

**EXHIBIT NO. ___(RG-6HC)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-09___
Docket No. UG-09___**

**FIFTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

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MAY 8, 2009

2008 RFP Phase II Update

Meeting with WUTC Staff

September 19, 2008



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2008 RFP Schedule

October 12, 2007	Draft RFP Filed with WUTC
October 29, 2007	PSE Public Meeting on Draft RFP
December 11, 2007	Public Comments Due
January 10, 2008	WUTC Comments Expected
January 11, 2008	PSE Releases Final RFP Solicitation
January 23, 2008	PSE Hosts Proposal Conference
February 29, 2008	Offers Due to PSE
April 2008	Preliminary "Candidate" Short List Selected
July 2008	Final Short List Selected, Respondents Notified
	Post-proposal Negotiations

2008 RFP Selected Short List*

Final Short List

Project	Owner /Developer	Location	MW	Status	Term	Offer	Levelized Cost \$/MWh	Portfolio Benefit \$,000,000	Benefit Ratio
XXXXXX XXXXXX	XXXXXX	XXXXXX	XXX	XXXXXX	XXXXXX	XXXXXX XXXXXX	XXX	XXX	XXX
XXXXXX XXXXXX	XXXXXX	XXXXXX	XXX	XXXXXX	XXXXXX	20yr PPA prepay	XXX	XXX	XXX
Mint Farm Energy Center CCCT (Ownership)	Wayzata Investment Partners	Longview, WA	310	Operating	2009	ownership	XXX	45	0.05
Fixed Price PPA, 4 yr, winter ATC	Barclays Bank PLC	n/a	75-275	ATC	11/1/2011 to 3/31/2015	4yr PPA; winter only; fixed price	XXX	40	0.30

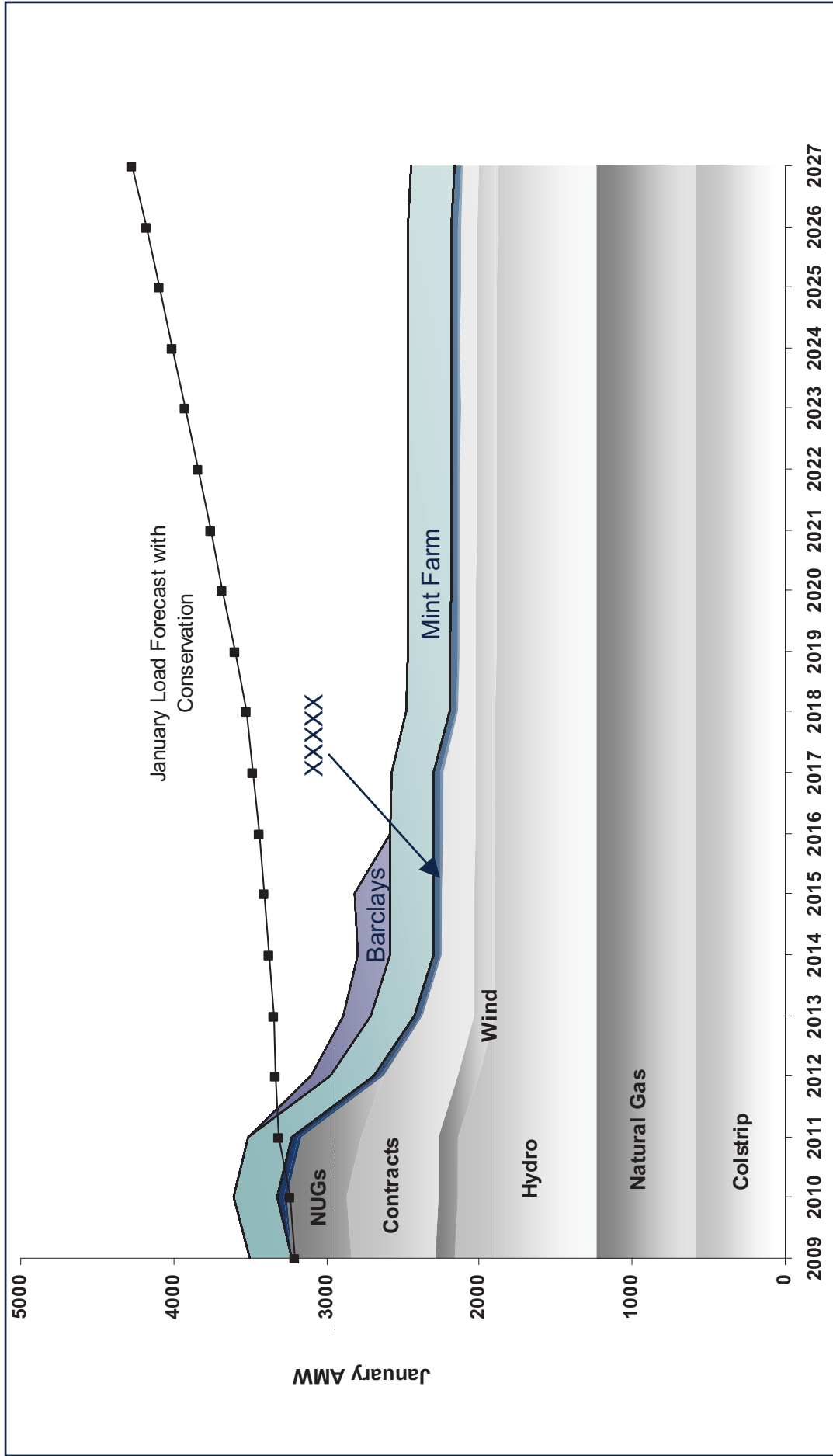
Continuing Investigation List

Project	Owner /Developer	Location	MW	Status	Term	Offer	Levelized Cost \$/MWh	Portfolio Benefit \$,000,000	Benefit Ratio
XXXXXX	XXXXXX	XXXXXX	XXX	XXXXXX	XXXXXX	XXXXXX XXX	XXX	XXX	XXX
XXXXXX	XXXXXX	XXXXXX	XXX	XXXXXX	XXXXXX	XXXXXX	XXX	XXX	XXX
XXXXXX	XXXXXX	XXXXXX	XXX	XXXXXX	XXXXXX	XXXXXX	XXX	XXX	XXX

*Does not include PSE development projects that did not come through the RFP.

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RFP Short List Impact on Need

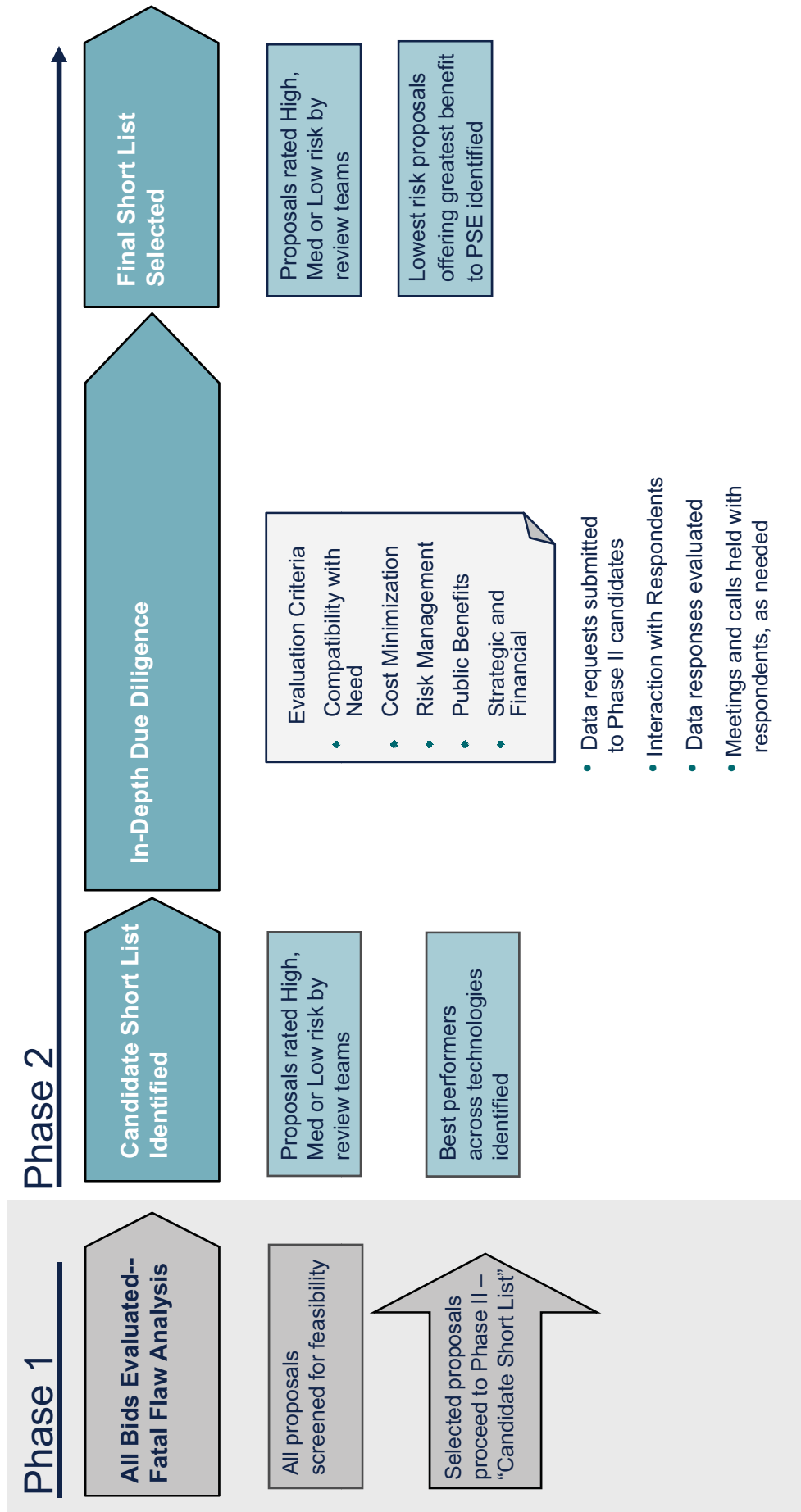


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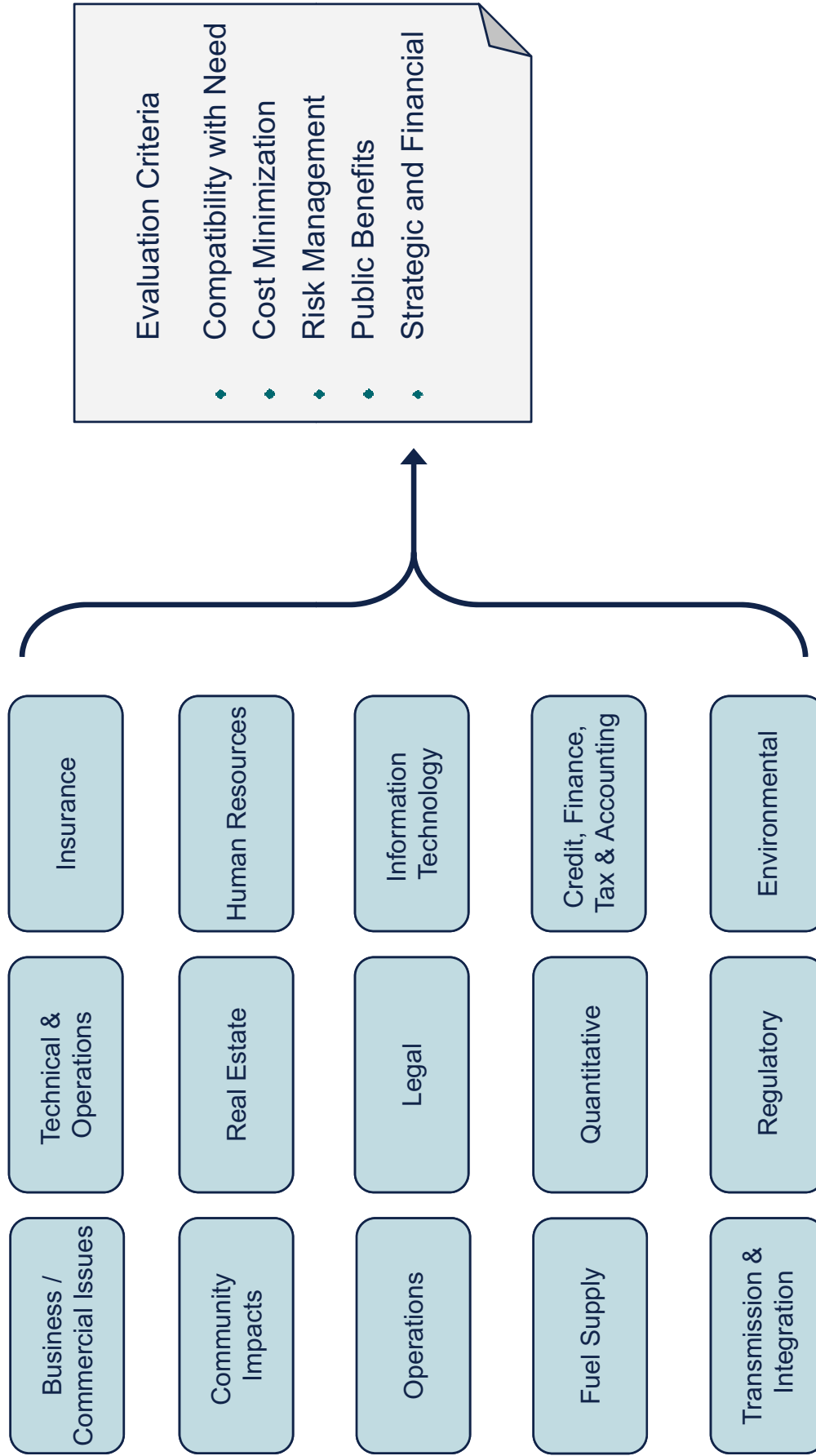
Key Takeaways

- ◆ Quantitatively, everything on the Phase I Candidate Short List evaluated favorably
- ◆ Qualitative analysis of risks and benefits is key in decision-making process
- ◆ Projects selected for the Final Short List offer the highest probability for execution and minimal risk

Qualitative Review



Qualitative review relies on companywide expertise



Qualitative Risk Assessment

Final Short List Selections

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Qualitative Risk Assessment

Continuing Investigation List

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Qualitative Risk Assessment

Non-Selected Proposals

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Quantitative Review

Phase 1

All Bids Evaluated--
Initial Bid Screen

Portfolio Benefit

Benefit Ratio

Levelized Cost

Phase 2

Candidate Short List
Identified

Best performers
across
technologies

Candidate Short List

- Projects
- Contracts
- Emergent Opportunities

Portfolios, Existing Plant
plus

- All Generic
- Individual Resource
- Combination of candidates

Portfolios Tested
Against Different Risk
Scenarios

Current Trends
Scenario

Green World
Scenario

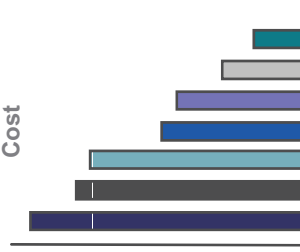
Low Growth
Scenario

Low Technology
Cost Scenario

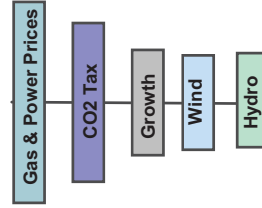
High Technology
Cost Scenario

Monte Carlo Simulation
Evaluates Cost and Risk
Of Each Candidate and
Several Combinations

Cost



Risk



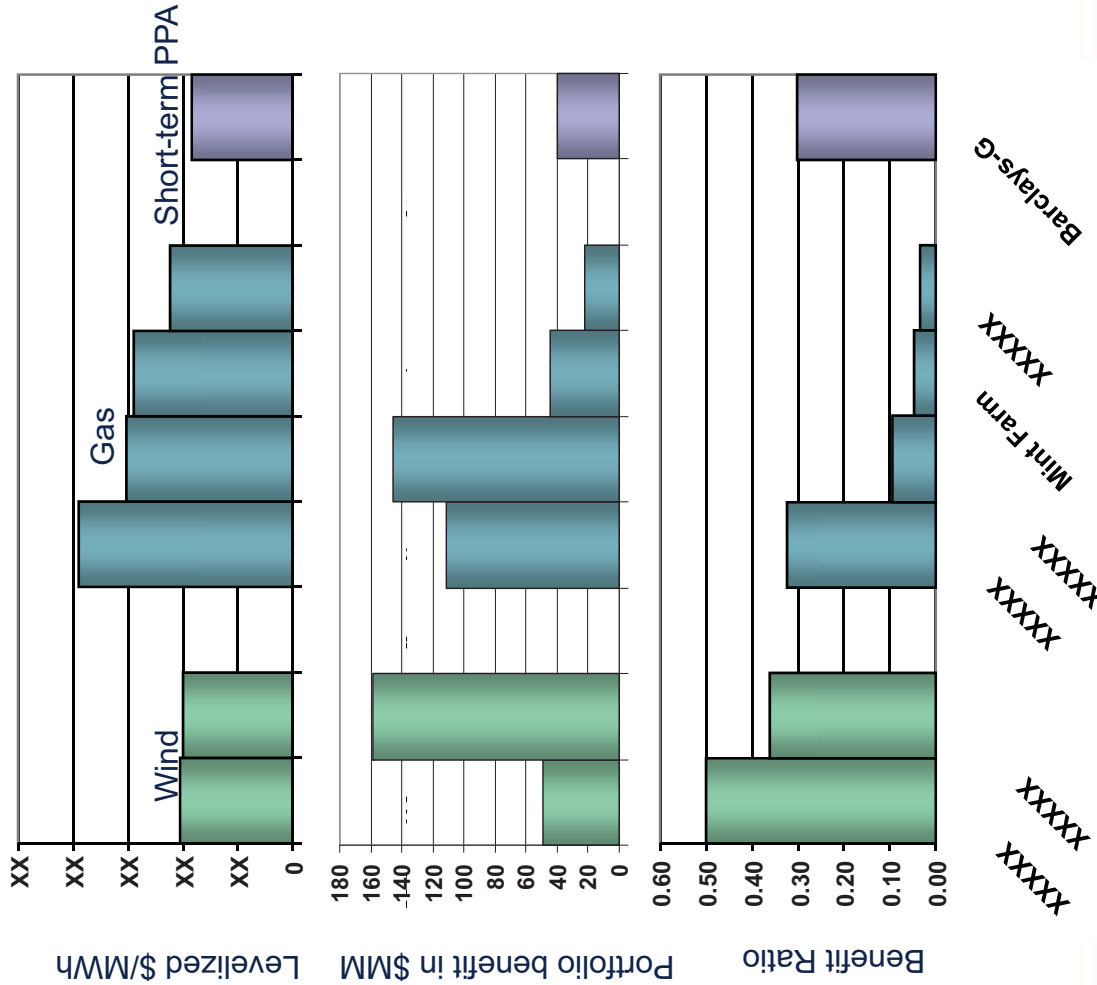
Candidates by Scenario

- Portfolio Benefit
- Benefit Ratio
- Levelized Cost

Short Listed
Respondents
Will Be Thoroughly
Evaluated

Quantitative Selection Metrics

Notes: 1) Relative comparisons by fuel type in Portfolio Screening Model



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

Portfolio benefit is the 20-year present value of portfolio benefit derived for each project in comparison to the 2007 IRP generic resource.

Portfolio benefit ratio is the present value of portfolio benefit divided by the present value of the project revenue requirement.

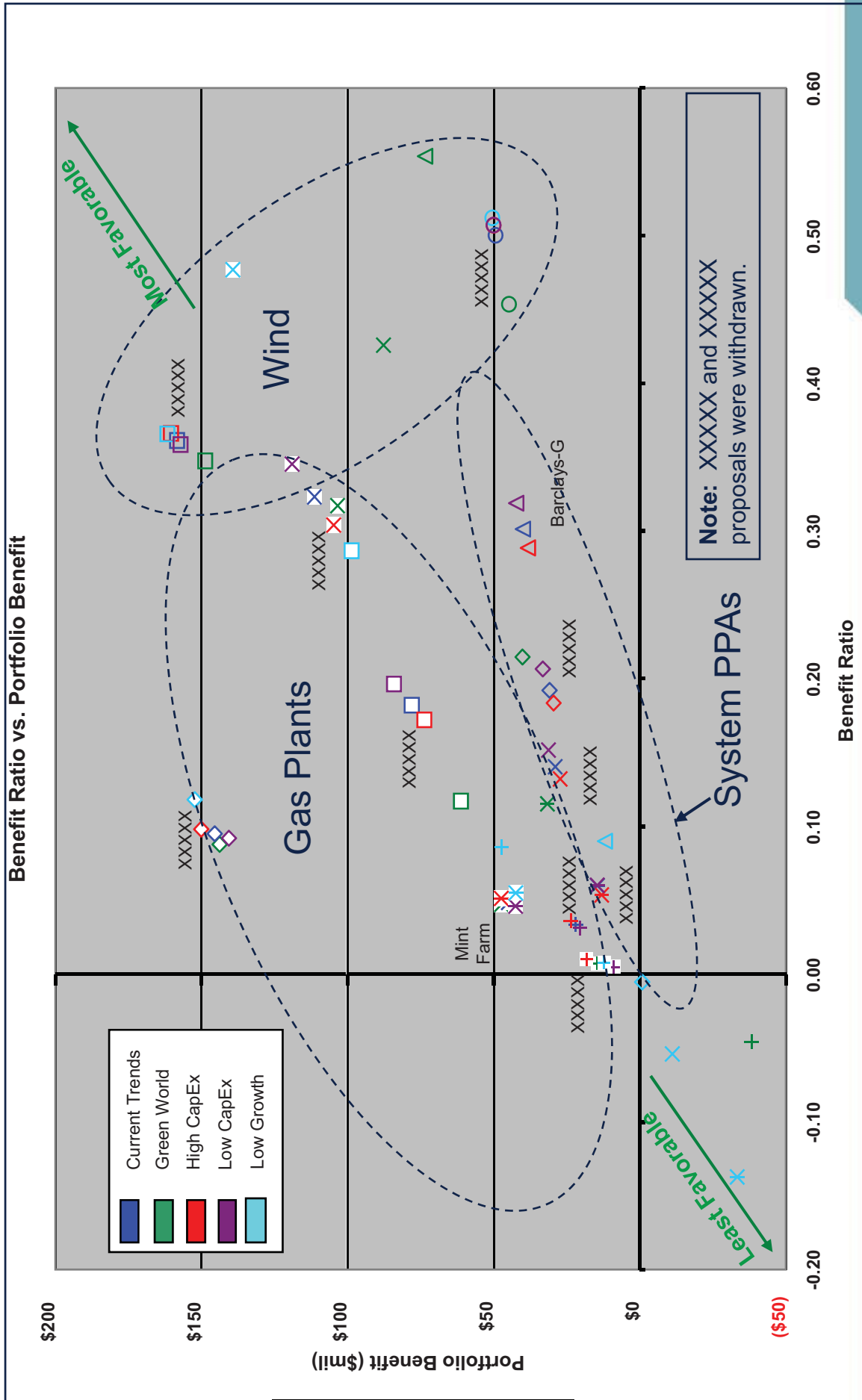
XXXXXXXXXX would be a XXXX acquisition involving a significant upfront option payment and associated risk; evaluation does not capture timing or counterparty risk. Transmission not available until XXXXX.

PSE Discount Rate 8.4%

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All Candidate Short List selections are favorable

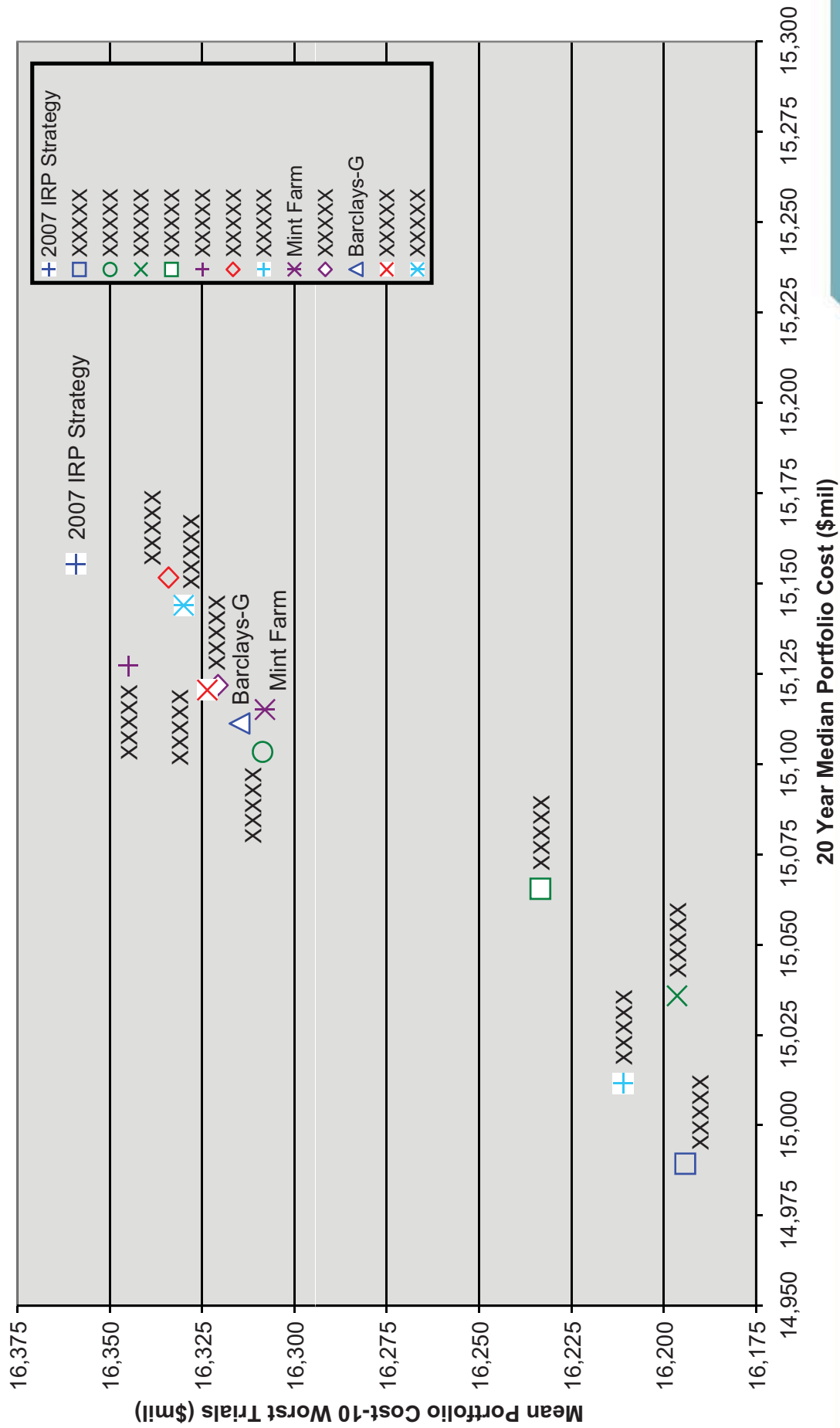


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All Candidate Short List selections reduce risk

Individual Resource Summary - Dynamic Analysis



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Phase II – Portfolios: All Portfolios reduce cost

Portfolios - Current Trends										
	1	2	3	4	5	6	7	8	9	
	XXXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX XXXXXX	XXXXX XXXXXX XXXXXX Mint Farm Own 2009
	Mint Farm Own 2009 XXX XXXXXX	XXXXX XXXXXX	Mint Farm Own 2009	Mint Farm Own 2009	XXXXX XXXXXX	Mint Farm Own 2009	XXXXX XXXXXX	XXXXX XXXXXX	XXXXX XXXXXX	Mint Farm Own 2009
		XXXXXX	XXXXXX	XXXXXX			XXXXXX	XXXXXX		
			XXXXXX	XXXXXX			XXXXXX	XXXXXX		
				Barclays 4.5yr PPA			Barclays 4.5yr PPA		Barclays 4.5yr PPA	
Total Cost (\$bil)	\$14.9	\$14.8	\$15.0	\$14.9	\$15.0	\$15.1	\$15.0	\$15.0	\$15.0	
Levelized Cost (\$/MWh)	\$XX	\$XX	\$XX	\$XX	\$XX	\$XX	\$XX	\$XX	\$XX	
Portfolio Benefit (\$MM)	\$406.1	\$492.7	\$372.6	\$406.9	\$362.8	\$261.8	\$363.1	\$328.8	\$305.1	
Benefit Ratio	0.14	0.20	0.21	0.21	0.18	0.18	0.36	0.37	0.19	

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- ◆ Portfolio 9 is the RFP 2008 Shortlist
- ◆ Portfolio 20-year NPV total costs range from \$14.8 Billion to \$15.1 Billion, a difference of less than 2%.⁽¹⁾
- ◆ Variation of Portfolio Benefit across portfolios is less than \$231 million over 20 years.

(1) 20-year NPV total costs are the fixed and variable costs of the all new resources in the portfolio and only the variable costs of the existing resources.



Continuing Investigation – Selection Rationale

Project Information				Quantitative			Qualitative	
Fuel	Project	Owner /Developer	MW	Offer	Levelized Cost \$/MWh	Portfolio Benefit \$,000,000	Benefit Ratio	Summary Comments
NatG	XXXXXX XXXXXX	XXXXXX XXXXXX	XXX	XXXXXX XXX	XXX	XXX	XXX	XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX
NatG	XXXXXX	XXXXXX XXXXXX	XXX	XXXXXX	XXX	XXX	XXX	XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX
NatG	XXXXXX	XXXXXX	XXX	XXXXXX	XXX	XXX	XXX	XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX XXXXXXXXXX

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*Does not include PSE development projects that did not come through the RFP.



Summary Observations

- ◆ 2008 RFP produced fewer proposals with less resource diversity than past RFPs
- ◆ New build capital costs continue to rise
- ◆ Proposal expirations warrant moving quickly
 - ◆ RFP offers began expiring in May 2008
 - ◆ Two wind resource offers withdrawn during Phase II
 - ◆ Competing RFPs in the Pacific Northwest
 - ◆ Competition from California for renewable resources (20% by 2010)
 - ◆ Price pressure
- ◆ Capacity market is tightening
- ◆ More wind power purchase agreements (PPAs) versus ownership opportunities
- ◆ Wind offers predicated on extension of Production Tax Credits
- ◆ Regional transmission solutions for some projects

RFP Next Steps

- ◆ Mint Farm CCCT - 310 MW, ownership
 - ◆ Negotiating Definitive Agreements with Wayzata
 - ◆ If successful, closing anticipated by year end 2008
- ◆ XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
 - ◆ Negotiations underway
- ◆ XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
 - ◆ Negotiations underway
- ◆ Fixed price PPA, 4-yr winter, ATC*
 - ◆ Preparing post-RFP solicitation with qualified counterparties to validate and refresh the initial price offer
 - ◆ Next step: identify best offer and initiate negotiations with counterparty

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* ATC = around the clock

