# BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

## Docket Nos. UE-111048 and UG-111049
## Puget Sound Energy, Inc.'s
## 2011 General Rate Case

## PUBLIC COUNSEL DATA REQUEST NO. 271

**PUBLIC COUNSEL DATA REQUEST NO. 271:**

Please explain whether PSE assumed that PTCs would not be available for new resource additions in the Company's three IRPs prior to the 2009 IRP, and provide the documentation from each such resource plan addressing the assumptions regarding the availability of PTCs for new resources comparable to the information provided in Appendix I of the 2009 IRP.

**Response:**

Consistent with the Production Tax Credit ("PTC") legislation, Puget Sound Energy, Inc. ("PSE") applies the PTC incentive for the first ten years of operation in all of the analyses. The following describes the years the projects would be PTC eligible during the planning horizon in each of PSE's three prior Integrated Resource Plans ("IRP").

2003 Least Cost Plan ("LCP")
PSE's 2003 LCP did not assume the PTC would expire. Attached as Attachment A to PSE's Response to Public Counsel Data Request No. 271, please find pages 31-32 of Chapter XI and pages 4-5 of Appendix L from PSE's 2003 LCP, which provide support for PSE's PTC 2003 LCP assumptions in general, along with uncertainty in whether the incentive would be extended.

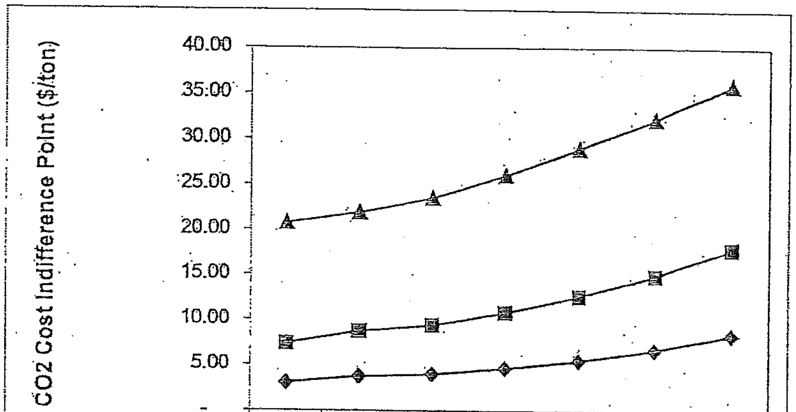
2005 LCP
Attached as Attachment B to PSE's Response to Public Counsel Data Request No. 271, please find pages 8 and 19 of Chapter X from PSE's 2005 LCP, which present PSE's assumption that the PTC value would decline from the then current incentive level linearly to zero over the planning horizon. As described above, the tax incentive would be available during the first 10 years of operation, but the value is based on the date the project came on-line in the planning horizon.

2007 IRP

PSE's 2007 IRP assumed the PTC would remain at the then current value through 2009, the value would drop by 50 percent in 2010 and 2011 to represent a 50 percent probability that the PTC would be extended during that period, then as of 2012, no additional resource would be eligible for PTC incentives. This assumption was constant across all scenarios. Attached as Attachment C to PSE's Response to Public Counsel Data Request No. 271, please find pages 3-6, 3-10 and 3-11 of PSE's 2007 IRP, which detail the PTC assumptions in PSE's 2007 IRP.

# ATTACHMENT A to PSE's Response to Public Counsel Data Request No. 271

### Exhibit XI-27
### $CO_2$ Credit Price Indifference Points by Switching Scenario




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Coal to Gas | 3.01 | 3.73 | 4.00 | 4.69 | 5.57 | 6.77 | 8.46 |
| Coal to Wind | 7.37 | 8.76 | 9.40 | 10.83 | 12.63 | 14.93 | 17.97 |
| Gas to Wind | 20.74 | 21.89 | 23.48 | 26.02 | 28.96 | 32.22 | 35.97 |

- ***Mercury.*** As Exhibit XI-22 illustrated, PSE does not include emission assumptions regarding mercury for its screening model. As detailed further in Appendix L, some legislation that has been introduced in the U.S. Congress has restrictions on mercury and could be a factor for future consideration.

*Wind Production Tax Credits*

In 1992, Congress signed the Energy Policy Act into law, which included enactment of a Production Tax Credit (PTC) under Section 45 of the Internal Revenue Code of 1986. This credit was available to corporate entities building new renewable energy production facilities such as solar, biomass, wood chip, geothermal and wind power production plants. At its inception, the tax credit equaled $0.015 per kWh. The PTC value has increased each year by the official rate of inflation and applies to the first 10 years of operation of the equipment. The current PTC rate is approximately $0.019 per kWh.

The credit applies to new renewable energy facilities placed into commercial service after enactment of the law, and prior to the latest deadline, December 31, 2003. On March 9, 2002, Congress signed the Job Creation and Worker Assistance Act of 2002 into law. Section 603 of the Act extended the Production Tax Credit for wind power, retrospectively, from December 31, 2001 to December 31, 2003.

Currently, the future of the PTC remains uncertain although a number of pending Congressional bills propose extension of the PTC beyond 2003. Until the future of the PTC becomes clear, the pressure on developers to begin projects this year in order to take advantage of the PTC will be significant. After that time, without an extension of the PTC, the economic outlook for new wind power developments would be highly uncertain, especially in relation to wind power facilities utilizing the PTC, and other conventional resource options.

Despite the uncertainty over the PTC's extension, PSE continues to examine cost-effective means of incorporating wind power into the Company's portfolio under conditions with and without the PTC beyond December 2003. While the PTC makes wind power investment more attractive from a cost perspective, it does not represent the only decision point for the Company. As with any resource alternative the Company considers, reliability and flexibility continue to be important variables taken into the decision-making process. Given this, PSE realizes an extension of the PTC would not only make wind power a more attractive resource alternative over the next several years, but it would also encourage developers to maximize the efficiency and reliability of their projects since the PTC is structured on a per-unit-of-production basis. Without the PTC, it could be argued that turbine availability, operating costs and production performance would not be as optimal as in an environment where the PTC remained in place. Exhibit XI-28 provides an analysis of the effect of the PTC on wind power economics. For the purposes of the Least Cost Plan, PSE assumed that for any new wind power resource, a production tax credit of $18/MWh would apply for the first 10 years of service. For more details on the PTC, please refer to Appendix L

**Carbon Dioxide Legislation**

In response to the introduction of the Clear Skies Act of 2002, Senators James M. Jeffords (I-VT) and Joseph I. Lieberman (D-CT) requested the EPA to analyze the impact of reducing $CO_2$ emission levels to 1990 levels – the same level proposed in the Kyoto Protocol to the United Nations Framework Convention On Climate Change. Senator Lieberman and John McCain (R-AZ) introduced legislation in January 2003 modeled after the acid rain trading program of the 1990 Clean Air Act Amendments. This legislation seeks to return to 2000 carbon dioxide emission levels by 2010.

Many states are also pursuing state-level $CO_2$ mitigation programs. In June 1997, Oregon adopted a $CO_2$ standard for new energy facilities. The enabling legislation authorized the state's Energy Facility Siting Council to establish $CO_2$ standards for base load natural gas plants, non-base load power plants (all fuels), and non-generating energy facilities (all fuels). Pursuant to the legislation, the Council set up the rules to implement the standard in March of 1999. As an example of the implementation of these rules, the Hermiston Power Project is expected to have gross $CO_2$ emissions (i.e., over 30 years) of 50.2 million metric tons (MMT) (13.7 MTCE). The $CO_2$ standard offsets required for this project are 5.5 MMT $CO_2$ (1.5 MMTCE) and will be met through a monetary path offset value of $3.6 million.

California has also pursued $CO_2$ mitigation initiatives. On July 22, 2002, Governor Gray Davis signed into law a bill that provides authority to the California Air Resources Board (CARB) to consider $CO_2$ in their regulation of air emissions. Other governors have indicated an interest in considering similar legislation.

**Production Tax Credit**

In 1992, the Energy Policy Act was signed into law and included enactment of a Production Tax Credit (PTC) under Section 45 of the Internal Revenue Code of 1986. This credit was available to corporate entities building new renewable energy production facilities such as solar, biomass, wood chip, geothermal and wind power production plants. At its inception, the tax credit was $0.015 per kWh. The PTC value has increased each year by the official rate of inflation and applies to the first 10 years of equipment operation. The current PTC rate is approximately $0.019 per kWh.

The credit is available to new renewable energy facilities placed into commercial service after enactment of the law, and prior to the latest deadline, December 31, 2003. On March 9, 2002, the President signed the Job Creation and Worker Assistance Act of 2002 into law. Section 603 of the Act extended the production tax credit for wind, retrospectively, from December 31, 2001 to December 31, 2003.

Currently, the future of the PTC remains uncertain although a number of energy bills being considered at the federal level propose extensions of the PTC beyond 2003. Until the future of the PTC is resolved, the pressure on developers to begin projects this year in order to take advantage of the PTC will be significant. After that time, without an extension of the PTC, the economic outlook for new wind developments would be dampened relative to wind facilities leveraging the PTC as well as other conventional resource options.

The congressional tax committees originally sponsored the PTC legislation in order to encourage the development and utilization of wind energy with the intent that the PTC would enable wind energy to compete with conventional energy resources. Some have argued that an extension of the PTC through December 31, 2006 is necessary to provide wind developers with a level of certainty and stability that would allow the technology to further mature. Moreover, supporters agree the extension would stimulate the wind industry to achieve greater economies of scale, as well as enhancing wind's ability to compete with conventional alternatives.

*Recent Legislative Activity*

During the 107th Congress, a comprehensive energy bill passed the House and Senate, and went before a conference committee. Negotiations over the bill broke down, and the legislation died in Committee at the end of 2002. The energy legislation passed by the House and Senate would have extended the renewable energy production tax credit for an additional two years.

During the current Congress, Sen. Gordon Smith (R-Ore.) introduced a bill in January 2003 to extend the PTC through January 1, 2014. A similar bill introduced in the House by Representative Mark Foley (R-Fla.) seeks a five-year extension. Energy legislation will be addressed by this Congress and most speculate the PTC extension would be a component of any comprehensive legislation.

# ATTACHMENT B to PSE's Response to Public Counsel Data Request No. 271

estimates that the Company may be able to double its wind generating capacity (from 5 percent to 10 percent of load) without further transmission upgrades. To get to 15 percent of load (under a renewable portfolio standard, for example) would require transmission upgrades with a large fixed cost. Because wind energy output is not dispatchable, day-ahead and hour-ahead integration costs are particularly important to wind power generation. As additional wind energy is added to a system, the integration cost increases. Currently the estimated integration cost is in the $4/MWh range (for more information, refer to Appendix D).

Before new transmission is completed, the fixed operations and maintenance (O&M) charge of $50/KW/yr is based on new developments and includes both fixed O&M as well as fixed transmission costs. When new transmission is considered, the fixed O&M is the sum of the new transmission fixed charge and the fixed O&M from EIA. EIA uses a plant capacity of 50 MW, while PSE uses 150 MW (which is large enough to provide economies of scale). PSE uses a capital cost 14 percent higher than EIA based on knowledge of costs for this region. One of the risks associated with wind plants involves obtaining an accurate estimate of the wind energy production, as there is little historical data. The second risk is that the federal tax credit is currently necessary to make these plants economic. In the model, the tax credit is reduced over the 20-year period to zero.

*Biomass*

A renewable energy alternative to wind is biomass using either wood waste or agriculture waste. PSE received some biomass energy bids in the all-source RFP, and is currently involved in a small biomass project at a dairy. The energy is created by burning methane gas in any of a number of turbine configurations. Collecting and producing methane gas from biomass is currently very expensive and an important area for improvement. For modeling, PSE includes biomass as an alternative because of the transmission limitations of wind projects. Although the capital cost is higher for biomass than for wind, it is offset by a much higher capacity factor (85 percent for biomass with a flat shape vs. 35 percent for wind with a highly variable shape). The risks involved in a biomass plant include the cost and continued availability of fuel.

*Power Bridging Agreements*

PSE is using the term "power bridging agreements" (PBAs) to designate power purchase agreements that bridge the period until long-lead resources or transmission can be developed. The load-resource balance shows that there is an immediate need for resources that continues

## Exhibit X-5
## PSE 2005 Least Cost Plan
## Scenario Input Assumptions

| | Business as Usual | Current Momentum | Green World | Transmission Solution[4] | Low Growth | Robust Growth |
|---|---|---|---|---|---|---|
| **Scenario Theme: An energy future assuming...** | Existing environmental and regulatory environment | Current environmental regulatory and policy momentum is enacted | Strong state and federal policy supporting environmental issues | Regional transmission solution and system-wide rates | Low economic growth | High economic Growth |
| **Electric Demand** | Base Region and PSE | Base Region and PSE | Base Region and PSE | Base Region and PSE | Low Growth Region and PSE | High Growth Region and PSE |
| **Gas Prices** | CERA Rear view mirror | CERA Rear view mirror | CERA Shades of Green | CERA Rear view mirror | CERA World in Turmoil | CERA Rear view mirror |
| **Coal-Fired Generation** | Scrubbed pulverized coal plants available except CA | Scrubbed pulverized coal plants available except CA | Mitigated coal plants become available in 2010. | Scrubbed pulverized coal plants available except CA | Scrubbed pulverized coal plants available except CA | Scrubbed pulverized coal plants available except CA |
| **Renewables[5]** | No WA/OR RPS. WECC States meet goal in 2011 then economics decide. PTC decline linearly over planning period. | WA/OR passes RPS at 10% by 2013. WECC States meet goal in 2011 then economics decide. PTC decline linearly over planning period. | WA/OR passes RPS at 10% by 2013 going to 15% by 2020. WECC States meet RPS goals for entire planning horizon. PTC decline linearly over planning period | No WA/OR RPS. WECC States meet goal in 2011 then economics decide. PTC decline linearly over planning period. | No WA/OR RPS. WECC States meet goal in 2011 then economics decide. PTC decline linearly over planning period. | No WA/OR RPS. WECC States meet goal in 2011 then economics decide. PTC decline linearly over planning period. |
| **Environmental / Carbon** | $1.60 per ton WA applied to 20% of expected output at 60% cap factor. | National cap and trade system established. Carbon costs start at 5$/ton in 2010 and escalate at 5% thereafter. National Com. on Energy Policy | Carbon costs are 11$/ton in 2010, 16$/ton in 2015, 23$/ton in 2020. Pew Center on Global Climate Change. | $1.60 per ton WA applied to 20% of expected output at 60% cap factor. | $1.60 per ton WA applied to 20% of expected output at 60% cap factor. | $1.60 per ton WA applied to 20% of expected output at 60% cap factor. |
| **Transmission** | No regional solutions. Transmission additions are participant funded by 2015 | No regional solutions. Transmission additions are participant funded by 2015 | No regional solutions. Transmission additions are participant funded by 2015 | Regional transmission solution reached to support resource diversity with system-wide rates by 2012 | No regional solutions. Transmission additions are participant funded by 2015 | No regional solutions. Transmission additions are participant funded by 2015 |

[4] Analysis done in Portfolio Model only
[5] PSE meets 10 percent renewables target by 2013 in all scenarios

# ATTACHMENT C to PSE's Response to Public Counsel Data Request No. 271

***Production tax credits.*** The Production Tax Credit (PTC) is one of many federal subsidies related to production of nuclear, oil, gas and alternative energy. The present PTC amounts to approximately $17 per MWh for ten years of production, and is indexed for inflation. Currently the PTC is scheduled to expire at the end of 2008. We expect it to be extended at least once to 2009, after which there is much uncertainty. This scenario assumes PTCs remain at the current rate through 2009, and drop to a $10 credit in 2010 and 2011, representing a 50% probability that the PTCs will be extended for another two years. PTCs are still assumed to be given to a project for 10 years after it is placed into service. As of 2012, this scenario assumes no further PTCs are available to new resource development.

***Renewable portfolio standards.*** Renewable portfolio standards (RPSs) exist in 23 states and the District of Columbia, including most of the states in the WECC[3]. Each state defines renewable energy sources differently, has different timetables for implementation, and has different requirements for the percentage of load that must be supplied by renewables. To model these varying laws, we first identified the load forecast for each state in the model. Then we identified the benchmarks of each RPS (e.g. 3% in 2015, then 5% in 2020) and applied them to the load forecast for that state. No retirement of existing WECC renewable resources was provided for, which perhaps underestimates the number of new resources that need to be constructed. After existing and expected renewable energy resources were accounted for, new renewable energy resources were matched to the load to meet the RPS. With internal and external review for reasonableness, these resources are created in the AURORA database. The renewable energy technologies included wind, solar, biomass and geothermal. Estimates of potential production by states in the "Renewable Energy Atlas of the West" served to guide the creation of RPS resources. These vary considerably. For example, Arizona has little wind potential but great solar potential. For modeling purposes, some resources for Oregon and Washington are mixed because the area borders do not correspond to the political borders. Since Oregon is considering an RPS, PSE has applied the Washington RPS to both states.

***Build constraints.*** The AURORA model, like all optimizing models, identifies the least cost resource and creates a large number of those units in the WECC on an economic basis. Often, as with coal, the unrestricted level is much greater than seems reasonable

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[3] DOE website includes a summary of U.S. RPS requirements with links to more detailed information at
http://www.eere.energy.gov/states/maps/renewable_portfolio_states.cfm#chart

**Figure 3-2**
**Six Electric Analysis Scenarios**

| | Current Trends (Reference) | Green World | Low Growth | Robust Growth | Technology Improvement | Escalating Costs |
|---|---|---|---|---|---|---|
| **Theme** | Best estimate of current resource costs and characteristics, fuel prices, state laws and moderate federal environmental policies | Support for stronger environmental legislation at the federal level, with continuation of state level RPS | Lower regional and PSE demand load growth based on lower long-term economic growth. | Higher regional and PSE demand load growth based on higher long-term economic growth. | Optimistic outlook regarding technology development and deployment, as well as learning for thermal resources, based on EIA scenario. | Pessimistic view of technology development and deployment with increased costs and reduced availability. |
| **WECC Demand (AURORA)** | EPIS Averages CA: 1.97% SW: 2.5% PNW: 1% RM: 2% | Low Growth | Low Growth | High Growth | Reference | Reference |
| **PSE Demand** | Base 1.9% | Low 1.7% | Low 1.7% | High 2.2% | Reference | Reference |
| **Gas Price** | Forward marks for 2008-2011, and Global Insights long run fundamental forecast. | Forward marks for 2008-2009 and Global Insights long run high forecast | Forward marks for 2008 2011 and Global Insights long run low forecast | Forward marks for 2008 2009 and Global Insights long run high forecast | Reference | Reference |
| **Coal Price** | Global Insights | Reference | Reference | Reference | Reference | Reference |
| **Generic Resource Cost $/KW** | PSE market based estimates with constant real costs for 20 years | Reference | Reference | Reference | Reference values adjusted per EIA Annual Energy Outlook 2006 (AEO2006) 0.25%/yr Mature 1.25%/yr New | PSE market based estimates with increasing real costs |
| **Generic Resource Heat Rates** | PSE Generic Heat Rates with EIA AEO2006 Reference case improvements | Reference | Reference | Reference | Adjustments per AEO2006 Advanced Technology side case | Reference |

| | Current Trends (Reference Case) | Green World | Low Growth | Robust Growth | Technology Improvement | Escalating Costs |
|---|---|---|---|---|---|---|
| **Emissions $CO_2$ (Nominal $/Ton)** | "NCEP" (Bingaman) Start in 2012 with 5% annual nominal increase. 2012: $7.00 2020: $10.34 2027: $14.55 | "Clean Power" (Jeffords) Start in 2012 Increasing per EPA (10/05) 2012: $ 24.81 2020: $45.35 2027: $70.68 | Reference | Reference | Reference | Reference |
| **Emissions $SO_2$ (Nominal $/Ton)** | Clear Skies (Bush) Start in 2010 2010: $978 2020: $2105 2027: $3306 | "Clean Air Planning Act" (Carper) 2010: $1481 2020: $3191 2027: $5009 | Reference | Reference | Reference | Reference |
| **Emissions $NO_x$ (Nominal $/Ton)** | Clear Skies Start in 2010 2010: $ 297 2020: $640 2027: $1006 | "Clean Air Planning Act" (Carper) 2010: $5742 2020: $1522 2027: $1809 | Reference | Reference | Reference | Reference |
| **Production Tax Credits ($/MWH)** | $19: 2008-2009 $10: 2010 - 2011 For all eligible technologies | Reference | Reference | Reference | Reference | Reference |
| **RPS** | Meet current state RPS through 2027. WA & OR meet RPS standards based on WA I-937 | Reference | Reference | Reference | Reference | Reference |
| **Build Constraints** | **2012-2027:** IGCC + CCS ready Build to meet load growth only. 1 IGCC w CCS in CA. | Reference | Reference | Reference | **2012-2027:** IGCC + CCS ready Build to meet load growth only **2021-2027:** IGCC with CCS | Reference |

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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**PUBLIC COUNSEL DATA REQUEST NO. 277**

**PUBLIC COUNSEL DATA REQUEST NO. 277:**

Reference PSE's response to Public Counsel Data Request No. 189, please provide the volume of forecasted REC sales in each year of the analysis that are presently committed to sale by PSE under contract and provide copies of any such contracts.

**Response:**

In reference to Puget Sound Energy, Inc.'s ("PSE") Response to Public Counsel Data Request No. 189, following are copies of contracts for Renewable Energy Credits ("RECs") committed to sale by PSE.

Attached as Attachment A to PSE's Response to Public Counsel Data Request No. 277, please find an agreement with Southern California Edison for the sale of California renewable portfolio standards ("RPS")-eligible electric energy, along with a Non-Disclosure Agreement. This Non-Disclosure Agreement also relates to Attachment C to PSE's Response to Public Counsel Data Request No. 277.

Attached as Attachment B to PSE's Response to Public Counsel Data Request No. 277, please find an agreement with Pacific Gas & Electric Company for the sale of California RPS-eligible electric energy, along with a Non-Disclosure Agreement.

Attached as Attachment C to PSE's Response to Public Counsel Data Request No. 277, please find an agreement with Southern California Edison for the sale of California RPS-eligible electric energy, along with amendments to the agreement. Note: Condition (a) of the agreement – XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX – has not yet been satisfied.

Attached as Attachment D to PSE's Response to Public Counsel Data Request No. 277, please find an agreement with Southern California Edison for the sale of California RPS-eligible electric energy, letter agreement and amendment to the agreement, along with a Non-Disclosure Agreement.

Attached as Attachment E to PSE's Response to Public Counsel Data Request No. 277, please find the volume of forecasted REC sales by year reflected in Attachment A to PSE's Response to Public Counsel Data Request No. 189.

Attachments A, B, C, D and E to PSE's Response to Public Counsel Data Request No. 277 are "HIGHLY CONFIDENTIAL" per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

# HIGHLY CONFIDENTIAL ATTACHMENT A
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 277

Dockets UE-111048 UG-111049
Exhibit No. KG-32HC CX
REDACTED VERSION

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277
# HIGHLY CONFIDENTIAL ATTACHMENT A

# IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY
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REDACTED VERSION

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277 CONFIDENTIAL ATTACHMENT A

## IS CONFIDENTIAL IN ITS ENTIRETY PAGES 14 THROUGH 19

# HIGHLY CONFIDENTIAL ATTACHMENT B
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 277

Dockets UE-111048 UG-111049
Exhibit No. RG-32HC CY
REDACTED VERSION

**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277**
**HIGHLY CONFIDENTIAL ATTACHMENT B**

**IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY**

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**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277**
**CONFIDENTIAL ATTACHMENT B**

**IS CONFIDENTIAL IN ITS ENTIRETY**
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# HIGHLY CONFIDENTIAL ATTACHMENT C
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 277

Dockets UE-111048 UG-111049
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REDACTED VERSION

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277 HIGHLY CONFIDENTIAL ATTACHMENT C

# IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY PAGES 38 THROUGH 60

# HIGHLY CONFIDENTIAL ATTACHMENT D
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 277

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277
# HIGHLY CONFIDENTIAL ATTACHMENT D

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**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277**
**CONFIDENTIAL ATTACHMENT D**

**IS CONFIDENTIAL IN ITS ENTIRETY**
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# HIGHLY CONFIDENTIAL ATTACHMENT E
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 277

**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 277
HIGHLY CONFIDENTIAL ATTACHMENT E**

**IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY
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# BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

## Docket Nos. UE-111048 and UG-111049
## Puget Sound Energy, Inc.'s
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## PUBLIC COUNSEL DATA REQUEST NO. 290

**PUBLIC COUNSEL DATA REQUEST NO. 290:**

Please provide copies of all PSE Board Meeting Minutes, presentations to the PSE Board, and any other related documents provided to or produced by the Board since January 2008 that address the Lower Snake River assets and/or the decision to construct LSR 1.

**Response:**

Puget Sound Energy, Inc. ("PSE") filed Board of Director materials and materials provided to its Energy Management Committee and Asset Management Committee as support for the Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1HCT). Please see the following exhibits to Mr. Garratt's prefiled direct testimony: Exhibit No. ___(RG-7HC), Exhibit No. ___(RG-12C), Exhibit No. ___(RG-13HC), Exhibit No. ___(RG-15HC), and Exhibit No. ___(RG-16HC). Additionally, attached as Attachment A to PSE's Response to Public Counsel Data Request No. 290, please find excerpts of PSE Board of Director meeting minutes and Board resolutions that address Lower Snake River ("LSR") assets and the decision to construct LSR Phase I.

Attachment A to PSE's Response to Public Counsel Data Request No. 290 is HIGHLY CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-090704 / UG-090705.

## BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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PUBLIC COUNSEL DATA REQUEST NO. 290

"CONFIDENTIAL" Table of Contents

| DR NO. | "CONFIDENTIAL" Material |
|---|---|
| 290 | Attachment A to PSE's Response to Public Counsel Data Request No. 290 is HIGHLY CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-090704 / UG-090705. |

# ATTACHMENT A to PSE's Response to Public Counsel Data Request No. 290

# PUGET SOUND ENERGY, INC.

## CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify that I am the Secretary of Puget Sound Energy, Inc., a Washington corporation; and that the following is a true, correct and complete copy of a resolution duly adopted by the Board of Directors of said Company at a meeting of the Board of Directors duly convened and held on May 5, 2010, at which meeting a quorum was present and acting throughout.

I further certify that said resolution has not been amended or revoked and that the same is now in full force and effect.

**APPROVAL OF CONSTRUCTION OF PHASE I OF THE LOWER SNAKE RIVER WIND POWER FACILITY**

Mr. Reynolds then called on Mr. Garratt and Ms. Harris to present to the Board for decision Phase I of the Lower Snake River Wind Project. Mr. Garratt and Ms. Harris reviewed with the Board a presentation entitled, "Recommendation to Approve Phase I of the Lower Snake River Wind Project." Materials regarding the Project were provided to the Board in advance of this meeting, and a copy is filed with the records of this meeting.

A similar presentation regarding the project was presented on April 29, 2010 to the Asset Management Committee of the Board.

The Board and the Company's senior officers held a lengthy discussion about the Project, including: its construction schedule; risks to that schedule and the consequences of any delays; the payment schedule for the Project's various components and the impact of such spending on the Company's capital budgets; and, strategies for recovery of its costs, in

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**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 290**
**HIGHLY CONFIDENTIAL ATTACHMENT A**

**IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY**
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officer the Chief Resource Officer deems appropriate to execute any agreements or contracts described in the LSR Phase I Proposal other than the Principal Transaction Documents; and

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of any of the Principal Transaction Documents in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agree to such waiver and deem it to be in the best interest of the Company; and be it further

RESOLVED, that the Board directs the Company's Chief Executive Officer, its Chief Resource Officer, its Chief Financial Officer, and its Chief Accounting Officer, in any documentation submitted to the Washington Utilities and Transportation Commission relevant to the recovery of costs incurred in connection with the LSR Phase 1 Proposal, to seek recovery in full of all amounts paid by the Company to BPA under the LGIA; and

GENERAL AUTHORITY

RESOLVED, FURTHER, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the Washington Utilities and Transportation Commission, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefore from the Company and the approval and ratification thereof by this Board of Directors.

IN WITNESS WHEREOF, I have hereunto set my hand and have affixed the corporate seal of said Company this 5th day of October, 2011.

Secretary
Puget Sound Energy, Inc.

PUGET SOUND ENERGY, INC.

CERTIFICATE OF SECRETARY

I, the undersigned, hereby certify that I am the Secretary of Puget Sound Energy, Inc., a Washington corporation; and that the following is a true, correct and complete copy of a resolution duly adopted by the Board of Directors of said Company at a meeting of the Board of Directors duly convened and held on July 27, 2009, at which meeting a quorum was present and acting throughout.

I further certify that said resolution has not been amended or revoked and that the same is now in full force and effect.

<u>APPROVAL OF PURCHASE OF REMAINING INTEREST IN LOWER SNAKE RIVER WIND PROJECT DEVELOPMENT RIGHTS AND INCREASE IN 2009 CAPITAL BUDGET RELATED THERETO</u>

Mr. Ayer called on Mr. Garratt to update the Board on the status of the proposed purchase of the remaining 50 percent undivided interest in the Lower Snake River Wind Project. Mr. Garratt stated PSE management recommends the Company purchase from RES the remaining 50 percent interest in the Lower Snake River Wind Project (the "Project") and thereby obtain 100% interest in exclusive rights for the Project. Materials regarding the Project were provided to the Board in advance of this meeting, and a copy is filed with the records of this meeting. After full discussion, on motion duly made and seconded, the Board resolved as follows:

> WHEREAS, this Board of Directors of Puget Sound Energy, Inc. (the "Company") has determined that it is in the best interests of the Company, its customers, shareholder and other stakeholders to add energy resources to the Company's energy resource portfolio consistent with the Company's least cost planning and analysis;
>
> WHEREAS, in November 2008 the Company entered into a Joint Development Agreement (the "JDA") with RES America Developments Inc. ("RES Development") and Blue Sky Wind, LLC ("Blue Sky" and collectively with RES Development, the "RES Development Parties") regarding the planning,

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 290
# HIGHLY CONFIDENTIAL ATTACHMENT A

# IS HIGHLY CONFIDENTIAL IN ITS ENTIRETY
# PAGE 9

IT IS, THEREFORE
RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholder and other stakeholders to approve (i) the acquisition of the RES Development Parties' Ownership Interests in the Lower Snake River Projects pursuant to the Purchase Agreement, (ii) the payment of the Purchase Price, (iii) the expenditure of up to the full amount of the Adjusted Budget Amount, and (iv) any related agreements and the other transactions described in the Lower Snake River Wind Project Proposal; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Executive Officer, its Chief Financial Officer, its Chief Resource Officer, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the Purchase Agreement and all other agreements or contracts described in the Lower Snake River Project Proposal, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers, and to make any expenditures contemplated within the Adjusted Budget Amount; and be it further

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of the Purchase Agreement in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agrees to such waiver and deems it to be in the best interest of the Company, its customers, shareholder and other stakeholders.

GENERAL AUTHORITY

AND IT IS FURTHER

RESOLVED, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the WUTC, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Board of Directors.

IN WITNESS WHEREOF, I have hereunto set my hand and have affixed the corporate seal of said Company this 5th day of October, 2011.

Secretary
Puget Sound Energy, Inc.

# PUGET SOUND ENERGY, INC.
## BOARD OF DIRECTORS MEETING EXCERPTS

*June 30, 2009*

**POTENTIAL PURCHASE OF THE REMAINING INTEREST IN THE LOWER SNAKE RIVER WIND PROJECT**
Mr. Ayer asked Mr. Garratt to provide to the Board an update on PSE energy resource acquisition matters. Mr. Garratt reported on the potential purchase of the remaining interest in Lower Snake River wind project development rights (RES Transaction) and subsequent increase in the 2009 capital budget. A copy of Mr. Garratt's presentation is filed with the records of this meeting. After discussion, Mr. Ayer indicated the matter would be a topic for action at the July 27-28, 2009 Board retreat.

*November 3-4, 2009*

**LOWER SNAKE RIVER UPDATE**
Mr. Ayer then asked Messrs. DeBoer, Doughty, Elsea, Garratt, Marcelia, Mills, Walford, Wiegand and Wetherbee to join the meeting and to report on the Lower Snake River project. Mr. Garratt provided an overview of Phase 1 of the Project, discussed project execution, project analysis and alternatives, renewable incentives, project budget and schedule, and discussed the next steps. A copy of his presentation was furnished to the Board in advance of this meeting and is filed with the records of the meeting. After his presentation, Messrs. Doughty, Elsea, Garratt, Marcelia, Mills, Walford, Wiegand, and Wetherbee left the meeting.

*January 12, 2010*

**LOWER SNAKE RIVER WIND PROJECT PHASE I UPDATE**
Mr. Ayer then asked Mr. Garratt to join the meeting and to report on the status of Phase 1 of the Lower Snake River Wind Project. Mr. Garratt discussed the Lower Snake River permitting process, current open issues, and the impacts on PSE's five-year plan. A copy of his presentation was furnished to the Board in advance of this meeting and is filed with the records of the meeting. After his presentation, Mr. Garratt left the meeting.

*February 25, 2010*

**LOWER SNAKE RIVER WIND PROJECT UPDATE**
Mr. Ayer then asked Ms. Harris to provide a Lower Snake River Wind Project update. Ms. Harris reported on the project's development activities including actions related to permitting, treatment of renewable incentives, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 315

PUBLIC COUNSEL DATA REQUEST NO. 315:

RE: Exhibit No. RG-3, page 454.

Please explain the approximate 50% increase in the electric market price forecast for 2012 over the 2011 forecast price for the "2009 Trends" scenario.

Response:

The difference in market price forecast from 2011 to 2012 in the "2009 Trends" scenario is primarily driven by the scenario's assumption of a carbon price beginning in 2012; carbon dioxide ("CO2") costs were $0 per ton in 2011 and $37 per ton in 2012.

Pages 39-40 of the Second Exhibit to the Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-3), describe the "2009 Trends" scenario assumptions. Pages 47-48 of Exhibit No ___(RG-3) discusses the changes in market prices forecasts, and page 49 of Exhibit No. ___(RG-3) discusses the CO2 assumptions in Puget Sound Energy, Inc.'s Integrated Resource Plan.

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
**2011 General Rate Case**

**PUBLIC COUNSEL DATA REQUEST NO. 320**

## PUBLIC COUNSEL DATA REQUEST NO. 320:

**RE: PSE's Response to Public Council Data Request No. 277, Attachment C.**

Please identify the California PUC docket number in which PSE's proposed REC sale contract is under review, provide the status of that case and indicate whether any parties have challenged the reasonableness of this contract.

## Response:

Puget Sound Energy, Inc. ("PSE") and Southern California Edison ("SCE") executed the contract provided as Attachment C to Public Council Data Request No. 277 in XXXXXX (the "Agreement"). In July 2009, SCE filed its Advice Letter with the California Public Utility Commission ("CPUC") seeking approval of the Agreement.

Since entering into the Agreement, the parties have worked together on XXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX, as a consequence of the CPUC's delay in issuing approval of the Agreement. Attached as Attachment A to Public Counsel Data Request No. 320, please find a copy of the most recent amendment to the Agreement, XXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX.

On November 1, 2011, the CPUC issued its draft resolution E-4292 regarding the Agreement. Attached as Attachment B to Public Counsel Data Request No. 320, please find a copy of the CPUC draft resolution E-4292, which would deny cost recovery for SCE's contract with PSE (deny the contract without prejudice). Draft Resolution E-4292 is currently scheduled on the agenda for the December 1, 2011 Commission meeting.

As indicated in Attachment B to Public Counsel Data Request No. 320, The Utility Reform Network ("TURN") and the Coalition of California Utility Employees ("CCUE") filed a joint protest on August 3, 2009. The basis of their protest is also contained in Attachment B. On August 10, 2009, SCE submitted a response to the joint protest. On November 21, 2011, SCE filed comments on the CPUC's draft resolution, arguing that the contract should be approved. Attached as Attachment C to Public Counsel Data Request No. 320, please find a copy of SCE's filed comments.

On December 1, 2011, the CPUC approved the draft resolution (item 26 on the consent agenda), which denied cost recovery for SCE's contract with PSE. Attached as Attachment D to Public Counsel Data Request No. 320, please find a copy of the results of the December 1, 2011 CPUC meeting.

On December 5, 2011, PSE received notice of termination from SCE in regards to the agreement between SCE and PSE. Attached as Attachment E to Public Counsel Data Request No. 320, please find a copy of the notice of termination from SCE.

PSE's Response to Public Counsel Data Request No. 320 and Attachment A, C and E thereto are CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 320

"CONFIDENTIAL" Table of Contents

| DR NO. | "CONFIDENTIAL" Material |
|---|---|
| 320 | PSE's First Supplemental Response to Public Counsel Data Request No. 320 and Attachment A, C and E thereto are CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049. |

# ATTACHMENT A to PSE's Response to Public Counsel Data Request No. 320

Dockets UE-111048 UG-111049
Exhibit No. KG-35C CX
REDACTED VERSION

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 320 CONFIDENTIAL ATTACHMENT A

# IS CONFIDENTIAL IN ITS ENTIRETY PAGES 5 THROUGH 8

# ATTACHMENT B to PSE's Response to Public Counsel Data Request No. 320

STATE OF CALIFORNIA Edmund G. Brown Jr., Governor

BLIC UTILITIES COMMISSION
VAN NESS AVENUE
RANCISCO, CA 94102-3298

November 1, 2011

ID #10697
Draft Resolution E-4292
December 1 Commission Meeting

TO: PARTIES TO DRAFT RESOLUTION E-4292
Service List: R.11-05-005

Enclosed is Draft Resolution E-4292 of the Energy Division addressing Southern California Edison Corporation's advice letters 2358-E, 2358-E-A, 2358-E-B and 2358-E-C. The Draft Resolution will be on the agenda at the December 1, 2011 Commission meeting. The Commission may then vote on the Draft Resolution or it may postpone a vote until later.

When the Commission votes on a Draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the Draft Resolution no later than November 21, 2011.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Honesto Gatchalian and Maria Salinas
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
jnj@cpuc.ca.gov; mas@cpuc.ca.gov

A copy of the comments should be submitted to:

Jason Simon, CFA
Energy Division
jason.simon@cpuc.ca.gov

Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the Draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, the Chief Administrative Law Judge and the General Counsel, on the same date that the comments are submitted to the Energy Division.

Comments may be submitted electronically.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the Draft Resolution and an appendix setting forth the proposed findings and ordering paragraphs.

Redacted Version

Comments shall focus on factual, legal or technical errors in the proposed Draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Paul Douglas
Project and Program Supervisor
Energy Division

Enclosure:
Certificate of Service

## CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-4429 on all parties in these filings or their attorneys as shown on the attached list.

Dated November 1, 2011 at San Francisco, California.

Maria Salinas

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

ID #10809
RESOLUTION E-4292
December 1, 2011

REDACTED

# RESOLUTION

Resolution E-4292. Southern California Edison requests approval of a contract with Puget Sound Energy, Inc.

PROPOSED OUTCOME: This Resolution denies cost recovery for Southern California Edison's contract with Puget Sound Energy, Inc. The contract is denied without prejudice.

ESTIMATED COST: None

By Advice Letter (AL) 2358-E filed on July 13, 2009, supplemental AL 2358-E-A filed on November 16, 2009, supplemental AL 2358-E-B filed on April 1, 2011 and supplemental AL 2358-E-C filed on April 15, 2011.

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## SUMMARY

**Southern California Edison Corporation's renewable energy power purchase agreement with Puget Sound Energy, Inc. is denied without prejudice.**

Southern California Edison (SCE) filed Advice Letter (AL) 2358-E on July 13, 2009, as modified by AL 2358-E-A on November 16, 2009, AL 2358-E-B on April 1, 2011 and AL 2358-E-C on April 15, 2011, requesting the California Public Utilities Commission's (Commission) approval of a renewable purchase power agreement (PPA) with Puget Sound Energy, Inc. (Puget), a wholly-owned subsidiary of Puget Energy. Under the contract SCE would receive energy and green attributes from two operating wind facilities owned by Puget; the 157 megawatt (MW) Hopkins Ridge facility and 229 MW Wild Horse Ranch facility. For the purpose of meeting its RPS targets, SCE executed the approximate 4 year contract with Puget through bilateral negotiations. Both wind facilities have

been online since 2006 and are located in Washington State. The PPA obligates Puget to deliver a minimum of 640 gigawatt-hours (GWh) per year of energy and green attributes beginning on January 1, 2012 through 2015, or until a total of 2,560 GWh is delivered. In addition, the PPA provides for an option to Puget, subject to SCE's approval, to increase the quantity of energy and related green attributes to SCE any year of the contract term.

The PPA qualifies as a renewable energy credit (REC) -only contract as defined by Decision (D.) 10-03-021, as modified by D.11-01-025, based on the delivery structures proposed by SCE.

This resolution denies the PPA without prejudice because SCE has not clearly demonstrated its need for the energy and green attributes that would be procured under the PPA.

The following table summarizes the project-specific features of the agreement:

| Generating Facilities | Type | Term Years | Annual Deliveries | Contract Start Date | Project Location |
|---|---|---|---|---|---|
| Hopkins Ridge and Wild Horse | Wind | ~ 4 years | ≥640 GWh | January 1, 2012 | Columbia County, WA and Kittitas County, WA |

## BACKGROUND

### Overview of the Renewables Portfolio Standard (RPS) Program

The California RPS Program was established by Senate Bill (SB) 1078, and has been subsequently modified by SB 107, SB 1036 and SB 2 (1X).[1] The RPS program is codified in Public Utilities Code Sections 399.11-399.20.[2] Under SB 2 (1X), the RPS program administered by the Commission requires each retail seller to increase its total procurement of eligible renewable energy resources so that 33

[1] SB 1078 (Sher, Chapter 516, Statutes of 2002); SB 107 (Simitian, Chapter 464, Statutes of 2006); SB 1036 (Perata, Chapter 685, Statutes of 2007); SB 2 (1X) (Simitian, Chapter 1, Statutes of 2011, First Extraordinary Session).

[2] All further references to sections refer to Public Utilities Code unless otherwise specified.

percent of retail sales are served by eligible renewable energy resources no later than December 31, 2020.

Additional background information about the Commission's RPS Program, including links to relevant laws and Commission decisions, is available at http://www.cpuc.ca.gov/PUC/energy/Renewables/overview.htm and http://www.cpuc.ca.gov/PUC/energy/Renewables/decisions.htm.

## NOTICE

Notice of AL 2358-E and supplemental ALs 2358-E-A, AL 2358-E-B and AL 2358-E-C were made by publication in the Commission's Daily Calendar. Southern California Edison states that a copy of the Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

## PROTESTS

SCE's Advice Letter AL 2358-E was timely protested on August 3, 2009 by The Utility Reform Network (TURN) and the Coalition of California Utility Employees (CCUE). SCE responded to TURN and CCUE's protest on August 10, 2009.

## DISCUSSION

### SCE requests Commission approval of a new renewable energy contract

On July 13, 2009, Southern California Edison (SCE) filed Advice Letter (AL) 2358-E requesting California Public Utilities Commission (Commission) approval of a power purchase agreement (PPA) with Puget Sound Energy, Inc. (Puget), a wholly-owned subsidiary of Puget Energy. The contract was negotiated bilaterally outside of SCE's 2008 Renewables Portfolio Standard (RPS) solicitation. Puget II has elected to sell to SCE the energy and green attributes from two of its operating wind facilities, 157 megawatt (MW) Hopkins Ridge and 229 MW Wild Horse Ranch, that are in excess of its current needs.

Pursuant to Decision (D.) 10-03-021, as modified by D.11-01-025, the PPA qualifies as a renewable energy credit only or "REC-only" contract for the purposes of compliance with California's RPS Program. On April 1, 2011, SCE filed supplemental AL 2358-E-B to bring the contracts into conformance with D.10-03-021, as modified by D.11-01-025, which authorized the use of Tradable

Renewable Energy Credits (TRECs) for RPS compliance. Specifically, SCE amended the contracts to include new standard terms and conditions and to demonstrate whether the contracts meet the TREC price cap and the limitation on the use of REC-only transactions established in D.10-03-021, as modified by D.11-01-025.

The PPA obligates Puget to deliver a minimum of 640 gigawatt hours (GWh) per year of energy and green attributes beginning on January 1, 2012 through 2015, or until a total of 2,560 GWh is delivered. In addition, the PPA allows Puget to provide additional energy and green attributes to SCE any year during the contract term, subject to SCE's approval. Confidential Appendix C includes a detailed discussion of the contractual pricing terms. Under the terms of the contract, SCE would begin receiving deliveries in March 2012.

SCE will take delivery of energy and green attributes at the Mid-Columbia trading hub and will use Puget's resources to manage the intermittent energy within both Bonneville Power Administration's and Puget's control areas. SCE will then schedule the energy directly with the California Independent System Operator (CAISO) upon receipt of the energy and/or sell the energy outside California. SCE will schedule firmed and shaped energy with green attributes directly with the CAISO, and/or sell energy without green attributes into the local market, and later attach the green attributes to import energy that will be scheduled into California. Both delivery options that SCE is proposing are consistent with the California Energy Commission (CEC) delivery requirements. Appendix A provides a schematic map of the delivery structure proposed in the PPA.

**SCE requests that the Commission issue a resolution containing the following findings:**

1. Approval of the Puget II Contract in its entirety;
2. A finding that any electric energy sold or dedicated to SCE pursuant to the Puget II Contract constitutes procurement by SCE from an eligible renewable energy resource ("ERR") for the purpose of determining SCE's compliance with any obligation that it may have to procure from ERRs pursuant to the RPS Legislation or other applicable law concerning the procurement of electric energy from renewable energy resources;

3. A finding that all procurement under the Puget II Contract counts, in full and without condition, towards any annual procurement target established by the RPS Legislation or the Commission which is applicable to SCE;
4. A finding that all procurement under the Puget II Contract counts, in full and without condition, towards any incremental procurement target established by the RPS Legislation or the Commission which is applicable to SCE;
5. A finding that all procurement under the Puget II Contract counts, in full and without condition, towards the requirement in the RPS Legislation that SCE procure 20% (or such other percentage as may be established by law) of its retail sales from ERRs by 2010 (or such other date as may be established by law);
6. A finding that the Puget II Contract, and SCE's entry into the Puget II Contract, is reasonable and prudent for all purposes, including, but not limited to, recovery in rates of payments made pursuant to the Puget II Contract, subject only to further review with respect to the reasonableness of SCE's administration of the Puget II Contract; and
7. Any other and further relief as the Commission finds just and reasonable.

**Energy Division Evaluated the PPA on the Following Grounds:**

- Portfolio Need
- Consistency with SCE's Least-Cost, Best-Fit requirements
- Cost Containment

**Demonstration of Need for the Puget PPA**

The California RPS Program was established by Senate Bill (SB) 1078 and has been recently modified by SB 2 (1X) which becomes effective on December 10, 2011.[3] SB 2 (1X) makes significant changes to the RPS Program.[4] SB2 (1X) sets

[3] Pursuant to Gov. Code, § 9600(a), Legislation enacted during the Extraordinary Session goes into effect on the 91st day after adjournment of the special session. The 2011-2012 First Extraordinary Session adjourned on September 10, 2011.

[4] The Commission opened Rulemaking (R.) 11-05-005 (May 5, 2011) to implement the new RPS law.

new RPS procurement targets such that retail sellers must procure "...from January 1, 2011 to December 31, 2013...an average of 20 percent of retail sales...25 percent of retail sales by December 31, 2016, and 33 percent of retail sales by December 31, 2020."[5]

In light of recent information[6] provided to the Commission about SCE's current position relative to the RPS targets, as shown in Confidential Appendix B, the Commission finds that the short-term nature of the Puget contract is inconsistent with SCE's need requirements.

### Consistency with SCE's Least-Cost Best-Fit (LCBF) Requirements

The LCBF decision directs the utilities to use certain criteria in their bid ranking.[7] The decision offers guidance regarding the process by which the utility ranks bids in order to select or "shortlist" the bids with which it will commence negotiations. SCE's bid evaluation includes a quantitative and qualitative analysis, as well as each proposal's absolute value to SCE's customers and relative value in comparison to other proposals. The basic components of SCE's LCBF evaluation and selection criteria and process for RPS contracts were established in the Commission's LCBF Decisions D.03-06-071 and D.04-07-029. Consistent with these decisions, the three main steps undertaken by SCE are: (1) initial data gathering and verification; (2) a quantitative assessment of proposals, and; (3) adjustments to selection based on proposals' qualitative attributes. SCE applied these criteria to the proposals received in the 2008 solicitation in order to establish a short-list of proposals from bidders with whom SCE would engage in contract discussions.

SCE examined the reasonableness of the PPA using the same LCBF evaluation methodology it uses for RPS offers received for the 2008 RPS Solicitation. Although the PPA was negotiated bilaterally, SCE determined that the contract

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[5] See § 399.15(b)(2)(B), SB 2 (1X)

[6] See Southern California Edison Company's (U 338-E) 2011 Renewables Portfolio Standard Procurement Plan, Volume 1, Appendix C

[7] *See* D.04-07-029

was reasonable and compared favorably to proposals SCE received in its 2008 solicitation.

<u>The Commission finds that SCE adequately examined the reasonableness of the PPA utilizing its LCBF methodology during the time the contract was being negotiated and executed.</u>

**Cost Containment**

Pursuant to statute, the Commission calculates a market price referent (MPR) to assess whether a proposed RPS contract has above-market costs. Contracts that meet certain are eligible for above-MPR funds (AMF). Based on the Puget II project's January 1, 2012 anticipated online date, SCE estimates that the price of the contract is below the applicable 2008 MPR.

<u>Based on the Puget project's January 1, 2012 anticipated online date, SCE estimates that the price of the contract is below the applicable 2008 MPR. Accordingly, there would not be any above-market costs associated with the contract.</u>

**Protests**

The Utility Reform Network (TURN) and the Coalition of California Utility Employees (CCUE) filed a joint protest to AL 2358-E on August 3, 2009. TURN and CCUE urge the Commission to withhold approval of the Puget contract on three counts. On August 10, 2009, SCE submitted a response to the protest filed jointly by TURN and CCUE.

First, TURN and CCUE argue that pending RPS legislation (Senate Bill 14 and Assembly Bill 64) would modify the definition of "delivery" and which could render all or part of the output from Puget ineligible for the RPS program. Since the protest was filed, the Governor vetoed both bills, rendering the parties' protest moot. TURN and CCUE's protest on this basis is denied without prejudice.

Second, TURN and CCUE assert that the Puget contract conflicts with a once-pending Commission decision that would authorize the use of tradable renewable energy credits (RECs) and would put a cap on their use. As a result, TURN and CCUE "urge(d) the Commission to ensure that concerns over the excessive use of 'REC-only' deals are given appropriate consideration". In D.10-

03-021, as resolved by D.11-01-025 on January 13, 2011, the Commission set the rules for the use of TRECs for RPS compliance and for the TREC market which limits the use of TRECs to no more than 25% of SCE's annual procurement target (APT). Because of the Commission denies the Puget PPA, this protest is moot. Third, TURN and CCUE claim that the Puget project "does not benefit California's environment or economy." In SCE's response to the TURN/CCUE joint protest, SCE states that the CPUC has previously rejected TURN's argument that out-of-state RPS contracts do not benefit ratepayers. SCE further argues that the Legislature disagrees with the TURN and CCUE assertion since certain out-of-state facilities, such as Puget, are considered RPS-eligible resources. TURN and CCUE's protest on this basis is denied without prejudice.

**Confidential Information**

The Commission, in implementing Pub. Util. Code § 454.5(g), has determined in D.06-06-066, as modified by D.07-05-032, that certain material submitted to the Commission as confidential should be kept oonfidential to ensure that market sensitive data does not influence the behavior of bidders in future RPS solicitations. D.06-06-066 adopted a time limit on the confidentiality of specific terms in RPS contracts. Such information, such as price, is confidential for three years from the date the contract states that energy deliveries begin, except contracts between IOUs and their affiliates, which are public.

<u>The confidential appendices, marked "[REDACTED]" in the public copy of this resolution, as well as the confidential portions of the advice letter, should remain confidential at this time.</u>

## COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

## FINDINGS AND CONCLUSIONS

1. The Puget contract qualifies as a REC-only contract as defined by D.10-03-021, as modified by, D.11-01-025.
2. The California Energy Commission has determined that the PPA meets the California Energy Commission's delivery requirements for RPS eligibility.
3. SB 2 (1X) makes significant changes to the RPS Program, including setting new targets through 2020.
4. The short-term nature of the Puget contract is inconsistent with SCE's RPS portfolio need requirements.
5. SCE adequately examined the reasonableness of the Puget contract utilizing its Least-Cost, Best-Fit methodology during the time the contract was being negotiated and executed.
6. The Puget II contract includes the Commission-adopted RPS "non-modifiable" standard terms and conditions, as set forth in D.08-04-009, D.08-08-028, and D.10-03-021, as modified by D.11-01-025.
7. Based on the Puget project's January 1, 2012 anticipated online date, SCE estimates that the price of the contract is below the applicable 2008 MPR. Accordingly, there would not be any above-market costs associated with the contract.
8. TURN and CCUE's protests are denied without prejudice.
9. The confidential appendices, marked "[REDACTED]" in the public copy of this resolution, as well as the confidential portions of the advice letter, should remain confidential at this time.
10. Advice Letter 2358-E, and Supplement Advice Letters 2358-E-A, 2358-E-B and 2358-E-C should be denied without prejudice.

## THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's contract with Puget Sound Energy, Inc. filed in Advice Letter 2358-E, and Supplement Advice Letters 2358-E-A, 2358-E-B and 2358-E-C is denied without prejudice.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 1, 2011; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

# Appendix A

## CEC Letter Regarding Eligibility of the Puget II Contract's Delivery Structure

STATE OF CALIFORNIA – THE RESOURCES AGENCY ARNOLD SCHWARZENEGGER, *Governor*

CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET
SACRAMENTO, CA 95814-5512
www.energy.ca.gov

August 11, 2009

The California Energy Commission, through its staff, has reviewed the proposed contracting structure between Puget II and Southern California Edison, as described in the excerpt from page 5 of Advice Letter #2358-E in "Attachment A," and as shown in the schematic design from page 6 of the Advice Letter titled, "Attachment B – Puget II/Southern California Edison Delivery Structure."

Assuming that all eligibility requirements for the Renewables Portfolio Standard (RPS) are met regarding all parties shown in Attachment B, including participation in the Energy Commission's Renewables Portfolio Standard Tracking and Verification System, the Energy Commission staff has determined that the proposed contracting structures would meet the RPS delivery requirements according to the *Renewables Portfolio Standard Eligibility Guidebook* (CEC-300-2007-006-ED3-CMF, January 2008).

Tony Gonçalves
Manager, Renewable Energy Office
California Energy Commission

Attachments

## ATTACHMENT A

### Puget II/Southern California Edison

Under the Puget II Contract, SCE will take delivery of electric energy and green attributes at the Mid-Columbia trading hub and will use Puget's resources to manage the intermittent energy within both BPA's and Puget's control areas. SCE will then import the energy into California in a manner that is compliant with the California Energy Commission's ("CEC") out-of-state RPS delivery requirements.

In managing the electric energy, SCE will employ the same fundamental economic principles as it does with its current (non-ERR)[8] power purchase agreements ("PPAs") for out-of-state resources by:

- Scheduling the energy directly into California upon receipt of the energy, and/or
- Selling the energy outside California, whichever yields the most value to SCE's customers.

Analogous to the scenarios described immediately above, SCE will self-manage the green attributes as follows by:

- Scheduling firmed and shaped energy with green attributes directly into California as an import, and/or
- Selling energy without green attributes into the local market, and later (within the same calendar year that the facilities produced the energy) tagging import schedules with the green attribute identifier consistent with the CEC delivery requirements.[9]

In all scenarios, SCE will demonstrate delivery of the wind generation to an in-state market hub or in-state location as specified in the CEC's "Delivery Requirements" as required in the CEC RPS Eligibility Guidebook, including by:

- Importing energy into California within the same calendar year the Puget projects produce the respective energy, and
- Participating in the CEC's approved RPS tracking and verification system.

The following diagram illustrates the deal structure and energy management scenarios described in this section.

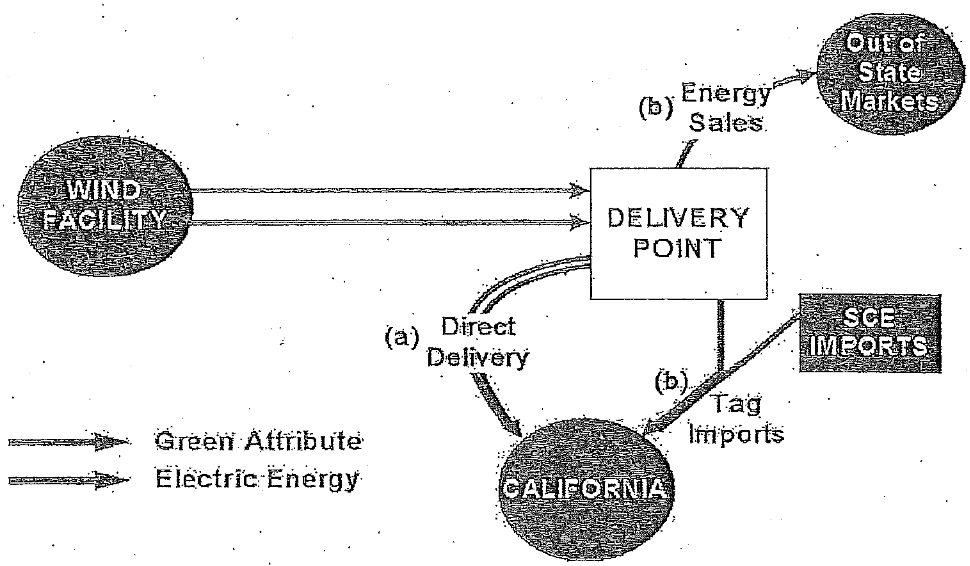
[8] "ERR" refers to an eligible renewable energy resource.

[9] See Renewables Portfolio Standard Eligibility Guidebook (Third Edition), publication # CEC-300 2007-006-ED3-CMF, adopted December 19, 2007.

DRAFT

**ATTACHMENT B**

**PUGET II/SCE ENERGY DELIVERY STRUCTURE**



# Confidential Appendix B

## Southern California Edison's RPS Energy Forecast

[REDACTED]

# Confidential Appendix C

## Summary of Puget II Contract Terms and Conditions

[REDACTED]

# ATTACHMENT C to PSE's Response to Public Counsel Data Request No. 320

Dockets UE-111048 UG-111049
Exhibit No. RG-35C CX
REDACTED VERSION

**PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 320**
**CONFIDENTIAL ATTACHMENT C**

**IS CONFIDENTIAL IN ITS ENTIRETY**
**PAGES 30 THROUGH 31**

# ATTACHMENT D to PSE's Response to Public Counsel Data Request No. 320

Dockets UE-111048 UG-111049
Exhibit No. RG-35C CX
Page 33 of 36
Redacted Version

# Public Results of Commission Meeting
## December 1, 2011 -- Agenda 3285

**Commissioners:** Michael R. Peevey, President, Mark J. Ferron, Michel Peter Florio, Catherine J.K. Sandoval, Timothy Alan Simon

http://docs.cpuc.ca.gov/PUBLISHED/AGENDA/153802.htm

**DISCLAIMER:** We are currently in the process of upgrading our agenda management system, driven in part by the current system's inability to create the old results format (preferred by many) where a link to the adopted decision or resolution was reflected on the agenda itself. Please be patient while we work to upgrade the system, which we hope will be complete in 2011.

(Decision numbers have been issued but processing the decisions for mailing may take up to 10 days.)

| Item # | Unique # | Proceeding # or Resolution # | CPUC01 | Decision # | Outcome | Comments | Ferron | Florio | Peevey | Sandoval | Simon |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 10815 | Res ALJ 176-3285 | | Res ALJ 176-3285 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 2 | 10617 | Res T-17327 | 568842 | | Held | 12/15/11. | | | | | |
| 3 | 10679 | Res E-4424 | 569213 | Res E-4424 | Approved | Comr. Michel Peter Florio abstained. | Yes | Abstain | Yes | Yes | Yes |
| 4 | 10695 | Res W-4887 | 569658 | Res W-4887 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 5 | 10721 | Res W-4889 | 568566 | | Withdrawn | | | | | | |
| 6 | 10766 | Res L-426 | 569492 | Res L-426 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 7 | 10767 | Res L-427 | 569315 | Res L-427 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 8 | 10772 | Res E-4440 | 569635 | Res E-4440 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 9 | 10774 | A10-12-012 | 569216 | D11-12-001 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 10 | 10776 | Res TL-19103 | 568951 | Res TL-19103 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 11 | 10777 | Res E-4441 | 568696 | Res E-4441 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 12 | 10783 | Res T-17297 | 569631 | Res T-17297 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 13 | 10786 | A11-01-004 | 569466 | D11-12-002 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 14 | 10787 | Res T-17345 | 569339 | Res T-17345 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 15 | 10789 | Res E-4437 | 569514 | Res E-4437 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 16 | 10790 | A11-01-025 | 569632 | D11-12-003 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 17 | 10791 | A11-08-013 | 525094 | D11-12-004 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 18 | 10796 | Res T-17346 | 569383 | Res T-17346 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 19 | 10798 | R11-03-006 | 568571 | D11-12-005 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 20 | 10799 | Res E-4400 | 554080 | | Held | 12/15/11. Further review. | | | | | |
| 21 | 10800 | Res E-4443 | 569587 | Res E-4443 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 22 | 10805 | Res E-4442 | 569592 | Res E-4442 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 23 | 10806 | A11-01-027 | 569698 | D11-12-006 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 24 | 10807 | Res E-4427 | 569512 | Res E-4427 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 25 | 10808 | A11-01-019 | 569652 | D11-12-007 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 26 | 10809 | Res E-4292 | 569600 | Res E-4292 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 27 | 10828 | R09-01-019 | 555213 | D11-12-008 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 28 (Rev.) | 10838 | Res W-4894 | 569581 | Res W-4894 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 29 | 10842 | C10-12-002 | 554662 | D11-12-009 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 30 | 10843 | A10-01-022 | 568445 | D11-12-010 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 31 | 10845 | I10-12-010 | 557790 | D11-12-011 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 32 | 10846 | A11-08-003 | 555236 | | Held | 12/15/11. Further review. | | | | | |
| 33 | 10853 | A11-06-006 | 568382 | D11-12-012 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 34 | 10862 | A11-08-005 | 568886 | D11-12-013 | Signed | | Yes | Yes | Yes | Yes | Yes |

Dockets UE-111048 UG-111049
Exhibit No. KG-35C CY
Page 34 of 36
Redacted Version

| Item # | Unique # | Proceeding # or Resolution # | CPUC01 | Decision # | Outcome | Comments | Ferron | Florio | Peevey | Sandoval | Simon |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 58 (Rev.) | 10871 | A11-09-010 | 569747 | D11-12-014 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 35 | 10771 | A09-08-019 | 569622 | D11-12-015 | Signed | Comr. Michel Peter Florio abstained. | Yes | Abstain | Yes | Yes | Yes |
| 36 | 10826 | A08-11-001 | 554562 | D11-12-016 | Signed | Comr. Michel Peter Florio abstained. | Yes | Abstain | Yes | Yes | Yes |
| 37 | 10864 | R09-07-027 | 555067 | D11-12-017 | Signed | Comr. Michel Peter Florio abstained. | Yes | Abstain | Yes | Yes | Yes |
| 38 (Rev.) | 10475 | R08-11-005 | 569101 | | Held | 12/15/11. Further Review. | | | | | |
| 39 | 10646 | R07-05-025 | 568974 | D11-12-018 | Signed | Comr. Michel Peter Florio abstained. | Yes | Abstain | Yes | Yes | Yes |
| 40 | 10746 | R11-05-005 | 555178 | | Held | 12/15/11. | | | | | |
| 41 | 10792 | A11-03-001 | E49534 | | Held | 12/15/11. Further review. | | | | | |
| 42 | 10793 | R10-05-004 | 569425 | D11-12-019 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 43 | 10795 | R11-05-005 | 568557 | D11-12-020 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 44 | 10822 | I10-11-013 | 555277 | D11-12-021 | Signed | Comr. Mark J. Ferron will file a concurrence. | Yes | Yes | Yes | Yes | Yes |
| 45 | 10861 | R.________ | 569496 | R11-12-001 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 46 | 10677 | Res T-17344 | 569584 | | Discussed and Held | 1/12/11. Further review. | | | | | |
| 46a | 10804 | Res T-17344 | 569588 | | Discussed and Held | 1/12/11. Further review. | | | | | |
| 47 | 10810 | Res T-17349 | 569534 | | Withdrawn | | | | | | |
| 47a | 10811 | Res T-17349 | 569732 | Res T-17349 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 48 | 10613 | Res W-4885 | 569673 | | Held | 12/15/11. Further review. | | | | | |
| 48a | 10801 | Res W-4885 | 568579 | | Held | 12/15/11. Further review. | | | | | |
| 49 | 10749 | Res ALJ-274 | 569209 | Res ALJ-274 | Approved | | Yes | Yes | Yes | Yes | Yes |
| 50 | 10837 | Comments to the Commodity Futures Trading Commission | | | Held | 12/15/11. | | | | | |
| 51 | 10231 | Bi-Annual Report of the Stewardship Council | | | Held | 1/12/11. | | | | | |
| 52 | 10816 | Report and Discussion | | Report and Discussion | Information Only | | | | | | |
| 54 | 10818 | A11-01-003 | | D11-12-022 | Signed | | Yes | Yes | Yes | Yes | Yes |
| 56 | 10859 | A09-08-019 | | D11-12-023 | Signed | | Yes | Yes | Yes | Yes | Yes |

# ATTACHMENT E to PSE's Response to Public Counsel Data Request No. 320

Dockets UE-111048 UG-111049
Exhibit No. RG-35C CX
REDACTED VERSION

# PSE'S RESPONSE TO PUBLIC COUNSEL DATA REQUEST NO. 320
# CONFIDENTIAL ATTACHMENT E

## IS CONFIDENTIAL IN ITS ENTIRETY

## PAGE 36

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 393

PUBLIC COUNSEL DATA REQUEST NO. 393:

RE: Exhibit No. RG-28CT, p. 20.

Regarding the referenced $80 million of customer savings related to the recent change in Treasury Grant normalization, is Mr. Garratt suggesting that it appropriate to evaluate LSR 1 in light of changes that have occurred since the May 5, 2010 decision to approve the project? If so, provide any updated analysis that has been performed by the Company to consider changes in natural gas and market prices and other variables that influence the economic benefits of the proposed LSR 1 project.

Response:

Puget Sound Energy, Inc. ("PSE") is not proposing a quantitative re-evaluation of Lower Snake River Phase 1 ("LSR Phase 1") in light of the recent changes to Treasury Grant normalization. Indeed, PSE did not present any such re-evaluation in either the Prefiled Rebuttal Testimony of Mr. Roger Garratt or the Prefiled Rebuttal Testimony of Ms. Aliza Seelig.

The potential opportunity to achieve these significant additional customer savings, however, was an important qualitative attribute of LSR Phase 1 that was not available with other alternatives. As stated in the materials presented to PSE's Board of Directors at the time construction was authorized, "PSE is working with Congress on a legislative fix to eliminate the normalization requirement, which would further benefit Project economics for customers." Exhibit No. ___(RG-13HC) at page 564.

Furthermore, the Prefiled Rebuttal Testimony of Mr. Roger Garratt served to update the Commission with new and significant developments that had occurred within the month prior to PSE's filing its rebuttal testimony and to inform the Commission that PSE achieved such additional customer benefits through efforts that lasted several years.

The PSE Board of Directors authorized construction of LSR Phase 1 based on the information known as of May 5, 2010, and the evaluation of LSR Phase 1 can stand on its own without the recent developments related to the Treasury Grant normalization requirements. The changes to the Treasury Grant normalization requirements simply provide additional benefits that were not known as of May 5, 2010.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
**2011 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 505

PUBLIC COUNSEL DATA REQUEST NO. 505:

**Reference PSE Response to Public Counsel Data Request No. 418:**

The PSE Response to Public Counsel Data Request No. 418 was not responsive in that it did not provide the following information. Please confirm whether or not the risk of termination of the referenced REC sale contract with SCE discussed in the May 5, 2010 Board Meeting. If not, please explain why not. If so, please provide any documentation that addresses the discussion of this issue at the May 5, 2010, Board Meeting.

**Response:**

Puget Sound Energy, Inc. has no specific recollection whether or not the termination risk of the Renewable Energy Credit sale contract with Southern California Edison was discussed at the May 5, 2010 Board Meeting; however, it is unlikely that the Board discussion would have covered such granular detail.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case

PUBLIC COUNSEL DATA REQUEST NO. 505

## PUBLIC COUNSEL DATA REQUEST NO. 505:

**Reference PSE Response to Public Counsel Data Request No. 418:**

The PSE Response to Public Counsel Data Request No. 418 was not responsive in that it did not provide the following information. Please confirm whether or not the risk of termination of the referenced REC sale contract with SCE discussed in the May 5, 2010 Board Meeting. If not, please explain why not. If so, please provide any documentation that addresses the discussion of this issue at the May 5, 2010, Board Meeting.

## Response:

Puget Sound Energy, Inc. has no specific recollection whether or not the termination risk of the Renewable Energy Credit sale contract with Southern California Edison was discussed at the May 5, 2010 Board Meeting; however, it is unlikely that the Board discussion would have covered such granular detail.

www.pse.com

PUGET SOUND ENERGY

Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

April 13, 2007

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, W A 98504

**Re: Puget Sound Energy, Inc.'s Petition for Accounting Order (Renewable Energy Credits and Emission Reduction Allowances)**

Dear Ms. Washburn:

Enclosed are an original and twelve copies of the Petition of Puget Sound Energy, Inc. for an Accounting Order regarding the deferral and use of the net revenues from the sale of Renewable Energy Credits and Emission Reduction Allowances to further the development of renewable generation resources in Washington State.

This petition is being submitted via the Washington Utilities and Transportation Commission's Records Center Web Portal electronic-filing system and by overnight mail

If you have any questions regarding this filing, please contact me at (425) 456-2797.

Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

Enclosures
cc: Bob Cedarbaum
Simon ffitch

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

| | |
|---|---|
| Petition of<br><br>PUGET SOUND ENERGY, INC.<br><br>For an Order Authorizing the Use of the Proceeds from the Sale of Renewable Energy Credits and Emission Reduction Allowances for Renewable Resource Research, Development, and Demonstration Projects and the Associated Accounting Treatment | Docket No. ________<br><br>PETITION |

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. ("PSE" or "the Company") requests that the Commission issue an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"), and to use these revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in this Petition.

**INTRODUCTION**

2. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address for purposes of this proceeding are:

Karl Karzmar
Director – Regulatory Relations
Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, Washington 98009-9734

Phone: 425-456-2797

PSE's representative for purposes of this proceeding is:

Sheree Strom Carson
Perkins Coie LLP
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: 425-635-1422
Fax: 425-635-2400
scarson@perkinscoie.com

3. Statutes and rules that may be at issue in this Petition include RCW 80.01.040, RCW 80.28.024, and WAC 480-07-370(1)(b).

## BACKGROUND

### Renewable Energy Credits

4. Renewable Energy Credits or RECs are intangible assets. RECs represent the right (which may be a contractual right) to claim the environmental attributes[1] of a renewable

---

[1] "Environmental attributes" is often defined to mean any and all certificates, credits, benefits, emissions reductions, environmental air quality credits, and emissions reduction credits, offsets, and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable to the generation of the specified energy by the specified resource and the delivery of the specified energy to the electricity grid, and include without limitation any of the same arising out of legislation or regulation concerned with oxides of nitrogen, sulfur, or carbon, with particulate matter, soot, or mercury, or implementing the United Nations Framework Convention on Climate Change ("UNFCCC") or the Kyoto Protocol to the UNFCCC or crediting "early action" with a view thereto, or laws or regulations involving or administered by the Clean Air

generation facility associated with electricity generated from that facility. These renewable or green credits represent the environmental attributes from wind power or other renewable energy sources and can be used to support the development of renewable resources and to provide a non-polluting alternative to avoid the environmental impacts of coal and natural gas generation.

5. REC markets are emerging across the country. RECs may be traded as a bundled product where the electricity and environmental attributes are sold together to the purchaser. However, in certain states, such as California, investor-owned utilities are required to ensure that the REC product is electronically tagged from source to load.

6. RECs may be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Unbundled REC sales separate the energy from the environmental attribute and allow the purchaser to only purchase the environmental attribute. Many states (including Washington, under the new Energy Independence Act) allow utilities to comply with an RPS through tradable renewable energy credits. RECs are characterized by the number of MWh generated *(1 REC = 1 MWh)*; annual vintage of the REC; type of resource that generated the REC; and jurisdiction in which REC may be considered a renewable attribute.

7. RECs are a wasting asset. If not sold or otherwise "consumed" on a timely basis, REC value dissipates. In parts of the country, the vintage life of a REC is estimated to be 18 months, as determined by "Green E" certification, but this is not a universal definition, and each jurisdiction may have its own defined shelf life vintage for RECs. For example, in Washington State, a REC has potential value over a three year span, but must be used within

---

Markets Division of the Environmental Protection Agency or successor administrator, any state or federal entity given jurisdiction over a program involving transferability of environmental attributes, but excluding wind production tax credits, if any.

either a two-year period in the past, or used within a two-year period into the future, where the period includes the year it was produced. This effectively gives the RECs in this state a two-year vintage life, in that it can be used from the previous year, the current year, or in one subsequent year.

8. REC markets are becoming more liquid. Purchasers of PSE's RECs may include entities both inside and outside the State of Washington. Purchasers could be utilities, corporate end-users, wholesalers/resellers of RECs or other parties. Each individual potential purchaser of RECs could have their own definition of what constitutes a REC, depending on their corporate or jurisdictional needs.

9. PSE proposes to preserve REC value for customers through renewable research, development, and demonstration projects. PSE expects to market RECs from 2007 and forward so long as a REC surplus exists, which may include RECs from various PSE resources that other entities consider renewable, such as Hopkins Ridge, Wild Horse, Snoqualmie Falls, and Electron. Thus, the sale of RECs generated by PSE's resources will be from resources that are considered renewable by the purchasers of such RECs. The proceeds from the sale of RECs will be dedicated to renewable resource research, development, and demonstration projects that are consistent with Washington State's definition of renewable and emerging technologies described in the Company's most recent Integrated Resource Plan.

**Emission Reduction Allowances**

10. PSE is also seeking to defer the revenues from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange ("CCX"). CCX is a greenhouse gas emission registry, reduction and trading system for all six greenhouse gases ("GHGs"). CCX is a self-regulated, rules-based exchange designed and governed by CCX Members. For PSE to be able to get full credit for its Phase I emission reduction allowances (described below), PSE had to apply for membership in the CCX before December 31, 2006. PSE's application is, at the time of this

filing, under review by CCX; PSE's membership in CCX would not be effective until after that review process is complete. Similar to the sale of RECs, PSE is seeking to use the net proceeds from the sale of Emission Reduction Allowances ("ERAs") to use in the research, development, and demonstration projects associated with renewable resources, consistent with emerging technologies described in the Company's most recently filed Integrated Resource Plan.

11. The CCX pilot is divided into two phases: Phase I commits members to reductions from 2003 to 2006, and Phase II that commits members to reductions between 2007 and 2010. Members pledge to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years, and if they elect to join Phase II, members pledge to reduce 1.5% per year during 2007-2010, for a total 6% reduction in four years. PSE does not presently intend to participate in the CCX Phase II program. Membership in CCX is wholly voluntary (for Phase I or Phase II); however, the pledge for emissions reduction is legally binding under the terms of the *CCX Accord*.

12. The reductions any member must make are made against a calculated baseline. The baseline for Phase I equals the emissions average for the period beginning 1998 to the end of 2001. The baseline for Phase II equals the emissions for 2000.

13. The CCX pilot has built in provisions that protect members from being penalized if they miss their targets by growing too rapidly, and it also has built in provisions or "safety valves" to prevent members from gaming or capitalizing unfairly. As a result, there is a maximum amount of credits that PSE will be allowed to sell each year.

14. Upon becoming a CCX member, PSE would participate in CCX's Phase I. Under the Phase I program, PSE would be able to trade a certain number of credits banked from Phase I years. The CCX allows members to bank a certain percentage of credits each year based on the allowed growth provision minus the annual sales amount. PSE's banked credits for 2003 to 2005 are shown in Exhibit A, attached to this Petition.

15. CCX's Phase I ended on December 31, 2006. PSE submitted its membership application because a failure to apply for membership on or before December 31, 2006 would have resulted in PSE not being able to trade credits earned during the Phase I period on CCX's exchange.

16. According to CCX, PSE has the potential "*to be a seller of emission reduction allowances for CCX Phase I (2003-2006)*".

17. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for the revenues received from the sale of RECs or ERAs, net of costs; and (2) authorization to use the revenues to (i) develop renewable generation resources to be used to serve customers; or (ii) if any deferred REC and ERA proceeds are not designated or used for development of a renewable resource within 18 months of receipt, they will be transferred for customer benefit via the Company's Electric Conservation Program. PSE is not requesting in this Petition that the Commission address the prudence of any such resource acquisition.

18. Allowing the investment of the revenues to further develop renewable resources will:

- Allow funds to be invested in renewable energy research, development, and demonstration projects that have the potential to demonstrate a benefit to PSE's customers.
- Advance the development and deployment of specific clean renewable energy resources in the Pacific Northwest that are unlikely to meet the traditional "least cost" standard in the RFP process, and emerging technologies described in the Company's most recently filed Integrated Resource Plan.
- Foster growing interest by renewable developers in this state and in the region that will hopefully lead to a growing market for commercially viable renewable resource alternatives in the near future.
- Boost Washington State's renewable industry sector.

- Further the understanding of the operational compatibility of various renewable projects with the current generation, transmission, and distribution system.

## REQUESTED ORDER

19. By this petition, PSE respectfully requests an order that authorizes the Company to defer the proceeds from the sale of RECs and ERAs and invest at least an equal amount in renewable energy generation resources.

20. In addition, PSE requests an order approving the following proposed accounting treatment:

> All proceeds from the sale of RECs or ERAs shall be deferred in Federal Energy Regulatory Commission ("FERC") Account No. 254 Other Regulatory Liabilities;
>
> Corresponding deferred income taxes arising from the deferral of RECs and ERAs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes;
>
> Renewable generation resource plant that qualifies for capital treatment will be capitalized in FERC Account No. 101 Electric plant in Service and depreciated consistent with other electric plant in service;
>
> Renewable generation resource expenditures that constitute research and development or have short or indeterminate lives that would not call for capitalization will be charged to FERC Account No. 188, Research, development and demonstration expenditures, and amortized to the appropriate operation expense;
>
> Renewable generation resource outside contractor, consulting or legal costs incurred, including the costs associated with the forming of contracts or construction management, as well as incremental intertie costs and other miscellaneous expenses, shall be charged to operation expense as appropriate;
>
> Deferred REC and ERA proceeds will be amortized to expense consistent with the renewable generation resource depreciation, amortization or operation expense;

Deferred REC and ERA proceeds not designated or used for a renewable generation resource within 18 months of receipt shall be transferred to the Company's Electric Conservation Program for application.

21. PSE respectfully requests that the Commission enter an order in the form attached as Exhibit B to this Petition.

DATED: April 13, 2007

PUGET SOUND ENERGY, INC.

By ______________

Karl R. Karzmar
Director, Regulatory Relations

# VERIFICATION

STATE OF WASHINGTON )
) ss.
COUNTY OF KING )

Karl R. Karzmar, being first duly sworn, on oath deposes and says:

That he is Director of Regulatory Relations for Puget Sound Energy, Inc., that he has read the foregoing Petition, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief under penalty of perjury.

Karl R. Karzmar

STATE OF WASHINGTON )
) ss.
COUNTY OF KING )

SUBSCRIBED AND SWORN to before me this 13th day of April, 2007.

DENISE K SCHROEDER
COMMISSION EXPIRES
NOTARY
PUBLIC
AUG. 01, 2009
STATE OF WASHINGTON

Denise K. Schroeder
Print Name: Denise K. Schroeder
Notary Public in and for the State of
Washington, residing at Snoqualmie
My commission expires: 8-1-2009

EXHIBIT A

## PSE's banked credits for 2003 to 2005

### Annual Positions - August 2006 Analysis

| | CO2 in Metric Tons | | | |
|---|---|---|---|---|
| Year | 2003 | 2004 | 2005 | 2006 |
| Baseline 1998 - 2001 | 6,882,448 | 6,882,448 | 6,882,448 | 6,882,448 |
| Amount PSE Must Reduce (1% per Year) | 68,824 | 137,649 | 206,473 | 275,298 |
| Actual Amount Reduced by PSE | 1,241,581 | 971,930 | 918,166 | TBD |
| Maximum Amount PSE Can Sell Each Year | 124,600 | 239,500 | 346,200 | TBD |
| Amount PSE Can Bank For Phase II | – | 35,798 | 66,747 | TBD |

Puget Sound Energy
Exhibit B – PROPOSED ORDER

**BEFORE THE**
**WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

| | |
|---|---|
| In the Matter of the Petition of<br><br>PUGET SOUND ENERGY, INC.<br><br>For an Accounting Order Authorizing the Use of the Proceeds from the Sale of Renewable Energy Credits and Emission Reduction Allowances for Renewable Resource Research, Development, and Demonstration Projects and the Associated Accounting Treatment | Docket No. ___________<br><br>ORDER (PROPOSED) |

**MEMORANDUM**

1. On April 13, 2007, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"), and to use those revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in its Petition.

**A. Background**

**Renewable Energy Credits**

2. According to the Company, Renewable Energy Credits or RECs are intangible assets. RECs represent the right (which may be a contractual right) to claim the environmental attributes[1] of a renewable generation facility associated with electricity generated from that facility. These renewable or green credits represent the environmental attributes from wind power or other renewable energy sources and can be used to support the development of renewable resources and to provide a non-polluting alternative to avoid the environmental impacts of coal and natural gas generation

3. In its petition, the Company states that REC markets are emerging across the country and RECs may be traded as a bundled product where the electricity and environmental attributes are sold together to the purchaser. However, in certain states, such as California, investor-owned utilities are required to ensure that the REC product is electronically tagged from source to load

4. As explained by the Company, RECs may be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Unbundled REC sales separate the energy from the environmental attribute and allow the purchaser to only purchase the environmental attribute. Many states (including Washington, under the new Energy Independence Act) allow utilities to

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[1] "Environmental attributes" is often defined to mean any and all certificates, credits, benefits, emissions reductions, environmental air quality credits, and emissions reduction credits, offsets, and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable to the generation of the specified energy by the specified resource and the delivery of the specified energy to the electricity grid, and include without limitation any of the same arising out of legislation or regulation concerned with oxides of nitrogen, sulfur, or carbon, with particulate matter, soot, or mercury, or implementing the United Nations Framework Convention on Climate Change ("UNFCCC") or the Kyoto Protocol to the UNFCCC or crediting "early action" with a view thereto, or laws or regulations involving or administered by the Clean Air Markets Division of the Environmental Protection Agency or successor administrator, any state or federal entity given jurisdiction over a program involving transferability of environmental attributes, but excluding wind production tax credits, if any.

comply with an RPS through tradable renewable energy credits. RECs are characterized by the number of MWh generated *(1 REC = 1 MWh)*; annual vintage of the REC; type of resource that generated the REC; and jurisdiction in which REC may be considered a renewable attribute.

5. The Company also explains that RECs are a wasting asset. If not sold or otherwise "consumed" on a timely basis, REC value dissipates. In parts of the country, the vintage life of a REC is estimated to be 18 months, as determined by "Green E" certification, but this is not a universal definition, and each jurisdiction may have its own defined shelf life vintage for RECs. For example, in Washington State, a REC has potential value over a three year span, but must be used within either a two-year period in the past, or used within a two-year period into the future, where the period includes the year it was produced. This effectively gives the RECs in this state a two-year vintage life, in that it can be used from the previous year, the current year, or in one subsequent year.

6. In its petition, PSE further asserts that REC markets are becoming more liquid. Purchasers of PSE's RECs may include entities both inside and outside the State of Washington. Purchasers could be utilities, corporate end-users, wholesalers/resellers of RECs or other parties. Each individual potential purchaser of RECs could have their own definition of what constitutes a REC, depending on their corporate or jurisdictional needs.

7. According to its petition, PSE proposes to preserve REC value for customers through renewable research, development, and demonstration projects. PSE expects to market RECs from 2007 and forward so long as a REC surplus exists, which may include RECs from various PSE resources that other entities consider renewable, such as Hopkins Ridge, Wild Horse, Snoqualmie Falls, and Electron. Thus, the sale of RECs generated by PSE's resources will be from resources that are considered renewable by the purchasers of such RECs. The proceeds from the sale of RECs will be dedicated to renewable resource research, development,

and demonstration projects that are consistent with Washington State's definition of renewable and emerging technologies described in the Company's most recent Integrated Resource Plan.

**Emission Reduction Allowances**

8. PSE is also seeking to defer the revenues from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange ("CCX"). CCX is a greenhouse gas emission registry, reduction and trading system for all six greenhouse gases ("GHGs"). CCX is a self-regulated, rules-based exchange designed and governed by CCX Members. For PSE to be able to get full credit for its Phase I emission reduction allowances (described below), PSE had to apply for membership in the CCX before December 31, 2006. PSE's application is, at the time of this filing, under review by CCX; PSE's membership in CCX would not be effective until after that review process is complete. Similar to the sale of RECs, PSE is seeking to use the net proceeds from the sale of Emission Reduction Allowances ("ERAs") to use in the research, development, and demonstration projects associated with renewable resources, consistent with emerging technologies described in the Company's most recently filed Integrated Resource Plan.

9. The CCX pilot is divided into two phases: Phase I commits members to reductions from 2003 to 2006, and Phase II that commits members to reductions between 2007 and 2010. Members pledge to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years, and if they elect to join Phase II, members pledge to reduce 1.5% per year during 2007-2010, for a total 6% reduction in four years. PSE does not presently intend to participate in the CCX Phase II program. Membership in CCX is wholly voluntary (for Phase I or Phase II); however, the pledge for emissions reduction is legally binding under the terms of the *CCX Accord*.

10. The reductions any member must make are made against a calculated baseline. The baseline for Phase I equals the emissions average for the period beginning 1998 to the end of 2001. The baseline for Phase II equals the emissions for 2000.

11. The CCX pilot has built in provisions that protect members from being penalized if they miss their targets by growing too rapidly, and it also has built in provisions or "safety valves" to prevent members from gaming or capitalizing unfairly. As a result, there is a maximum amount of credits that PSE will be allowed to sell each year.

12. Upon becoming a CCX member, PSE would participate in CCX's Phase I. Under the Phase I program, PSE would be able to trade a certain number of credits banked from Phase I years. The CCX allows members to bank a certain percentage of credits each year based on the allowed growth provision minus the annual sales amount.

13. CCX's Phase I ended on December 31, 2006. PSE submitted its membership application because a failure to apply for membership on or before December 31, 2006 would have resulted in PSE not being able to trade credits earned during the Phase I period on CCX's exchange

14. According to CCX, PSE has the potential "*to be a seller of emission reduction allowances for CCX Phase I (2003-2006)*".

15. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for the revenues received from the sale of RECs or ERAs, net of costs; and (2) authorization to use the revenues to (i) develop renewable generation resources to be used to serve customers; or (ii) if any deferred REC and ERA proceeds are not designated or used for development of a renewable resource within 18 months of receipt, they will be transferred for customer benefit via the Company's Electric Conservation Program. PSE is not requesting in this Petition that the Commission address the prudence of any such resource acquisition.

16. PSE contends in its petition that investment of the revenues to further develop renewable resources will: 1) allow funds to be invested in renewable energy research, development, and demonstration projects that have the potential to demonstrate a benefit to PSE's customers; 2) advance the development and deployment of specific clean renewable energy resources in the Pacific Northwest that are unlikely to meet the traditional "least cost" standard in the RFP process, and emerging technologies described in the Company's most recently filed Integrated Resource Plan; 3) foster growing interest by renewable developers in this state and in the region that will hopefully lead to a growing market for commercially viable renewable resource alternatives in the near future; 4) boost Washington State's renewable industry sector; and 5) further the understanding of the operational compatibility of various renewable projects with the current generation, transmission, and distribution system.

## B. Proposed Accounting Treatment

17. PSE requested in its Petition that the Commission approve the following accounting treatment:

> All proceeds from the sale of RECs or ERAs shall be deferred in Federal Energy Regulatory Commission ("FERC") Account No. 254 Other Regulatory Liabilities;
>
> Corresponding deferred income taxes arising from the deferral of RECs and ERAs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes;
>
> Limited Program generation plant that qualifies for capital treatment will be capitalized in FERC Account No. 101 Electric plant in Service and depreciated consistent with other electric plant in service;
>
> Limited Program resource expenditures that constitute research and development or have short or indeterminate lives that would not call for

capitalization will be charged to FERC Account No. 188, Research, development and demonstration expenditures, and amortized to the appropriate operation expense;

Limited Program outside contractor, consulting or legal costs incurred, including the costs associated with the forming of contracts or construction management, as well as incremental intertie costs and other miscellaneous expenses, shall be charged to operation expense as appropriate;

Deferred REC and ERA proceeds will be amortized to expense consistent with the Limited Program depreciation, amortization or operation expense;

Deferred REC and ERA proceeds not designated or used for one of the Limited Program purposes within 18 months of receipt, shall be transferred to the Company's Electric Conservation Program for application.

## FINDINGS

18. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.

19. On April 13, 2007, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"); and to use those revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in its Petition.

20. The accounting treatment requested in the Petition is reasonable and in the public interest and should be approved.

21. The prudence of PSE's acquisition of resources as described in its petition is to be addressed in a future general rate case.

**ORDER**

WHEREFORE, THE COMMISSION HEREBY ORDERS:

22. PSE is hereby authorized to defer the proceeds from the sale of Renewable Energy Credits and Emission Reduction Allowances to be used for investment in qualified renewable energy generation resources as described in its Limited Renewable Resource Research, Development and Demonstration Program.

23. Approval is hereby given for the accounting treatment requested in PSE's Petition dated April 13, 2007, related to the sale of the RECs and ERAs and investment in qualified renewable energy generation resources as described in its Petition.

24. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.

25. The Commission retains jurisdiction over the subject matter of the Petition and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this _____ day of ___________, _____.

MARK SIDRAN, Chairman

PATRICK OSHIE, Commissioner

PHILLIP JONES, Commissioner

Dockets UE-111048 UG-111049
Exhibit No. RG-39 CX
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EXHIBIT NO. ___(RG-1HCT)
DOCKET NOS. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

| | |
|---|---|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br><br>Complainant,<br><br>v.<br><br>PUGET SOUND ENERGY, INC.,<br><br>Respondent. | Docket No. UE-09____<br>Docket No. UG-09____ |

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

REDACTED VERSION

MAY 8, 2009

**PUGET SOUND ENERGY, INC.**

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

**CONTENTS**

**Q. What are the acquisition costs?**

A. PSE estimates the acquisition cost to be approximately $43.7 million. *See* Exhibit No. ___(RG-29HC) at page 8. This cost assumes (i) a purchase based on the residual lease value at the beginning of December 2009, (ii) transaction costs, and (iii) capitalized pre-paid sales tax.

**Q. What is the acquisition process?**

A. PSE plans a direct purchase of the units from GE Capital Commercial, Inc., on or about January 2010, pursuant to the current lease agreement and as stipulated in the November 14, 2008, notification of lease termination.

**Q. Will the acquisition affect PSE's O&M expenses?**

A. No. Although Fredonia Generating Station Units #3 and #4 have been under capital lease, PSE has been responsible for all operation and maintenance expenses. Going forward, PSE expects no change in the units' O&M costs due to the change from capital lease to PSE ownership.

## V. RESOURCES ACQUIRED AND DEVELOPED BY PSE

**Q. Please describe PSE's development strategy.**

A. In late 2006, PSE created a development strategy to address some of the difficulties PSE was facing in acquiring renewable energy resources, specifically wind resources (the "Development Strategy"). This Development Strategy established the guidelines by which PSE would pursue wind development (e.g., actively seek out new wind opportunities from securing land leases, gather wind speed data to identify possible wind resources, build and construct a wind facility). This differs from the acquisition strategy where PSE purchases operating facilities or mature development rights and manages the construction phase. In January 2007, the EMC approved PSE staff's recommendation to enter the wind development arena. A development strategy was presented to management. Please see Exhibit No. ___(RG-30HC) for a copy of the presentation to the PSE Board of Directors, dated August 3, 2007, regarding the Development Strategy.

**Q. Please describe the difficulties PSE faces when acquiring wind resources.**

A. PSE faces many challenges in acquiring wind resources, including the following: (1) increasing market competitiveness, (2) a lack of mature wind projects, (3) escalating wind project costs, and (4) the passing of the Energy Independence Act in Washington State, which substantially increased the difficulty for PSE to acquire low-cost renewable energy resources quickly.

**Q. Will you please elaborate?**

A. In the 2004 RFP, PSE received over 13 wind project proposals, and PSE successfully executed two wind project acquisitions for 380 MW. In the 2006 RFP, however, PSE received only nine wind project proposals, and PSE was only able to acquire a 50 MW 20-year PPA because several wind project proposals in the 2006 RFP proposals were retracted and sold to other counterparties before PSE could complete its evaluations. PSE compared the evaluation of the wind sites in 2006 to the evaluation of wind sites in 2004, which comparison showed increasingly fewer good wind sites and less mature projects developments (over half had not secured turbines).

Additionally, the 2006 RFP proposals indicated a shift in the business models for wind developers. The predominate wind project proposal in the 2004 RFP was a build-and-transfer wind project. In contrast, the predominate wind project proposal in the 2006 RFP was a PPA.

Q. **Are the market prices for wind generating resources escalating?**

A. Yes. PSE saw significant price escalations in wind generating resource costs. ION Consulting confirmed this in their report published in 2007. Please see Exhibit No. ___(RG-31C) for a copy of the ION Consulting report, dated December 2007. The ION Consulting study reported that project costs from 2005 to 2006 increased by approximately 18%. All indications were that these costs would continue to increase in the near term. This was based on several factors, including (i) turbine supply constraints, (ii) commodity price escalation, (iii) extension of renewable PTCs, and (iv) state renewable portfolio standards.

Washington State's Energy Independence Act requires PSE to meet 15% of its load with renewable resources by 2020. With 430 MW of wind capacity, PSE still required approximately 1,000 MW of additional wind to meet the 15% target.

**Q. How does the Development Strategy enhance PSE's ability to acquire wind generating resources?**

A. The "seller's market" for wind generating resources described above allowed developers to place more cost and risk on counterparties. The Development Strategy will allow PSE to be more proactive and flexible in the way it acquires these necessary resources. The Development Strategy builds on PSE's ability to leverage its wind acquisition and operational experience, nurture its relationships with counterparties, and remain flexible in the evolving renewable energy markets. Rather than waiting for a private wind developer to come to PSE with a proposal, PSE may now act as a "first mover" in developing wind generating projects. This "first mover" position should allow PSE to acquire beneficial wind generating projects while avoiding high developer fees. Finally, the Development Strategy would allow PSE to own, operate and control wind generating resources for the future.

**Q. What benefits will the Development Strategy provide to the customers?**

A. By entering the development chain early, PSE should be able to realize significant capital cost savings through the remaining phases of development, procurement, construction and commissioning. These capital costs savings result, in part, from PSE's access to lower cost capital versus that of a typical wind developer. Over the last year, other utilities in the Pacific Northwest, including PacifiCorp and

Portland General Electric Company, have adopted a similar development strategy to control more of the project costs and risks.

In addition to saved costs through lower cost of capital, PSE can also avoid high fees charged by developers for the "value-add" services completed during various stages of development. This sentiment is echoed in a 2007 study conducted by Thorndike Landing, a management consulting firm. Thorndike Landing's analysis of 12 wind portfolio transactions indicates market value of $21/kW up to $565/kW, depending on the stage of project development. The following table is a pictorial view of the additional premiums developers assess to buyers for the risk they incurred while developing a project:

CHART REDACTED

As mentioned earlier, PSE's typical resource acquisition strategy implemented before the Development Strategy was to acquire wind resources at the point construction commenced. The Development Strategy recognizes that by taking on development activities earlier in the acquisition process, PSE can generally save money by avoiding paying these high fees for late-stage development projects that are under construction. Please see Exhibit No. ___(RG-32C) for a copy of the Thorndike Landing study entitled "Assessment of the Wind Generation Market."

**Q. What risks does PSE face by pursuing the Development Strategy?**

A. The Development Strategy will require PSE to assume more developer risk for wind generating projects. These risks include the following: (i) risks associated with not completing all necessary site control, (ii) risks associated with findings of a poor wind resource, (iii) risks associated with community and local opposition to a project, (iv) risks associated with the inability to obtain necessary permits, and (v) risks associated with the inability to reach definitive agreements with the turbine supplier and construction contractor. Additionally, PSE assumes regulatory risk associated with the inability to recover project development costs if a project is found to be unfeasible and the project development is abandoned for unacceptable risks or costs.

**Q. What experience does PSE have to implement the Development Strategy?**

A. PSE has a strong foundation of development experience as a result of its work associated with the purchase of the Hopkins Ridge and Wild Horse Wind Facilities. For example, PSE played a key role in securing the necessary long-term firm transmission for the Hopkins Ridge Wind Facility; indeed, PSE's strategy and personnel are a key reason why the Hopkins Ridge Wind Facility was brought to fruition. With the Wild Horse Wind Project acquisition, PSE provided significant assistance to the developer to get the project permitted and helped in the real estate transactions.

PSE's ability to execute these types of deals requires a mix of utility expertise and project development expertise. PSE has recruited staff with independent power producer and non-utility project development experience. Combined with PSE's in-house resources, such as real estate, environmental, land-use and planning, and transmission integration, PSE has the experience and resources to deliver on project development. To further supplement PSE's experience, PSE contracts with outside consultants and legal firms that have ample experience with development and the wind industry.

**Q. Please describe the internal process PSE has established for review and approval of the development assets and activities.**

A. Similar to the acquisition process, PSE staff will present project development recommendations to the EMC and Board of Directors for approval. This process will occur more frequently than acquisitions to reflect the changing risk levels at key milestones in development. Currently, PSE projects that it will acquire two separate approvals for project development: (1) approval for development costs, and (2) approval for the construction budget and ongoing operation of the plant. PSE implemented this process for the Wild Horse Wind Expansion: PSE received EMC approval for acquisition of the development projects and Board approval for the construction budget, including the approval to enter into the Vestas Turbine Supply Agreement.

Q. **Will PSE follow the same process to gain prudency determinations for wind generating development projects as it does for acquisitions?**

A. Yes. PSE will submit each wind generating development project for a prudency determination by the Commission.

Q. **What will PSE do if development projects do not come to fruition?**

A. As stated above, one of the risks assumed by PSE in the Development Strategy is the risk that the Development Strategy cannot identify or develop viable projects. Projects that initially seem viable, may, through the development and due diligence processes, prove to be unworthy of development. In such a case, PSE will seek recovery of such costs because such funds were spent with the intention to meet growing customer loads and expanding resource needs.

**Q. Does PSE currently have any projects in development?**

A. Yes, PSE is currently developing the Wild Horse Wind Facility Expansion and entered into a Joint Development Agreement with RES. Both projects are discussed below.

## A. Wild Horse Wind Project Expansion

### 1. Facility Description

**Q. Can you please summarize the Wild Horse Wind Project Expansion?**

A. When completed, the Wild Horse Wind Project Expansion will be a 44 MW addition to the Wild Horse Wind Generating Facility located on an approximately 960-acre[4] site in unincorporated Kittitas County, approximately eleven miles east of the City of Kittitas. The Wild Horse Wind Project Expansion site is located adjacent to the Wild Horse Generating Facility on its northern border. It will incorporate 22 Vestas V80 2.0 MW wind turbine generators (the "WTGs"), which will interconnect at the existing Wild Horse electrical substation. The Wild Horse Wind Project Expansion site is uninhabited shrub steppe habitat currently used for cattle grazing and is owned by PSE.

The Wild Horse Wind Project Expansion was originally developed by Whiskey

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[4] Approximately 1,400 acres were purchased for the development of the Project; however, only approximately 960 acres are proposed for permitting.

B. **Joint Development Agreement with RES**

**Q. What is the purpose of this testimony with respect to the RES Joint Development Agreement?**

A. The purpose of this portion of the testimony with respect to the RES Joint Development Agreement ("JDA") is to update the Commission and the parties to the proceedings on the progress PSE is making in implementing its Development Strategy.

**Q. Is PSE requesting a prudence determination in this proceeding regarding the development of any project pursuant to the JDA?**

A. No. PSE is not requesting a prudence determination in this proceeding regarding the development of any project pursuant to the JDA. The RES JDA is the acquisition of the development rights to build several wind plants in the coming years. PSE will request a prudence determination of the acquisition of the development rights when, and if, projects are brought online. This testimony simply provides an overview of the projects in an effort to keep the Commission and parties apprised of PSE's activities with respect to the JDA.

1. **Project Description**

**Q. Can you please describe the JDA between PSE and RES?**

A. On November 26, 2008 PSE entered into the JDA with RES to acquire a half interest in development-stage wind projects in Columbia and Garfield Counties.

The purchase price is $[redacted]. Please see Exhibit No. ___(RG-45C) for a copy of the Joint Development Agreement (Columbia and Garfield Counties, Washington), dated as of November 26, 2008, among PSE, RES America Developments Inc., Blue Sky Wind, LLC, and RES America Construction Inc.

Q. **What assets were acquired under the terms of the JDA?**

A. The assets that were acquired included real property contracts (wind energy ground leases, anemometer agreements), meteorological towers and equipment, wind and climatic data and reports, environmental studies and reports, and interconnection studies and agreements. *See generally* Exhibit No. ___(RG-45C).

Q. **Please describe the projects included in the JDA.**

A. Preliminary analysis indicates there are four distinct development opportunities, or wind resource areas ("WRA"), based on geographically distinct regions. The WRA names and estimated capacity are as follows: Oliphant Ridge (200 MW), Tucannon (500 MW), Kuhl Ridge (300 MW), and Dutch Flats (250 MW) (collectively, the Oliphant Ridge Project, the Tucannon Project, the Kuhl Ridge Project, and the Dutch Flats Project are referred to as the Lower Snake River Projects). PSE owns a 50% undivided interest in these project developments. Additionally, the JDA is neither limited to these four WRA nor limited to 1,250 MW. In fact, PSE and RES have committed, pursuant to the JDA, to work together exclusively in Columbia and Garfield Counties on all future development for a term of four years from the date of execution of the JDA.

**Q. How will PSE and RES develop these WRAs?**

A. PSE and RES will develop the WRA with a phased project approach. A project phase is defined as an independently financed generating facility associated with a construction period. A project phase may incorporate all or part of more than one WRA. PSE and RES are currently planning to develop approximately 250 MW for each phase. The first 250 MW phase is planned to be constructed and in-service by 2011 and then the next four 250 MW phases will be constructed in succession, following the construction of the first phase.

### 2. Development Activities

**Q. Please explain how PSE and RES will jointly develop the projects.**

A. Under the terms of the JDA, PSE and RES will be tenants-in-common of these jointly-owned projects as specific projects are developed and constructed. During development, decisions are made by a Development Management Committee comprised of two members from PSE and two members from RES. The committee is responsible for initial project approval, budgets, schedules, selecting turbine vendors, development plans, project agreements, and final project approval.

In addition to the responsibilities delegated by the management committee, both PSE and RES have agreed to focus on other project development items. PSE will be responsible for substantially completing development work, community and government relations, as well as negotiating affiliate contracts. RES in turn will play a lead role in project development, obtaining permits, securing real estate rights, monthly reporting, and managing the joint funding account.

**Q. What are the key financial terms of the JDA?**

A. As stated above, PSE has paid RES $[redacted] for a 50% ownership interest in all development assets. At closing on December 5, 2008, PSE paid one quarter of this total ($[redacted]) to RES. PSE paid the remainder on February 9, 2009, when certain administrative milestones (i.e., finalization of project form agreements) were satisfied.

**Q. How will PSE account for the purchase price paid under the JDA and the ongoing development costs?**

A. PSE will allocate the purchase price across the four projects. During construction, PSE will continue to allocate the capital expenditures to the specific project in construction. As each project phase reaches commercial operation, PSE will record the capitalized amounts in plant asset accounts. If a project fails to reach commercial operation, PSE may file an accounting petition requesting amortization of the development expenses over a specified period of time.

**Q. Under the JDA, is PSE obligated to purchase the output of power from the RES portion of each project?**

A. No. PSE has the opportunity, but not the obligation, to purchase half of each project output. RES may market the power from its half to other potential power purchasers if PSE elects not to purchase the power.

**Q. How does PSE intend to finance its portion of the projects?**

A. Under the current arrangement, PSE and RES each own a 50% undivided interest in each operating wind project. PSE's financing of its 50% depends upon what financing is best to capture the benefit of PTCs. The American Recovery and Reinvestment Act of 2009 (the "Stimulus Bill") extends the deadline to place wind farms in service through 2012 to qualify for PTCs. The Stimulus Bill also gives wind developers the option to forego PTCs and claim a 30% investment tax credit instead for projects completed during 2009 and 2010, or through 2012 for projects that have commenced construction prior to the end of 2010. Alternatively, PSE will have the option to forego tax credits and receive a cash grant from the U.S. Treasury for 30% of the qualifying costs. PSE is currently evaluating which of these alternative credits will result in the lowest cost for PSE customers.

**Q. Please explain the use of tax equity financing.**

A. PSE will pursue tax equity financing if it appears to be the low cost alternative to realize the benefits of PTCs. Because PSE has a limited appetite for tax credits, the use of tax credits would involve partnership with a third party investor, called tax equity, who can use the tax credits. This financing would require the formation of a LLC where PSE could raise tax equity through partnership flip transactions. In such transactions, one or more tax equity investors are brought in as partners to own a project with PSE. As much as 99% of the tax benefits and other economic returns, except cash, are allocated to the tax equity investors until they reach a target return, after which their interest drops, or flips, usually to 5%. After about 10 years PSE has an option to buy out the remaining 5% interest of the investors for the fair market value determined when the option is exercised. These partnership structures are commonplace in developer-owned wind projects, but the structures will likely need to be modified slightly for optimal use in a regulated utility environment.

**Q. What if tax equity financing is not the lowest cost alternative to capture the benefits of the PTCs?**

A. If tax equity financing is not the low cost alternative, or if tax equity financing is not available, then PSE will pursue the cash grant as provided for in the Stimulus Bill.

**3. <u>Wind Resource Need</u>**

**Q. Why did PSE choose to pursue the JDA?**

A. As I described earlier about PSE's Wind Development strategy, PSE chose to pursue the JDA in order to both comply with the Washington RPS and meet the projected load-resource balance shortfall. Analysis from PSE's 2007 IRP suggests PSE will begin experiencing significant shortages commencing in 2012, as long-term power contracts begin to expire. As part of the lowest reasonable cost resource portfolio analysis, PSE has identified natural gas and wind as the most cost effective means of securing resources to meet customer needs.

The Washington State RPS requires PSE to generate 15% of its load with renewable resources by 2020, with interim milestones of 3% in 2012 and 9% in 2016. PSE currently owns two wind projects, Hopkins Ridge and Wild Horse (including the expansions to each), and signed a PPA to buy power from the Klondike III wind farm. Although PSE may have already met the 2012 RPS interim requirement, the load analysis suggests that PSE has significant renewable resource needs in order to comply with 2016 and 2020 goals. PSE also has a corporate goal of meeting 10% of its load with renewables by 2013 and committed to meet this corporate goal, subject to certain conditions, in Docket No. U-073275.

Q. **In light of PSE's progress in meeting the 2012 RPS milestone, why did PSE enter into the JDA now?**

A. To meet both the RPS requirements and PSE 10% goal, PSE needs to develop renewables in advance of these dates for three reasons. First, the timing to develop a wind farm is typically three to four years from wind study to commercial operations, so PSE will need to have projects in development before the milestone dates. Second, PSE does not want to be exposed to the potential market price spikes for wind assets and generation that could occur before each milestone requirement begins. PSE believes that locking up wind assets now will help offset future cost escalation in the coming years. Finally, given the volatility of the market, PSE strongly believes that pursuing the JDA allows PSE to control project costs more closely, timing of project development and risk associated with developing and owning wind farms.

**Q. What were the financial motivations for entering into the RES JDA?**

A. The purchase of fully developed wind projects would have been significantly more expensive for ratepayers than buying into a project earlier in the development cycle. As discussed above, the Thorndike Landing indicates market value of $[redacted]/kW up to $[redacted]/kW, depending on the stage of project development. See Exhibit No. ___(RG-32C) at page 33. As compared to the costs projected in the Thorndike Landing study, the PSE purchase price of $[redacted]/kW for development rights was well within the range of values seen for sales of comparable assets, if not more favorable.

**4. <u>Approval of the RES JDA</u>**

**Q. Please describe the process whereby senior management approved the JDA.**

A. On May 27, 2008, the RES JDA was presented to the EMC. After a review of the project characteristics, development risks, project timeline, capital budget, financing strategy, and RPS alternatives, the EMC approved the execution of the RES JDA. Please see Exhibit No. ___(RG-46C) for a copy of the minutes of the EMC approval of the RES JDA.

Since approval, resource acquisition staff has provided monthly development updates and, where appropriate, will seek approval from the EMC and the PSE Board of Directors. Senior management also participates in monthly JDA Management Committee meetings.

**Q. Can you describe the purpose of the JDA Management Committee meetings?**

A. Under the terms of the JDA, a Management Committee, comprised of two representatives each from PSE and RES, sets forth certain required approvals (such as development budgets, schedules, development plans, etc.), and sets forth development duties for the two parties.

### 5. Project Development Process

**Q. What is the project construction schedule?**

A. The construction processes for the WRAs are being defined. PSE anticipates it will build the first 250 MW project in 2011 and subsequent development should occur in succession in 250 MW phases.

Infrastructure improvements required by BPA could potentially delay the project build schedule. BPA will require a new substation to interconnect the Lower Snake River Projects (and other wind projects being developed by other independent developers in the area) to the BPA transmission system. Prior to the anticipated completion of the substation in the fall of 2011, only one of the 250 MW projects may be interconnected to the electrical grid without further

BPA upgrades to the transmission system. A new 40-mile BPA transmission line dubbed the "Little Goose Area Reinforcement" will need to be constructed to accommodate any project capacity over 250 MW.

**Q. Please discuss some of the risks associated with the RES JDA?**

A. Although analysis by PSE and outside consultants suggest a significantly reduced buy-in price for earlier stage wind projects, there are also greater risks that are associated with any early-stage development project. PSE has identified some of these risks to be:

- <u>Permitting Risk</u> – PSE and RES may fail to successfully permit the project sites for wind turbines.
- <u>Negative Community Sentiment</u> – Public opposition may make the development cycle significantly longer than anticipated.
- <u>Unforeseen Development Costs</u> – Even with the most careful planning, developments generally incur costs not budgeted at project inception.
- <u>Transmission Payments</u> – In the event of the failure of the construction of all or some of a project, PSE and RES may have overpaid BPA for transmission.
- <u>Turbine Availability</u> – Over the last few years, turbines have been in high demand and increasingly expensive. Recent softening in the market has occurred but could quickly change course due to the recent passage of the Stimulus Bill and as the economy begins to recover.
- <u>RPS Revisions</u> – Federal or State government may elect to strengthen or weaken RPS requirements.
- <u>Extended Development Delay</u> – PSE and RES have five years to commence development efforts. Failure to do so would give landowners the opportunity to lease their wind rights to a different party.

6. **Process for Seeking Board of Directors' Approval**

**Q. Will PSE staff still gain Board of Directors' approval for acquisition and development of these projects?**

A. Yes, as I described earlier, PSE staff will continue to inform upper-level management about acquisition activities and gain project approval for large capital projects. When small enough, such as a development budget for one project, PSE staff will present development recommendations to the EMC for approval. When specific items, such as WTG deposits and supply agreements or final project approval, carry a significant amount of risk to either ratepayers or shareholders, PSE staff will seek to gain Board of Directors' approval.

7. **Process for Prudence Approval from the Commission**

**Q. Will the Lower Snake River Projects require any modifications to the prudence approval process?**

A. No. PSE anticipates that it will seek a prudence determination from the Commission for the Lower Snake River Projects either through a general rate case or a power cost only rate case, as such projects near completion or are completed.

# BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
**2011 General Rate Case**

**WUTC STAFF DATA REQUEST NO. 200**

**WUTC STAFF DATA REQUEST NO. 200:**

**RE: LSR Phase 1**

If not included in the response to the previous data request, please provide detailed documentation and calculations demonstrating that PSE spent at least 5% of the LSR Phase 1 project budget prior to December 31, 2010 in order to qualify for the Treasury Cash Grant for large wind projects.

**Response:**

Puget Sound Energy, Inc. ("PSE") has not conducted the analysis requested in WUTC Staff Data Request No. 200. The Section 1603 Treasury Cash Grant Program ("Grant") was changed on December 17, 2010, with the passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("the Act"). Prior to this Act, a project had to start construction by December 31, 2010 and be placed into service by December 31 2012 in order to qualify for the Grant. The Act allowed a qualifying project to start construction by December 31, 2011 but did not change the in-service date requirement of December 31, 2012 to qualify for the Grant.

Due to the extensive construction work completed during 2011 on the Lower Snake River Phase I project, PSE has opted to submit documentation demonstrating that "Physical Work of a Significant Nature" in order to fulfill the Beginning of Construction requirement has been met, which is an alternative way to comply with U.S. Treasury requirements.

Attached as Attachment A to WUTC Staff Data Request No. 200, please find a copy of the Independent Engineer's report PSE submitted on November 18, 2011 to the United States Department of the Treasury to meet Section 1603 Treasury Cash Grant Program requirements.

Attachment A to PSE's Response to WUTC Staff Data Request No. 200 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

## BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
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**WUTC STAFF DATA REQUEST NO. 200**

**"CONFIDENTIAL" Table of Contents**

| DR NO. | "CONFIDENTIAL" Material |
|---|---|
| **200** | Attachment A to PSE's Response to WUTC Staff Data Request No. 200 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049. |

Dockets UE-111048 UG-111049
Exhibit No. RG-40C CY
REDACTED VERSION

**PSE'S RESPONSE TO WUTC STAFF DATA REQUEST NO. 200**
**CONFIDENTIAL ATTACHMENT A**

**IS CONFIDENTIAL IN ITS ENTIRETY**

**PAGES 3 THROUGH 53**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
**2011 General Rate Case**

**WUTC STAFF DATA REQUEST NO. 202**

**WUTC STAFF DATA REQUEST NO. 202:**

**RE: LSR Phase 1**

Assuming that other existing wind resources (owned or under contract) are used before LSR Phase 1 generation to satisfy Washington RPS requirements starting January 2012, please provide calculations in an excel spreadsheet showing the annual projected energy generation for LSR Phase 1 and the energy generated in excess of that needed to meet PSE's projected RPS target, in MWhs and as a percent of total LSR Phase 1 project generation, for the periods:

a. Estimated date of substantial completion through the end of calendar year 2015; and
b. January 1, 2016 through December 31, 2019.

**Response:**

Attached as Attachment A to Puget Sound Energy, Inc.'s ("PSE") Response to WUTC Staff Data Request No. 202, please find an analysis that depicts PSE's projected Renewable Portfolio Standard ("RPS") targets, as well as projected renewable energy credit ("REC") balances by year. The calculations and projections are based on RECs, not MWhs, because there are non-generation denominated RECs (e.g., apprentice labor credits) that qualify for RPS compliance in Washington.

Attachment A to PSE's Response to WUTC Staff Data Request No. 202 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
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WUTC STAFF DATA REQUEST NO. 202

"CONFIDENTIAL" Table of Contents

| DR NO. | "CONFIDENTIAL" Material |
|---|---|
| 202 | Attachment A to PSE's Response to WUTC Staff Data Request No. 202 is CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049. |

**PSE'S RESPONSE TO WUTC STAFF DATA REQUEST NO. 202**
**CONFIDENTIAL ATTACHMENT A**

**IS CONFIDENTIAL IN ITS ENTIRETY**

**PAGE 3**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
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PUBLIC COUNSEL DATA REQUEST NO. 517

PUBLIC COUNSEL DATA REQUEST NO. 517:

**RE: Exhibit No. RG-1HCT, p. 25, lines 15-19.**

Please provide a copy of PSE's Development Strategy for wind, initiated in late 2006 and any updates made since its it was crafted.

Response:

Please see the Prefiled Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1HCT), page 26, lines 3-5, which refer to a copy of Puget Sound Energy, Inc.'s ("PSE") development strategy in Exhibit No. ___(RG-7HC).

No updates have been made to this strategy except for the actual execution of the Wild Horse Expansion project and the Lower Snake River wind development project as further explained in Exhibit No. ___(RG-1HCT).

## BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
**2011 General Rate Case**

**PUBLIC COUNSEL DATA REQUEST NO. 518**

**PUBLIC COUNSEL DATA REQUEST NO. 518:**

**RE: Exhibit No. RG-1HCT, p. 48, line 6-9.**

a. Provide the date on which PSE decided to postpone the January 2010 LSR recommendation to the Board of Directors?

b. Who in "PSE management" was involved in the decision to postpone the recommendation to the Board?

**Response:**

a. Puget Sound Energy, Inc. ("PSE") decided to postpone the January 2010 Lower Snake River Phase I recommendation to the Board of Directors on December 17, 2009.

b. Kimberly Harris, Eric Markell, Jennifer O'Connor, Bert Valdman, and Paul Wiegand were involved in the decision to postpone the recommendation to the Board.

## BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

### Docket Nos. UE-111048 and UG-111049
### Puget Sound Energy, Inc.'s
### 2011 General Rate Case

### PUBLIC COUNSEL DATA REQUEST NO. 519

**PUBLIC COUNSEL DATA REQUEST NO. 519:**

**RE: Exhibit No. RG-1HCT, p. 49, lines 5-7.**

a. On what date PSE decide to bifurcate the renewable resource portion of the 2010 RFP evaluation?

b. Who at PSE was involved in the decision to bifurcate the renewable RFP evaluation?

c. Did PSE inform the public and/or bidders of this change in the process timeline? If yes, what information was provided to the public and/or to bidders?

**Response:**

a. Puget Sound Energy, Inc. ("PSE") decided to bifurcate the renewable resource portion of the 2010 RFP evaluation on March 3, 2010.

b. Kimberly Harris, Roger Garratt, Chris Bevil, and Aliza Seelig were involved in the decision to bifurcate the renewable RFP evaluation.

c. No formal notification was provided to the bidders and/or public; however, informal communications were held with individual bidders about the change in the process timeline. Also note that shown in Exhibit No. ___(AS-3HC), page 310 and 327, PSE presented to this Commission on March 9, 2010, the change in the process timeline.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-111048 and UG-111049
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PUBLIC COUNSEL DATA REQUEST NO. 520

**PUBLIC COUNSEL DATA REQUEST NO. 520:**

**RE: Exhibit No. RG-1HCT, p. 49, lines 8-9.**

When was it decided that approval of LSR would be sought at the May 5, 2010 Board Meeting?

**Response:**

It was decided that approval of Lower Snake River Phase I would be sought at the May 5, 2010 Board meeting on April 22, 2010.

# BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
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## PUBLIC COUNSEL DATA REQUEST NO. 521

**PUBLIC COUNSEL DATA REQUEST NO. 521:**

**RE: Exhibit No. RG-1HCT, p. 57, line 19- p. 58, line 2.**

a. Please indicate the date that PSE notified parties of their status in the renewable resource evaluation process. Did all parties receive notification at the same time?

b. Were any parties provided with information regarding their status prior to the Board Meeting on May 5, 2010? If yes, please provide the dates PSE contacted bidders about their status.

c. What specific information was included in the status update provided to parties?

**Response:**

a. After April 22, 2010, Puget Sound Energy, Inc. ("PSE") held either telephone conferences or in-person meetings with the parties that had been selected for further consideration and with various parties that had not been selected. On May 4, 2010, PSE sent formal letters via U.S. mail to the parties that had not been selected. The letters were all sent on the same day and the telephone calls and meetings were held over several weeks after April 22, 2010.

b. Yes. PSE is unable to confirm exact dates for the parties. A few known dates include an in-person meeting with one party on April 29, 2010, an in-person meeting with one party on April 30, 2010, and a telephone conference with one party on May 4, 2010.

c. Attached as Attachment A to PSE's Response to Public Counsel Data Request No. 521, please see the letter template that was sent to the parties that were not selected.

Because the parties selected for further evaluation were informed either in person or by telephone, PSE is unable to provide specifics; but generally, the parties were told that their proposals warranted further consideration and PSE would continue to perform due diligence.

# ATTACHMENT A
# TO PSE'S RESPONSE TO PUBLIC COUNSEL DATA NO. 521

Month ##, 2010

Name
Company
Address 1
Address 2

RE: PSE 2010 All-Source RFP

Dear [Name]:

Puget Sound Energy ("PSE") has completed its evaluation of the renewable proposals received in response to the 2010 All-Source RFP. We regret to inform you that the proposed [Project Name] has not been selected to the final short list.

As PSE continues to seek resources to meet the needs of our customers, we encourage you to participate in future RFPs. PSE also has the ability to review resource proposals outside the RFP process and we welcome the opportunity to discuss project updates.

Thank you for your participation in the RFP process. We look forward to our continued relationship. If you have any questions or comments, I encourage you to contact me at (425) 456-2757.

Sincerely,

Chris Bevil
Manager, Resource Acquisition

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049**
**Puget Sound Energy, Inc.'s**
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PUBLIC COUNSEL DATA REQUEST NO. 526

**PUBLIC COUNSEL DATA REQUEST NO. 526:**

Please provide the dates and amount of each of the BPA payments made prior to the Re-evaluation of LSR Phase I.

**Response:**

As of May 27, 2010, the date referenced in the analysis cited on page 473 of Exhibit No. ___(AS-3HC), Puget Sound Energy, Inc. had made the following payments to Bonneville Power Administration:

| Amount | Date |
|---|---|
| $ 500,000 | August 15, 2008 |
| $13,200,000 | February 23 & 24, 2009 |
| $ 3,500,000 | June 2, 2009 |
| $10,500,000 | August 31, 2009 |
| $10,500,000 | September 30, 2009 |