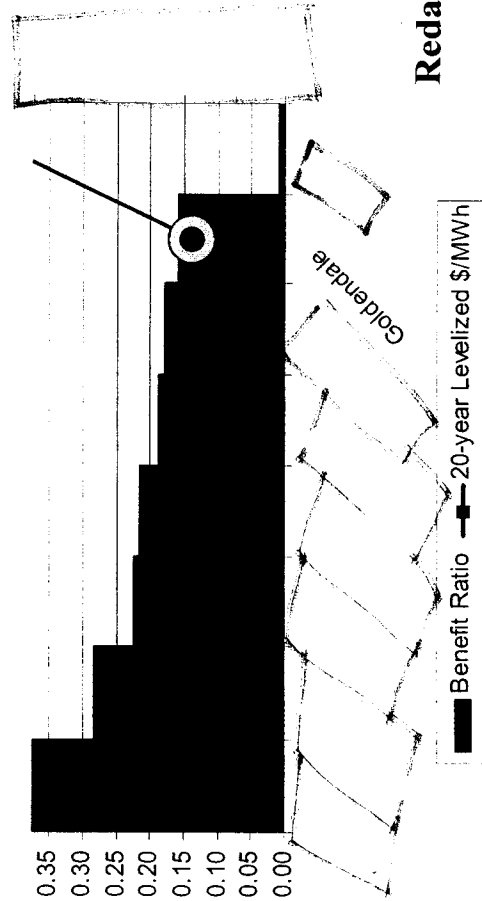
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Portfolio benefit is the 20-year present value of all portfolio benefits derived from each project in comparison to the 2005 LCP generic portfolio.

Levelized cost is the average annual cost per MWh produced during a 20-year period for each project.

Portfolio benefit ratio is the present value of portfolio benefits divided by the present value of the project revenue requirements. Ratio used to remove bias for project size.

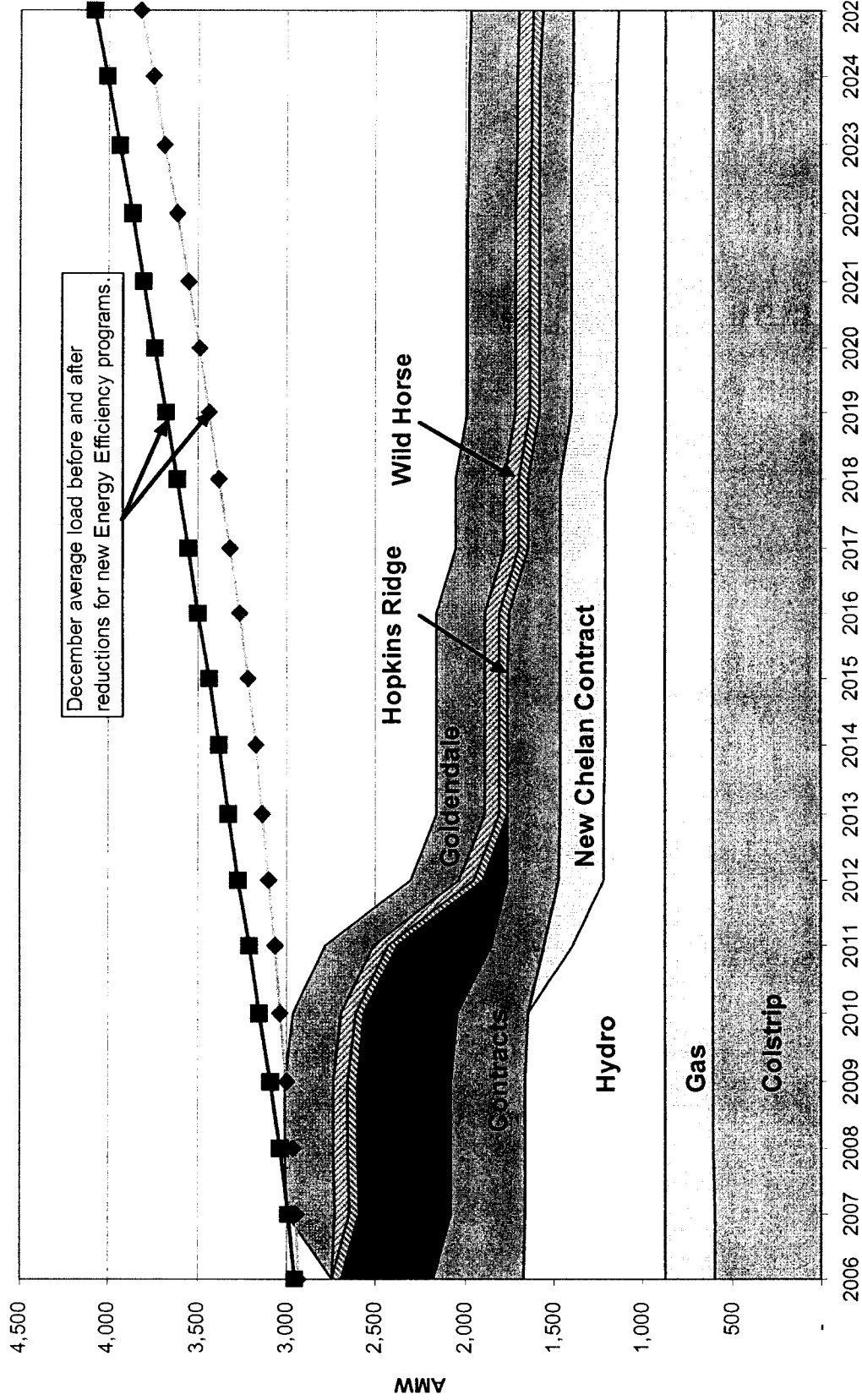
Note Bellingham Cold Storage (BCS) is the only capacity resource selected



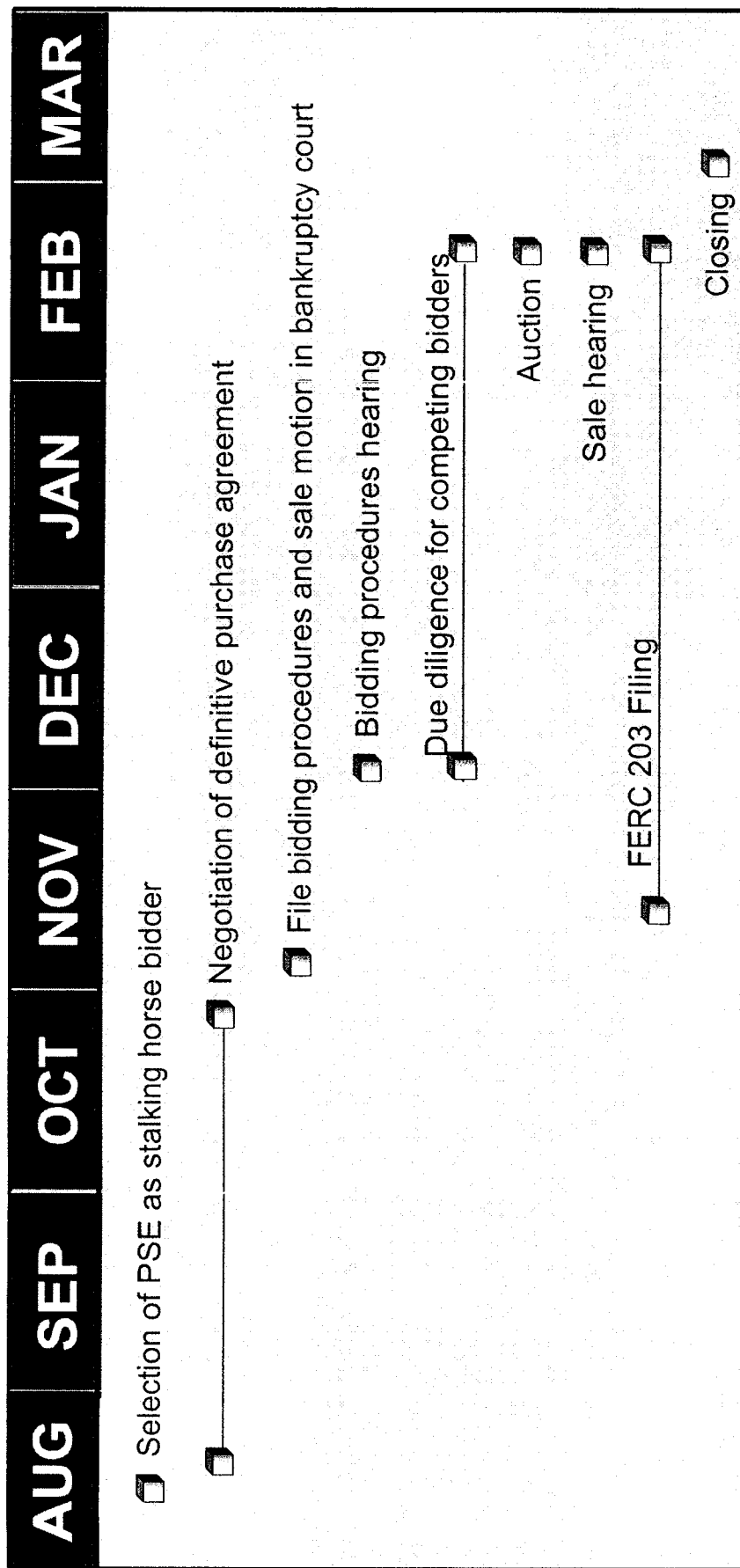
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Goldendale reduces need in short term

Energy Load-Resource Balance

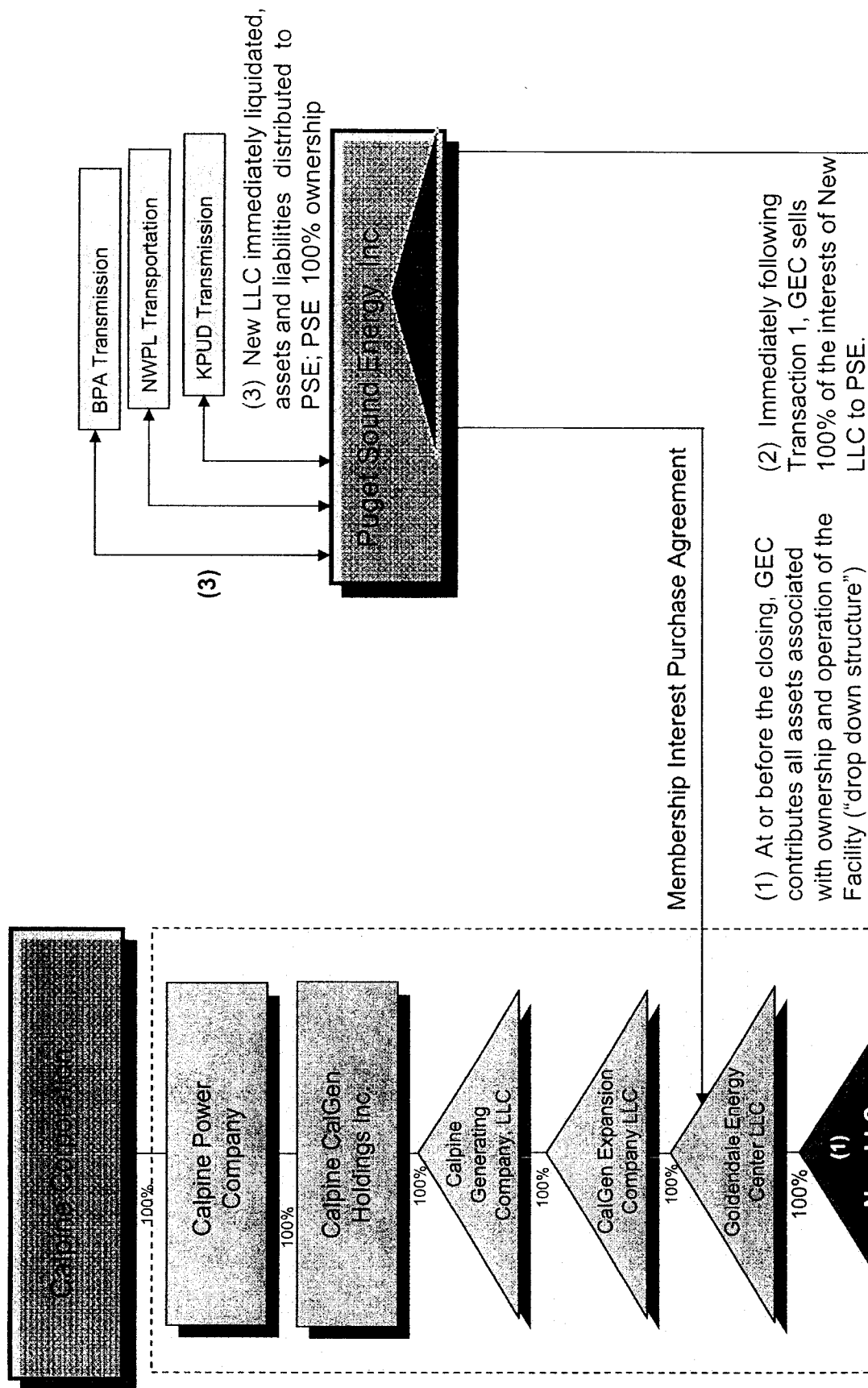


Bankruptcy Process and timeline



Note: Timing is best estimate.

Transaction Structure



“All-in” Capital Cost of the Facility

- Assumes a purchase price of \$100 million (original assessed value of \$250 million)
- Purchase price includes a 141.5 acre adjacent parcel that will serve as a buffer to the project

Redacted

Capital Expenditure	\$Cost
Facility Purchase Price	\$ 100,000,000
Real Estate Excise Tax (REET) (50%)	\$
Facility Improvements	\$
Transaction & Due Diligence	\$
SnoPUD Capacity Option	\$
Property Taxes	\$
AFUDC	\$
Total Capital Expense	\$

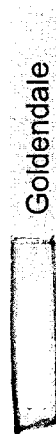
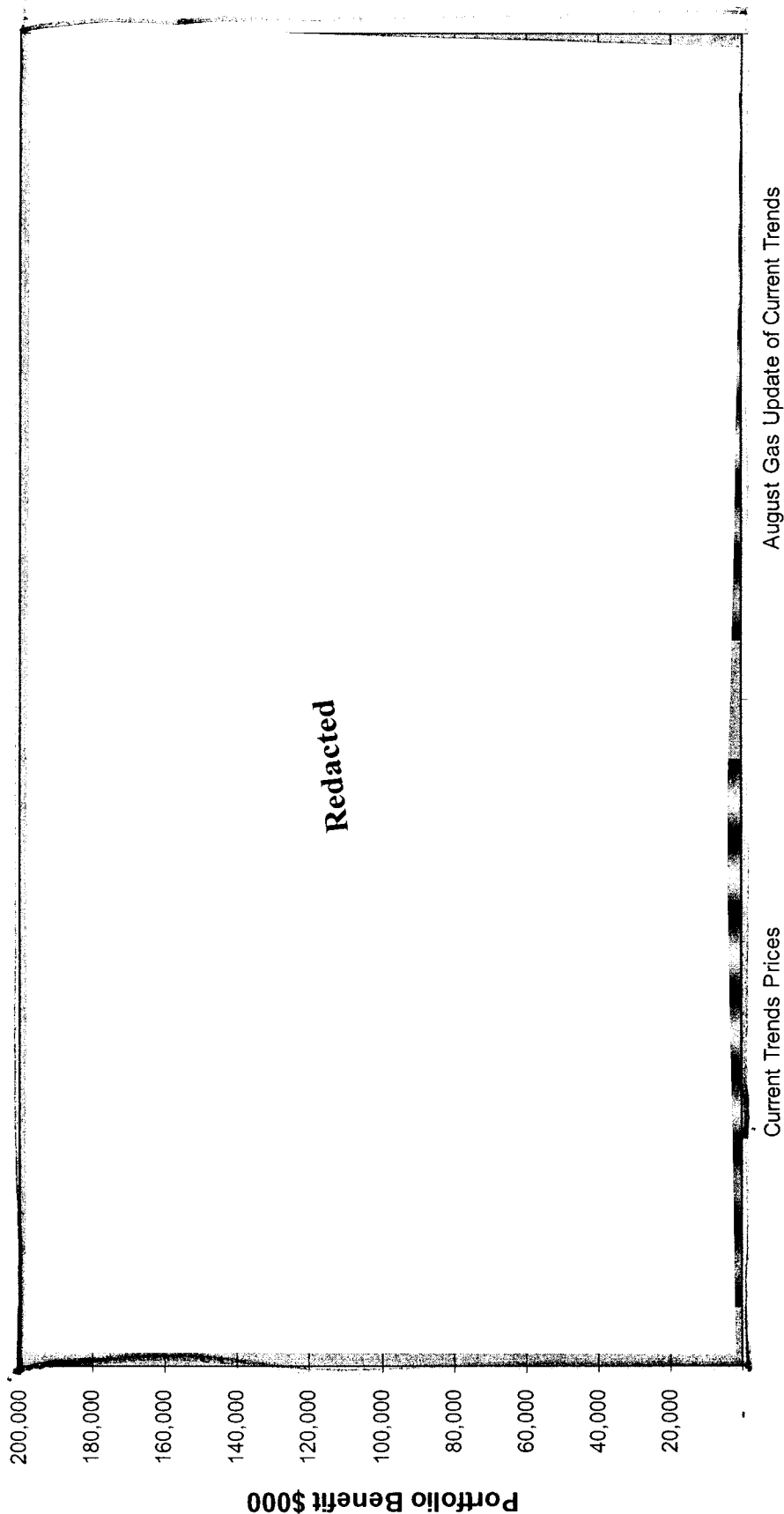


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all-in capital cost is reasonable maximum bid limit to acquire Goldendale



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Key Risks and Mitigation Measures

PRINCIPAL RISK		MITIGATION
Pre-Signing	- Failure to resolve outstanding commercial terms - Pre-signing risk; potential for Creditors Committee to disapprove the transaction	Transaction costs incurred to date are approximately \$500,000.
Bankruptcy Process	Risk of a “topping” bid	PSE will have the ability to overbid subject to its pre-determined bid limit. PSE’s transactions costs (and more) would be covered by the break-up fee in the event that PSE does not prevail in the auction process.
Post-Closing	Plant technical and financial performance	PSE’s Thermal Asset Group will employ a self-managed maintenance plan to control costs and manage availability; Power Supply will absorb gas requirements as part of overall gas/electric portfolio strategy.

Regulatory

- FERC and Hart-Scott-Rodino filings in November 2006
- Rate filing anticipated early 2007
 - ♦ Company needs will determine whether the filing is a General Rate Case or Power Cost Only Rate Case
 - ♦ Rates effective July or December depending on the filing

Next Steps

- Execute definitive agreements, the Membership Interests Purchase Agreement (“MIPA”), subject to Board approvals for PSE and Calpine
 - ♦ Calpine Board of Directors’ Meeting scheduled for October 25th
 - ♦ If approvals are obtained, Calpine will file a motion for approval of bidding procedures with the Bankruptcy Court in early November
- Participate in public auction, if necessary

Goldendale's Value Proposition

- Opportunistic purchase; capital cost of a new CCCT is approximately twice the cost of Goldendale
- Gas capacity becoming increasingly more valuable with no new baseload generation being built
- As an existing facility, costs are known and quantifiable; inflationary EPC costs, skilled labor and raw materials have resulted in 60% to 80% increase in new resources from PSE's last RFP
- ♦ Alternative resources such as other new CCCT projects and wind are subject to price pressures

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EMC Recommendation

- The Energy Management Committee recommends to the President and CEO and the Company's Board of Directors that the Company enter into definitive purchase agreements with Calpine Corporation to acquire the Goldendale Energy Center a 277 MW natural gas-fired combined cycle generating facility located in Goldendale, Washington through participation in the bankruptcy auction process, upon achievement of commercial terms satisfactory to the President and CEO, the Senior Vice President of Energy Resources, and the General Counsel.

Appendix

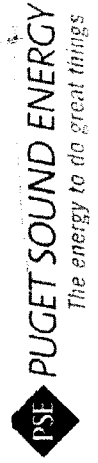


Natural Gas Transportation Plan

Alberta Gas

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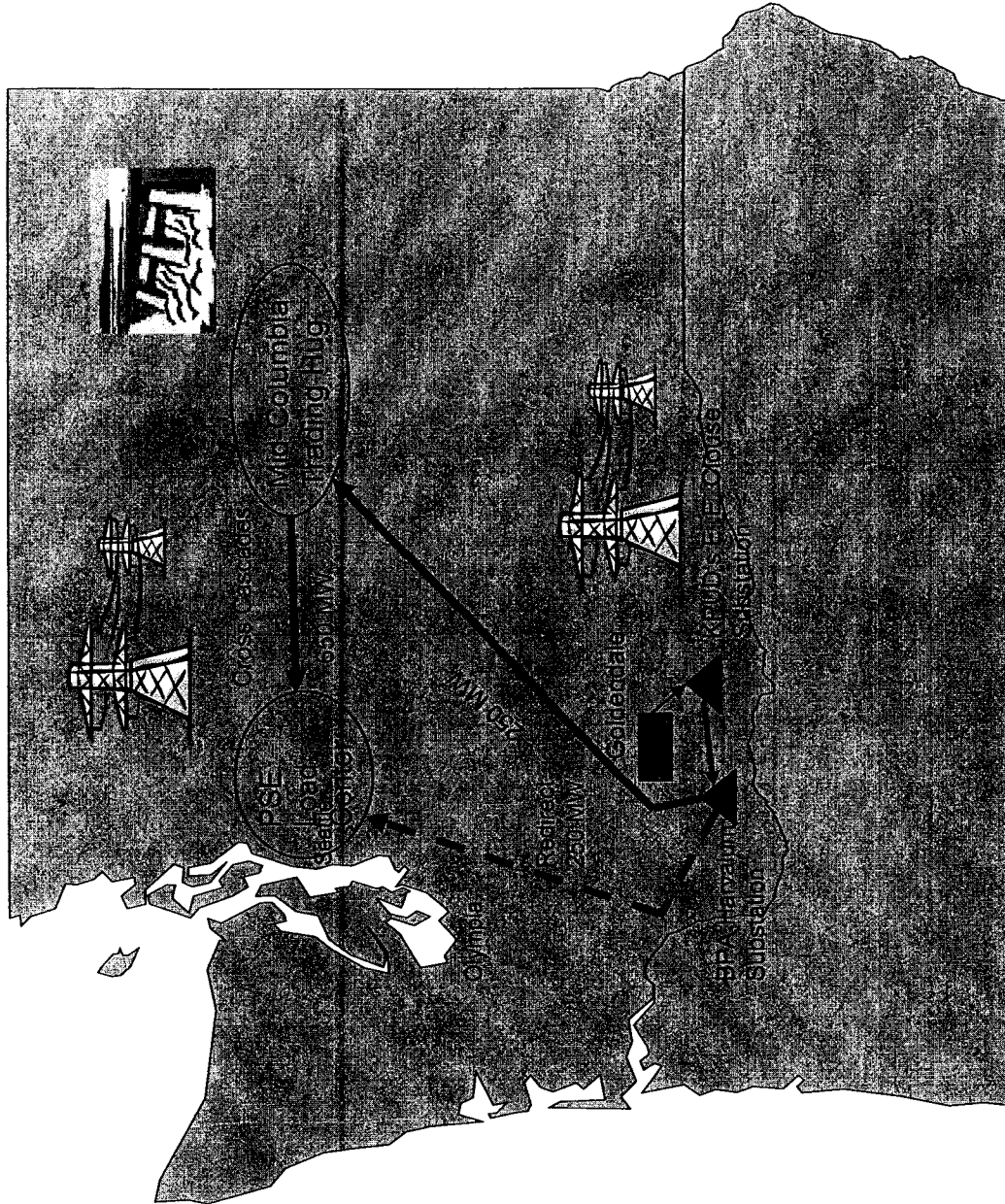
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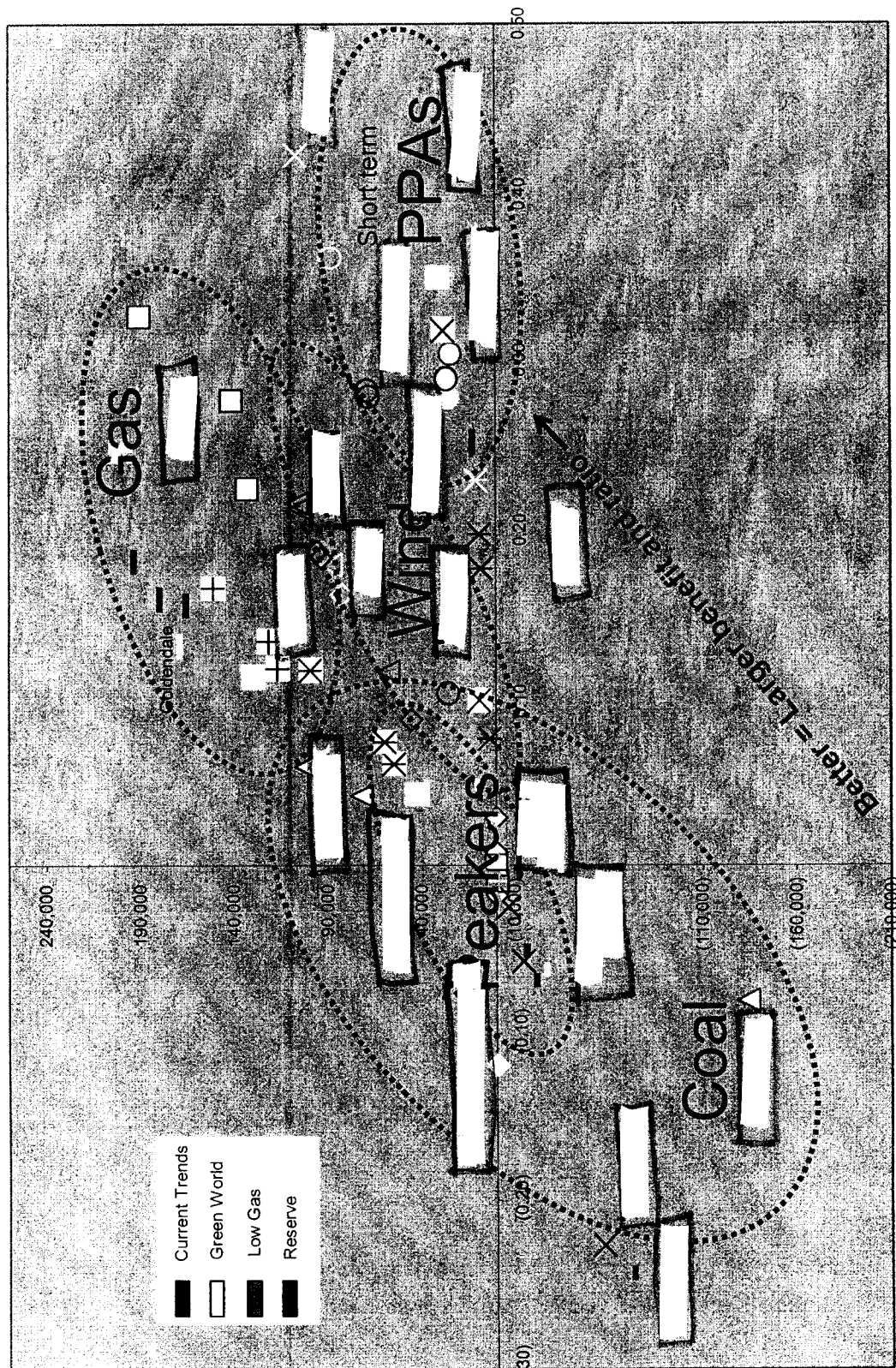
Transmission Plan

- GEC holds long-term firm point-to-point transmission on KPUD and BPA. Firm delivery from KPUD to BPA. BPA delivers 250 MW to Mid-C; for quantities in excess of 250 MW, PSE will buy short term firm capacity for incremental duct fire
- From Mid-C, PSE will use a portion of its 650 MW long-term firm transmission from Mid-C to PSE's system acquired in September and October of 2006
- Potential to redirect transmission directly to PSE will provide estimated \$30 million NPV savings; BPA decision expected by the end of 2006



For Illustrative Purposes Only

Portfolio Benefit (\$000s)



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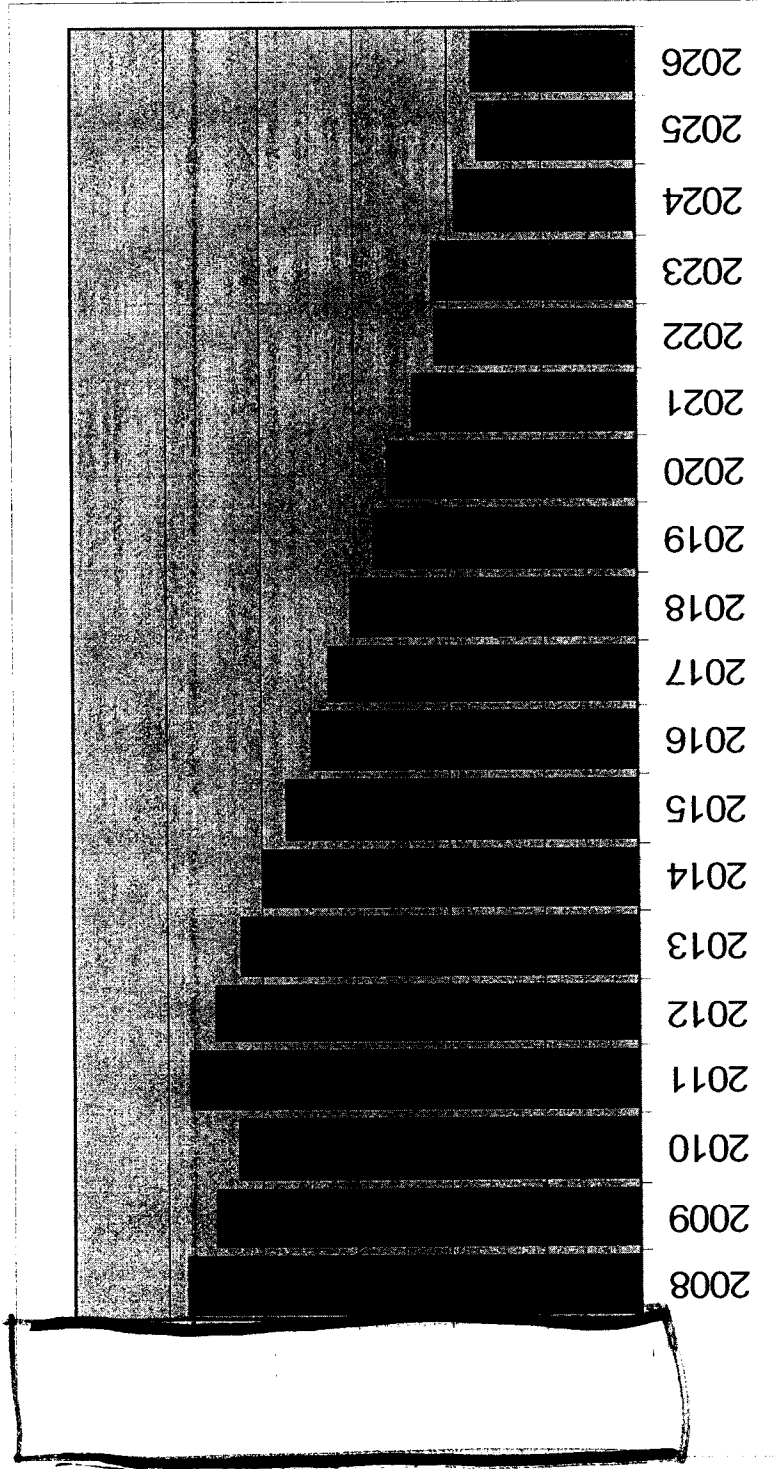
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The energy to do great things

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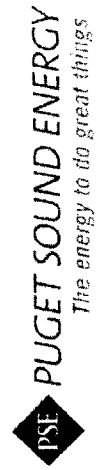
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Facility's Pro Forma Net Income

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