

**EXHIBIT NO. ___(KJH-7HC)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
WITNESS: KIMBERLY J. HARRIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-07___
Docket No. UG-07___**

**SIXTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
KIMBERLY J. HARRIS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

DECEMBER 3, 2007



PUGET SOUND ENERGY

The energy to do great things

Resource Acquisition Update:

What's Next?

January 9, 2007

Eric Markell

Senior Vice President, Energy Resources

Overarching Themes

- Growing need; load forecast up by 233 aMW (Winter 2007-2008)
- Attractive Resource Supply Options are Narrowing
- PSE acting on executable alternatives
- Acquisition strategy centered around viable, economical renewable resources
- PSE moving up development chain on wind
- Need to consider self development (or development partnerships) relating to other technologies
- Monitoring IGCC developments

Attractive Resource Supply Options are Narrowing

- Wind
 - ◆ Acquisition challenges – PSE must move up development chain
 - ◆ Permitting challenges
 - ◆ Transmission challenges
 - ◆ Production Tax Credit extended through 12/08; future extension likely
 - ◆ Rising equipment and EPC costs; weak dollar vs. Euro
 - ◆ RPS requires PSE to add ~770 MW (nameplate capacity) by 2020
- Biomass
 - ◆ Very few opportunities have surfaced; ~ 50-100 MW, in aggregate
 - ◆ Fuel supply challenges; some fuel not “green”
 - ◆ Need focused development teams
 - ◆ High unit costs
 - ◆ BC opportunities merit exploration
- Geothermal
 - ◆ Idaho and Oregon only
 - ◆ Very small quantities surfaced ~ 15 MW
 - ◆ Transmission challenges

Attractive Resource Supply Options are Narrowing

- Solar
 - ◆ Advancing PSE demonstration project at Wild Horse
 - ◆ Project may act as a catalyst to bring the first solar manufacturer to Washington
 - ◆ Economies of scale slowly improving
- Wave Energy and Tidal Power
 - ◆ R&D stages
 - ◆ Monitoring preliminary permitting efforts in region
 - ◆ Participating in feasibility efforts
 - ◆ Interconnection and transmission challenges
 - ◆ Permitting challenges
 - ◆ High costs

Attractive Resource Supply Options are Narrowing

- Hydro
 - ◆ Opportunities mostly limited to BC and Alaska
 - ◆ Significant transmission challenges
 - ◆ Competing w/ BC Hydro on BC opportunities
 - ◆ Monitoring Southeast Alaska opportunities
- Conventional Pulverized Coal
 - ◆ Interior PNW projects have no transmission to I-5 market
 - ◆ Permitting problematic
 - ◆ Carbon risk (caps and taxes)
 - ◆ Little serious development activity in region
 - ◆ Emission levels (especially mercury and CO₂) may disqualify coal as viable option

Attractive Resource Supply Options are Narrowing

- Gas-Fired Combined Cycle Combustion Turbines
 - ◆ Two unbuilt plants in I-5 corridor are currently being completed by IPP owners for short-term merchant power sales
 - ◆ Two existing IPP-owned plants in I-5 corridor pose potential acquisition opportunity (Big Hanaford and Chehalis)
 - ◆ Self-build or partnering option merits increased attention
- Gas-Fired Reciprocating Engine Projects
 - ◆ Medium heat rates (~8500 Btu/KWh HHV)
 - ◆ Highly flexible dispatch and load following capability
 - ◆ May be critical to ability to integrate more wind to comply with RPS
 - ◆ Economics challenged by high capital costs
 - ◆ Self-build option in I-5 corridor merits consideration
 - ◆ Location and operational attributes may help management of transmission system and emerging NERC system security requirements
 - ◆ Well-suited for standby reserve applications

Attractive Resource Supply Options are Narrowing

- Integrated Gasification Combined Cycle (“IGCC”)
 - ◆ Rapidly emerging as BACT, at least on West Coast
 - ◆ I-5 corridor location possible
 - ◆ Projects can be made “carbon sequestration ready”
 - ◆ CO₂ sequestration may be feasible on commercial scale in 10-20 years
 - ◆ Provides important fuel risk diversification to PSE portfolio
 - ◆ Commercial and technical terms slowly evolving
 - ◆ Dialogue with possible developers:
 - ◆ Energy Northwest (Port of Kalama, WA)
 - ◆ Tenaska (Ferndale, WA)
 - ◆ Summit Power (Port Westward, OR)
 - ◆ Wallula Resource Recovery (Port of Wallula, WA)

What's Next?

Probable

- Goldendale 277 MW CCCT acquisition
- [redacted] PPA extension (2011-2025)

Possible

- Klondike III 50 MW wind PPA with PPM Energy (2007-2027)
- 40 MW PPA with [redacted] (50% renewable) (2009-2029)
- Raft River 15 MW geothermal PPA with [redacted] (2008-2032)
- [redacted] 150 MW seasonal (Dec-Feb) on-peak bridging PPA (2006-2011)
- [redacted] 225 MW on-peak bridging PPA (2006-2011)
- [redacted] 9 MW peaking reciprocating engines acquisition

CONFIDENTIAL
Per WAC 480-07-160

Text in box is Confidential

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Per WAC 480-07-160

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Redacted



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Exhibit No. (KJH-7HC)
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RENEWABLE RESOURCE ACQUISITION

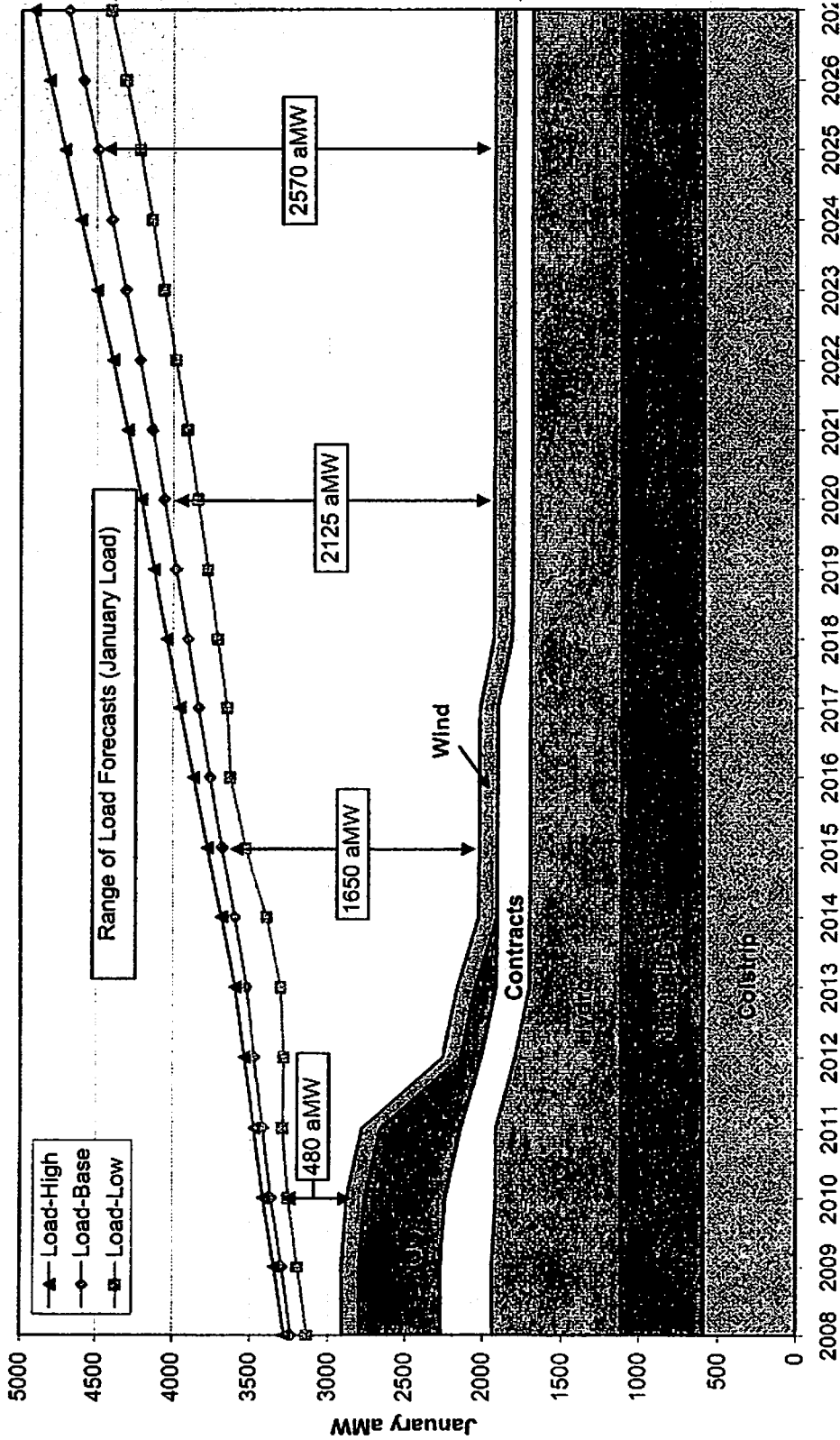
**PSE Board of Directors Retreat
August 3, 2007**

Roger Garratt
Director, Resource Acquisition

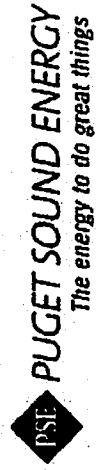
Agenda

- Resource Need and Strategy
- Renewable Market Overview
- Renewable Opportunities
- Summary

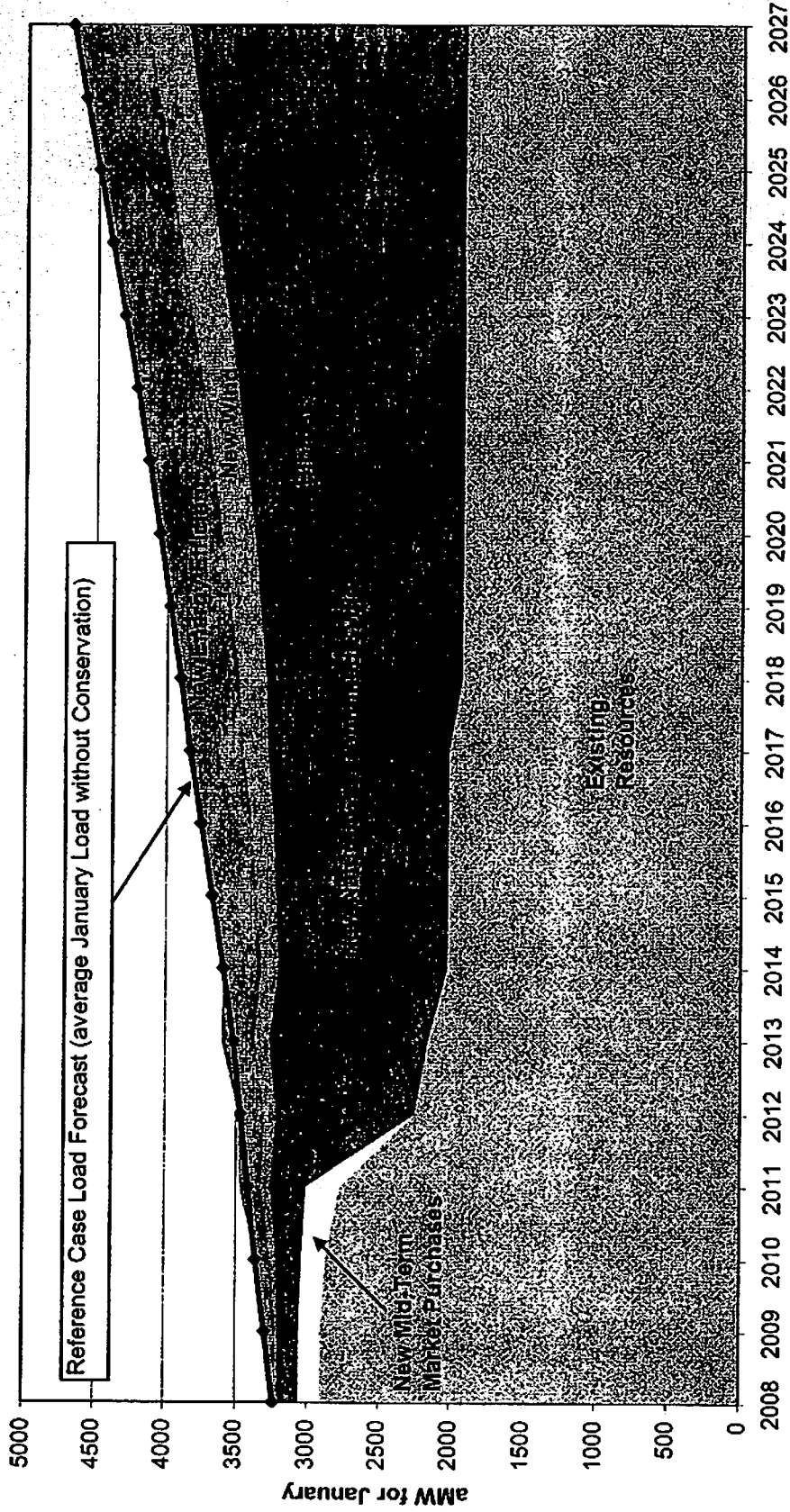
Resource Need*



*As identified in PSE's 2007 Integrated Resource Plan

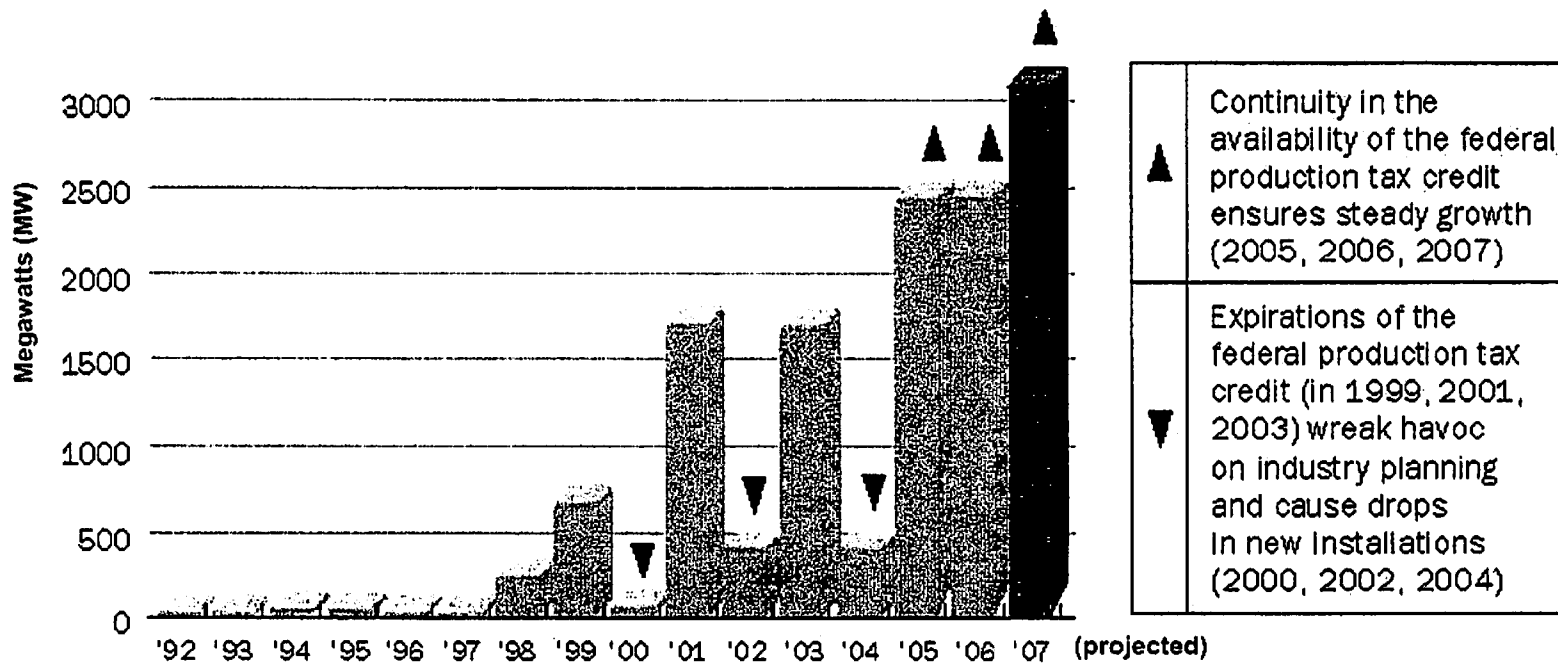


Resource Strategy*

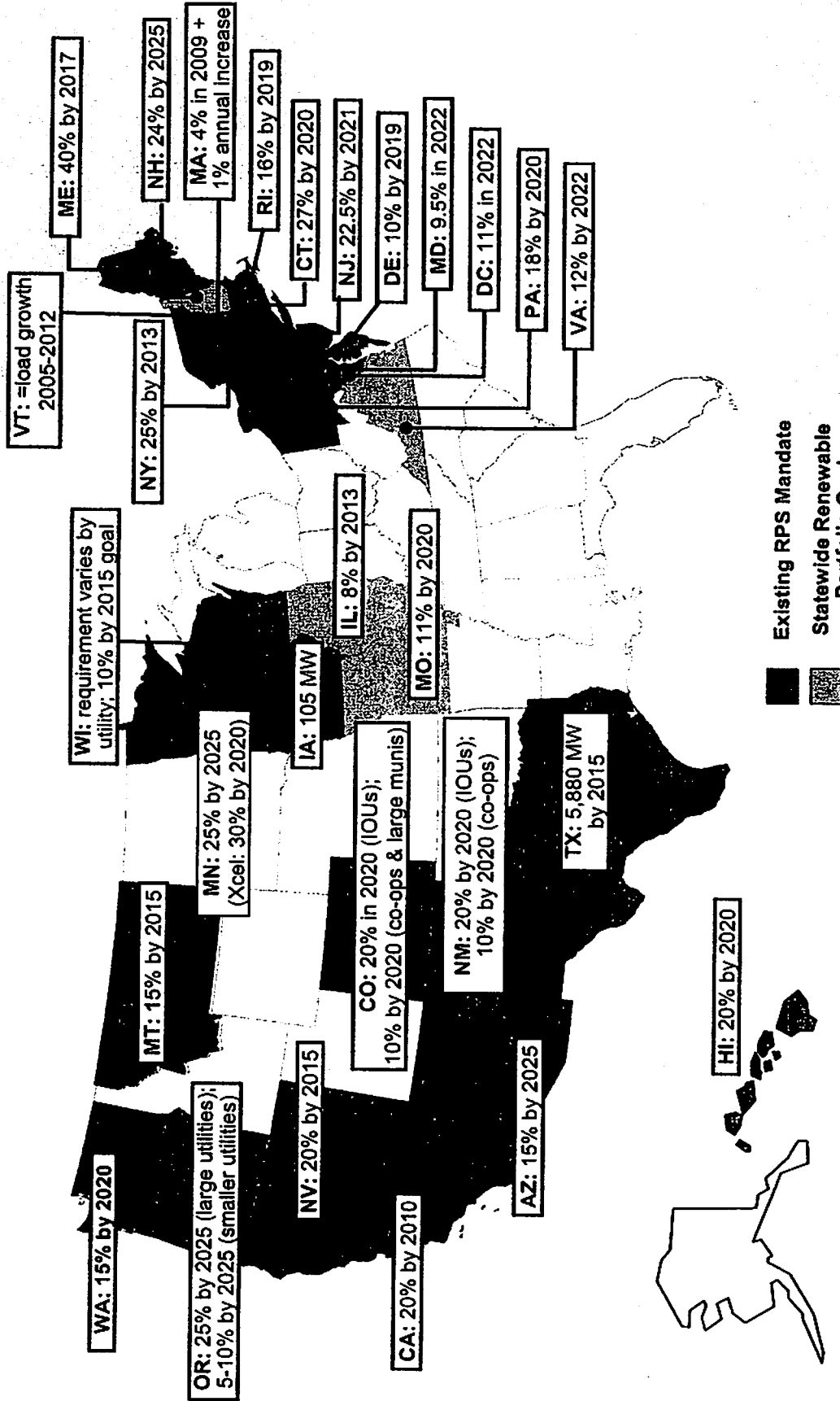


*As identified in PSE's 2007 Integrated Resource Plan

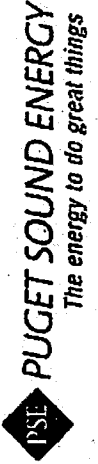
Annual Installed U.S. Wind Energy Capacity On the Rise



Renewable Portfolio Standards (RPS)

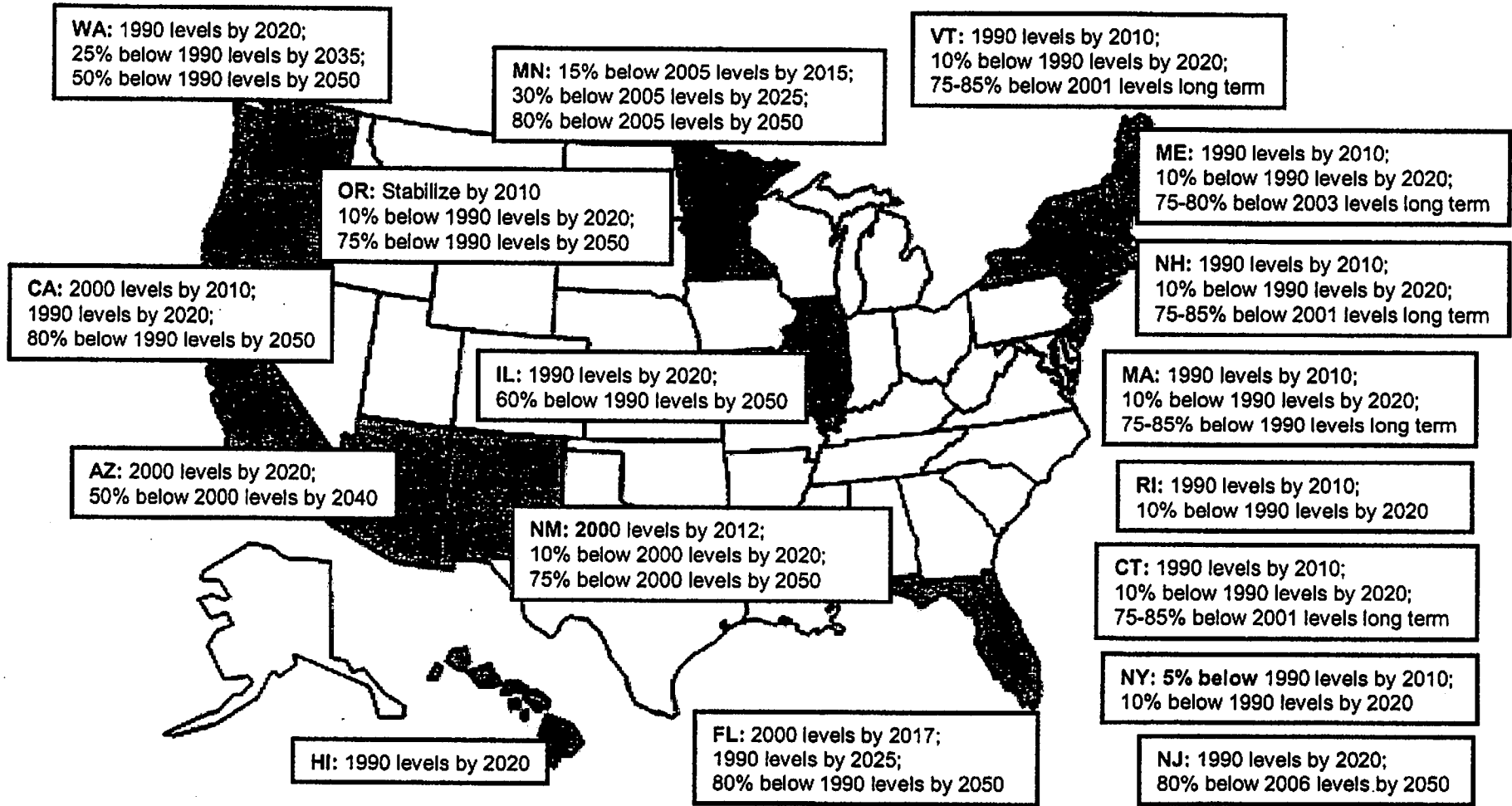


Existing RPS Mandate
 Statewide Renewable Portfolio Goal



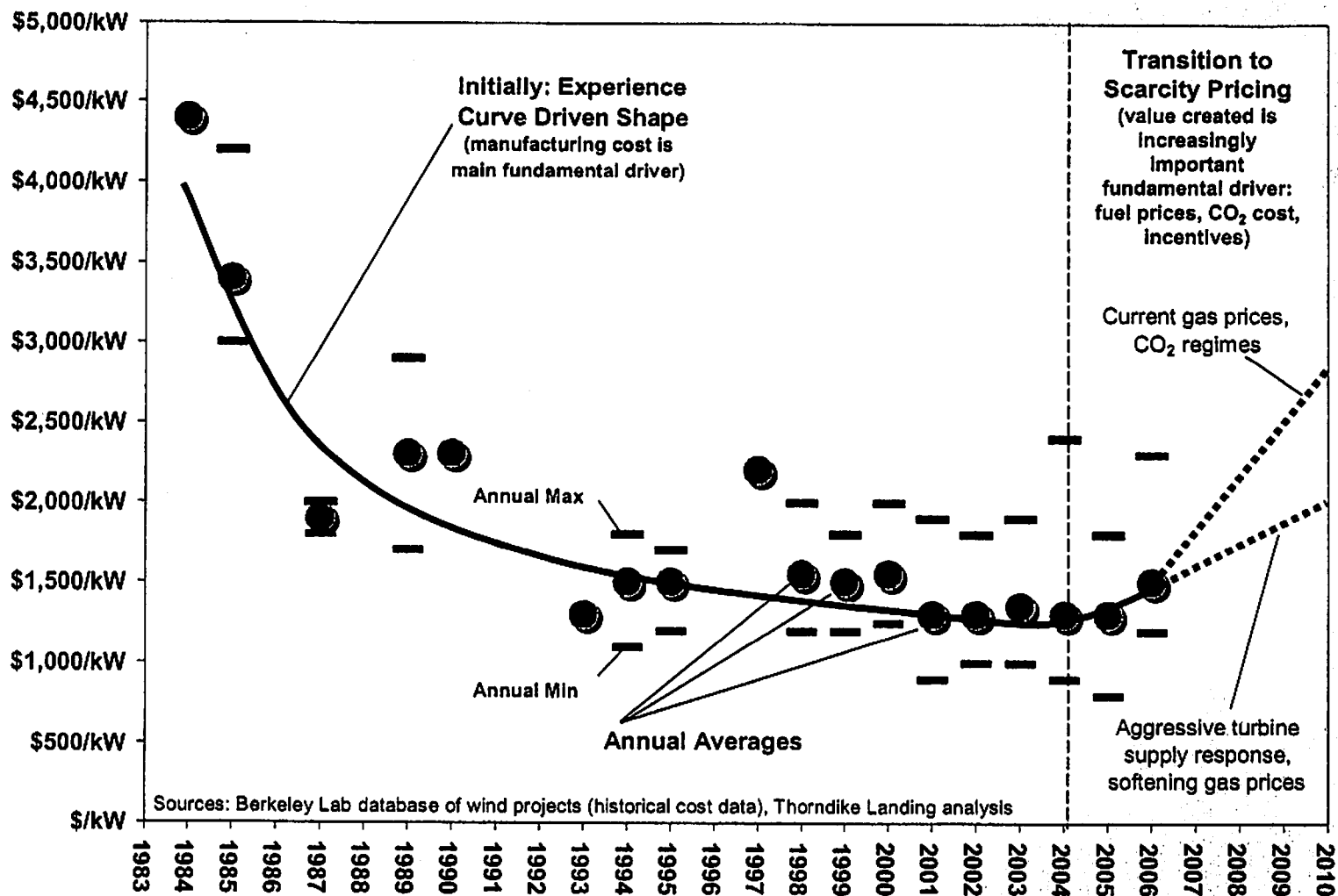
Sources: www.dsireusa.org and EEI, July 2007

Greenhouse Gas (GHG) Targets



Source: www.pewclimate.org

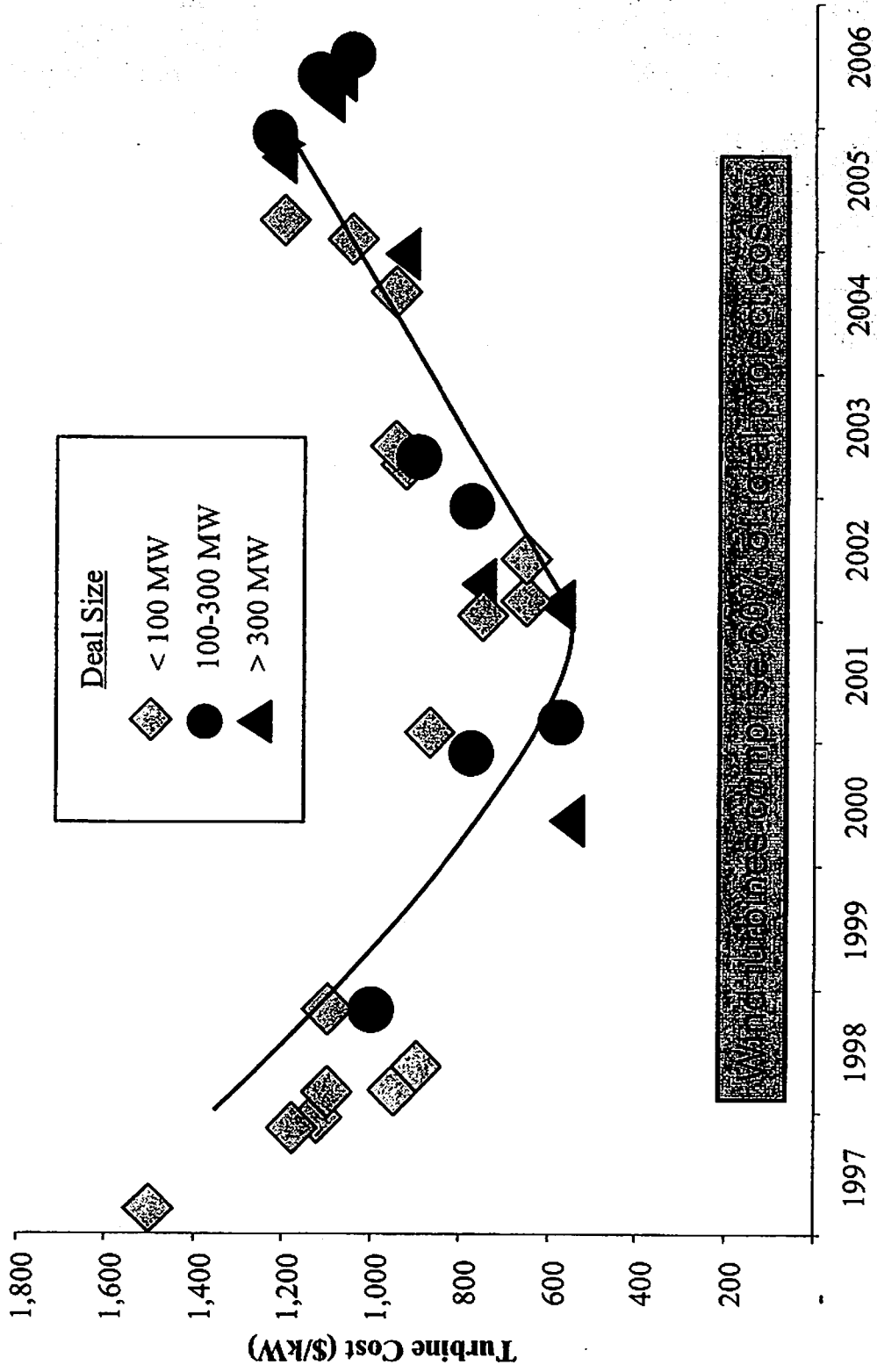
Rising Installed Wind Project Costs



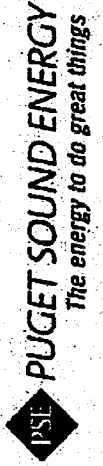
Source: Thorndike Landing analysis



Rising Wind Turbine Costs



Source: Berkeley Lab database. Thorndike Landing analysis.



Developer Consolidation

Merger and acquisition activity among U.S. wind development companies*

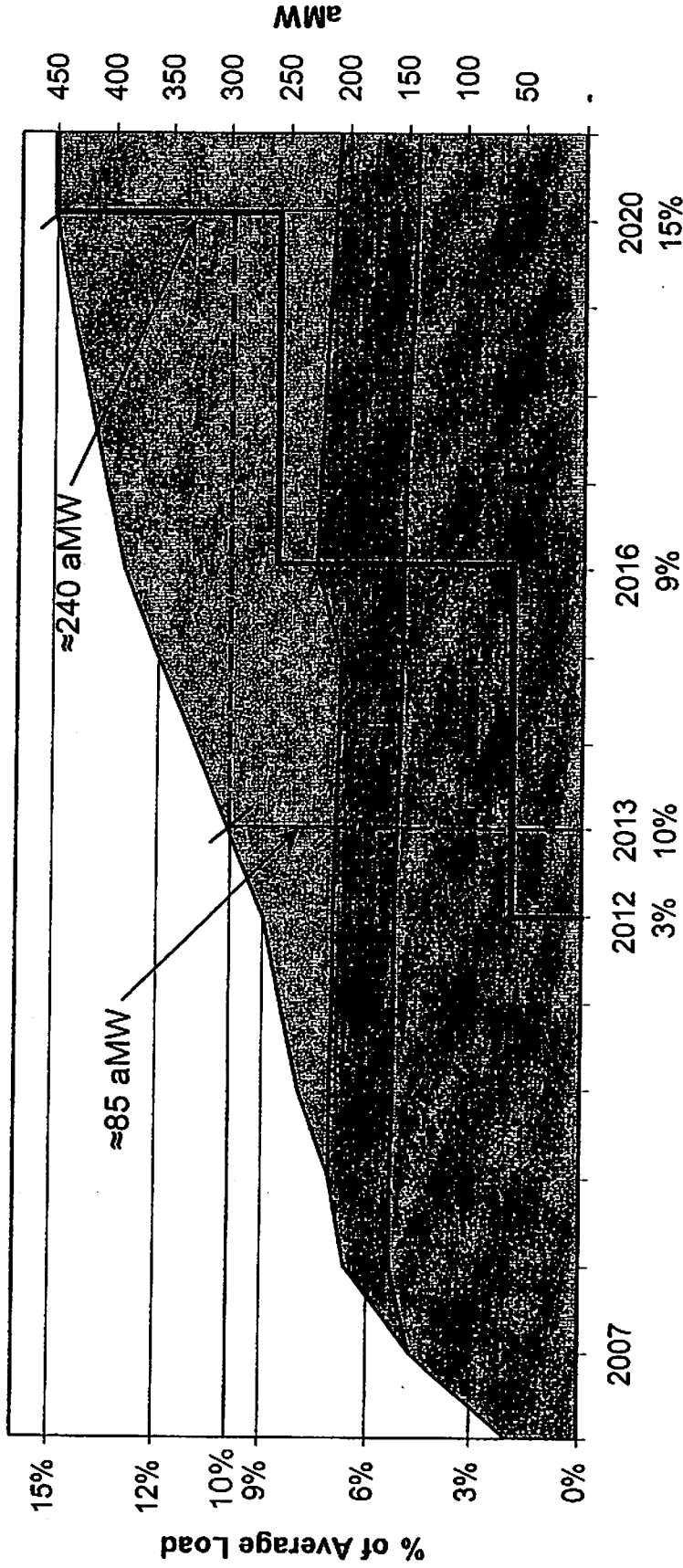
Company	Transaction	Company	Transaction	Company	Transaction	Date
EDF (SIIF) Energies	Acquisition	Verigo	Acquisition	Verigo	Acquisition	May-02
Gamesa	Investment	Navitas	Investment	Navitas	Investment	Oct-02
AES	Investment	US Wind Force	Investment	US Wind Force	Investment	Sep-04
PPM Energy	Acquisition	Atlantic Renewable Energy Corp.	Acquisition	Atlantic Renewable Energy Corp.	Acquisition	Dec-04
AES	Acquisition	SeaWest	Acquisition	SeaWest	Acquisition	Jan-05
Goldman Sachs	Acquisition	Zilkha (Horizon Renewable Energy)	Acquisition	Zilkha (Horizon Renewable Energy)	Acquisition	Mar-05
J.P. Morgan Partners	Investment	Noble Power	Investment	Noble Power	Investment	Mar-05
ArcLight Capital	Investment	CPV Wind	Investment	CPV Wind	Investment	Jul-05
Flamenco Castle	Acquisition	Catarbunt	Acquisition	Catarbunt	Acquisition	Oct-05
Pacific Hydro	Investment	Western Wind Energy LLC	Investment	Western Wind Energy LLC	Investment	Oct-05
Greenlight	Acquisition	Coastal Wind Energy LLC	Acquisition	Coastal Wind Energy LLC	Acquisition	Nov-05
EP US Power Fund II	Investment	Terra Energy LLC	Investment	Terra Energy LLC	Investment	Dec-05
Altagity	Acquisition	Renewable Generation Inc.	Acquisition	Renewable Generation Inc.	Acquisition	Dec-05
Babcock & Brown	Acquisition	GE Energy LLC	Acquisition	GE Energy LLC	Acquisition	Jan-06
Iberdrola	Acquisition	Commodity Energy Inc.	Acquisition	Commodity Energy Inc.	Acquisition	Apr-06
Shaw/Madison Dearborn	Investment	UPC Wind	Investment	UPC Wind	Investment	May-06
NRG	Acquisition	Padoma	Acquisition	Padoma	Acquisition	Jun-06
CPV Wind	Acquisition	Disgen	Acquisition	Disgen	Acquisition	Jul-06
BP	Investment	Cjpper	Investment	Cjpper	Investment	Jul-06
BP	Acquisition	Greenlight	Acquisition	Greenlight	Acquisition	Aug-06
Babcock & Brown	Acquisition	Superior	Acquisition	Superior	Acquisition	Aug-06
Enel	Investment	TradeWind	Investment	TradeWind	Investment	Sep-06
Iberdrola	Acquisition	Midwest Renewable Energy Corp.	Acquisition	Midwest Renewable Energy Corp.	Acquisition	Oct-06
Iberdrola	Acquisition	Gamesa Subsidiary Project Pipeline	Acquisition	Gamesa Subsidiary Project Pipeline	Acquisition	Oct-06
Iberdrola	Acquisition	PRM (Scottish Power)	Acquisition	PRM (Scottish Power)	Acquisition	Oct-06
BP	Acquisition	Orion Energy	Acquisition	Orion Energy	Acquisition	Dec-06
EDP	Acquisition	Horizon Renewable Energy	Acquisition	Horizon Renewable Energy	Acquisition	Mar-07

*Select list of announced transactions; excludes joint development activity.

Source: U.S. Department of Energy, Annual Report on U.S. Wind Power Installation, Cost, and Performance Trends: 2006. Berkeley Lab and Black & Veatch.



PSE Renewable Acquisition Strategy



--- PSE 10% Goal

— RPS Requirement

Future Renewable Acquisitions

Under Active Consideration

Existing Renewables: Hopkins Ridge + Wild Horse + Klondike 3

+ Hopkins Ridge Infill + Wild Horse Solar



Current PSE Position

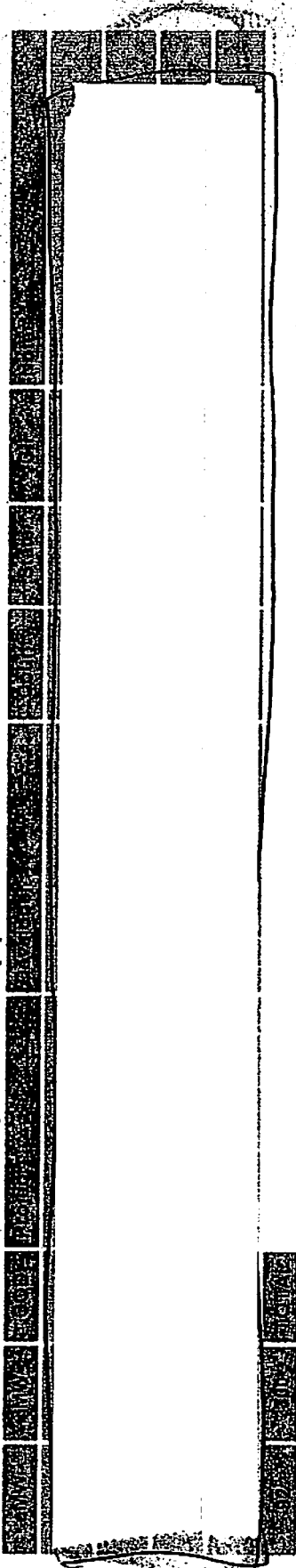
- Strong commercial reputation
- Proven track record as closer and partner
- Demonstrated project management and construction management skill set

BUT

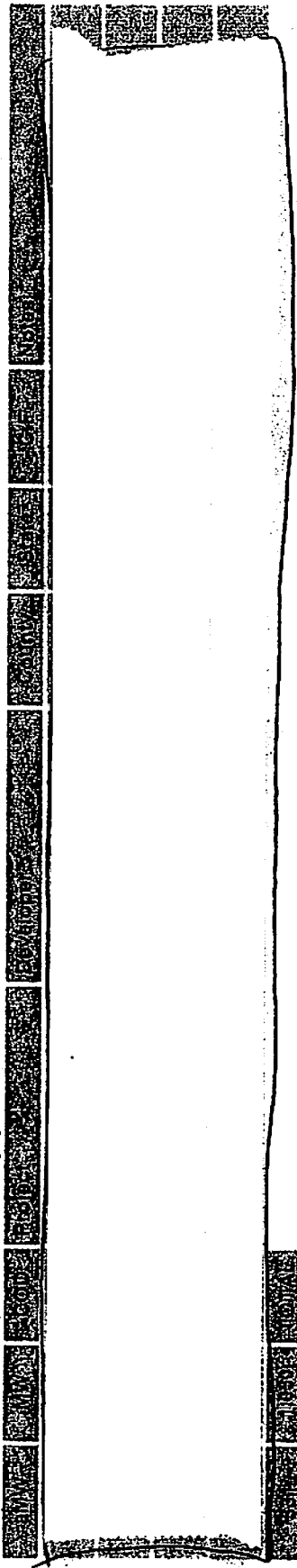
- Market is more competitive
- We don't control any options

Identified Opportunities for Future Acquisition & Improved Control

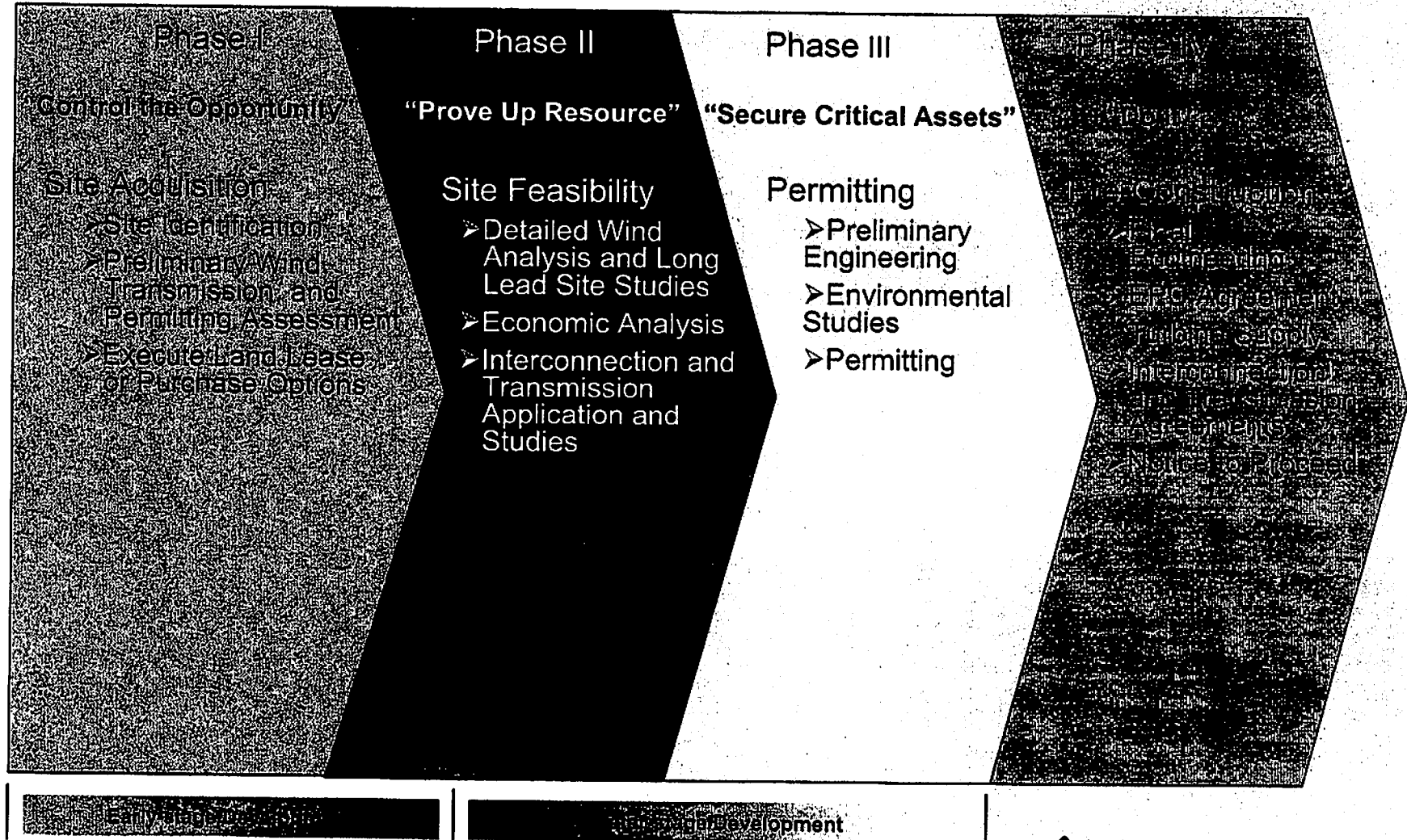
Acquisition and Development Opportunities



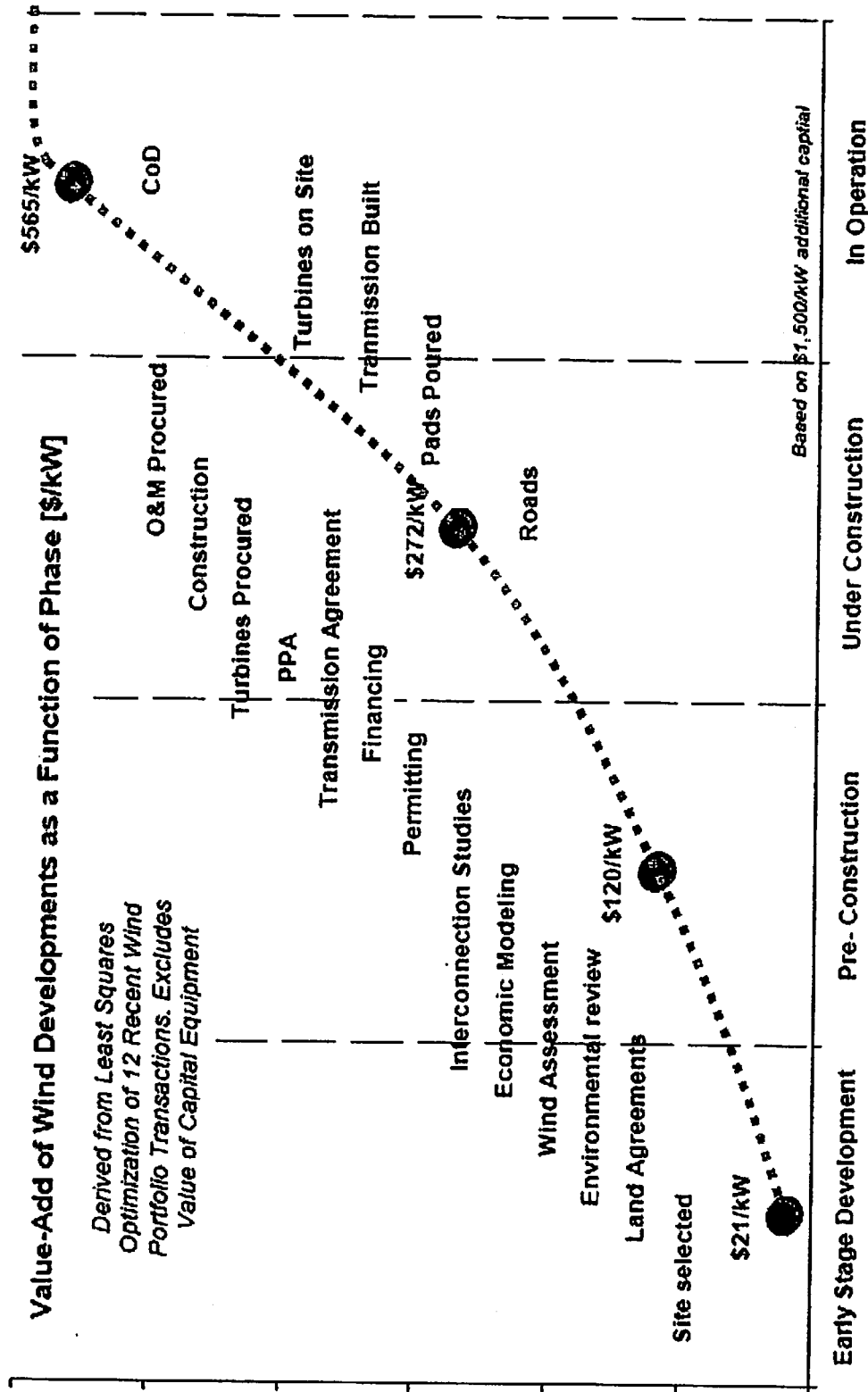
Joint Development Opportunities



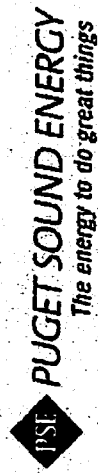
Wind Development Activities



Wind Farm Value Chain



Source: Thorndike Landing analysis



Key Impacts

Deal and development team staffing	O&M expenditures
Project management staffing	Accounting treatment
Tax credit financing	Regulatory treatment

Summary

- Moving Up the Development Chain
- Pursuing Joint Development Opportunities