EXHIBIT NO. ___(RG-10HC)
DOCKET NO. UE-11___/UG-11___
2011 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-11____** **Docket No. UG-11____**

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

REDACTED VERSION

JUNE 13, 2011

RES/PSE Wind Joint Development
Columbia & Garfield County, Washington

PSE intends to enter into a joint development agreement ("JDA") to acquire a half interest in development-stage wind projects in Columbia and Garfield Counties. Our counterparties will be RES America Development Inc., Blue Sky Wind LLC, and RES America Construction Inc. (collectively, RES). These were the same parties that we entered into agreements with to acquire and construct the Hopkins Ridge wind project. (Blue Sky Wind LLC is the special purpose entity that RES has created to own development rights in these Southeast Washington counties.) The purchase price is $[redacted]

Development Projects
RES has currently identified four development projects in the two counties as follows:

Project	Total MW	PSE Share MW
Oliphant Ridge	200	100
Tucannon	500	250
Kuhl Ridge	300	150
Dutch Flats	250	125
Total	**1250**	**625**

The JDA is not limited to these four projects nor is it limited to 1,250 MW. In fact, it commits PSE and RES to exclusively work together in the two counties[1] on all future development for a term of four years from date of execution.

Joint Development Agreement
The key terms of the JDA are as follows:

- $[redacted] (equal to $[redacted]/kW) fee payable to RES
  - [redacted]
  - [redacted]
- RES America Construction Inc. will construct the projects on an [redacted]

[redacted]

[1] [redacted]

[2] [redacted]

REDACTED VERSION

[redacted]

[redacted]

Communications and Community

PSE and RES have worked together to create a coordinated community and communications plan. The strategies are as follows:

- [redacted]
- [redacted]

[redacted]

PSE and RES have strong support in the two counties, including federal, state and local elected officials, an advocacy group ("Citizens for Economic Diversity") led by the Port of Columbia County economic development director, local business and economic leaders, and participating landowners. There are opponents, principally in Columbia County. They have established an organized group called "Friends of Scenic Columbia County. They are led by Dick Ducharme, a retired lobbyist and a member of the Columbia County planning commission. Other members of the opposition group are isolated small businesses and homeowners.

Accounting and Regulatory Treatment

We have worked with our Accounting and Regulatory teams to allocate the $31.75 MM purchase price across the four projects. Upon closing, we will create capital work orders for each of the four projects. If and when projects reach commercial operation, the capitalized amounts will be recorded in plant asset accounts. If a project fails to reach commercial operation, we will file an accounting petition requesting amortization of the development expenses over a five-year period.

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Tax Equity Financing

Under the envisioned arrangement, PSE and RES would each own a 50% undivided interest in each operating wind project. Because it is unlikely that PSE will have sufficient taxable income to take advantage of the production tax credits ("PTCs"), we need to create a partnership structure with a passive tax investor to allow PSE customers to potentially realize the benefits of the PTCs. 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. Given that the first project is unlikely to come on line until 2011 or 2012 out of this development program, it is possible that the PTC will no longer be in effect and, in that event, PSE would simply own its half of the wind project. [redacted]

Deal Risk

[redacted]

[redacted]

Alternatives to JDA

We have evaluated other alternatives. We have an opportunity to enter into a JDA with [redacted] for wind development in [redacted] County, Washington. Although that potential deal has similar benefits as the RES JDA, in that case the terms are less favorable.

We potentially can purchase fully-developed wind projects; however, we would expect to pay from $[redacted]kW to $[redacted]kW for such developments and we are finding that such opportunities are limited, given the larger developers' desires for PPAs. We can enter into PPAs for wind projects, but lose the opportunity for rate base returns and are subject to market pricing and terms, which includes greater counterparty credit risk. Finally we can explore alternative renewables.

In fact, the RES JDA has the potential to fill a significant portion of our RPS need, but if we don't enter into PPAs for the entirety of the RES-owned half of the projects, if the RPS requirement increases, or if greenhouse gas legislation dictates the addition of more carbon neutral power, we have not forgone some or all of these alternatives.

Future Board of Directors Approvals

At this time we are entering into a binding JDA with RES. Prior to starting construction on any project we will need to make Final Project Approval, execute a wind turbine supply agreement and make necessary turbine deposits, and enter into balance of plant construction agreements. We would intend to bring those approvals and agreements to the Board for its decision.

Key Findings and Benefits

We believe that entering into this JDA is the right decision for PSE for the following reasons:

- It will lower project costs for renewable wind projects by avoiding the high developer fees associated with acquiring fully-developed projects.
  - The fee in this case is $[redacted]kW, as determined by a[redacted] evaluation of the development assets.
  - The "full" developer fee is in the range of $[redacted]kW to $[redacted]kW.
- It presents a project ownership opportunity in an increasingly PPA-driven market.
- It provides us with a phased development and construction opportunity.
- It allows PSE and RES to work jointly and exclusively in Columbia and Garfield Counties, including leaning on RES' development expertise.
- It is an opportunity to achieve the rights to a significant portion of our RPS requirement in a single transaction.
- It provides us with access to RES Construction – an experiences project constructor and one we have successfully worked with on Hopkins Ridge and Wild Horse.

REDACTED VERSION

RES/PSE Joint Development

Columbia County and Garfield County Wind Development

Energy Management Committee May 27, 2008

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Chris Bevil
Senior Project Manager

Recommendation to EMC

Approval to enter into Joint Development Agreement ("JDA") with RES America Development Inc., Blue Sky Wind, LLC and RES America Construction Inc. ("RES") to acquire half interest in development stage wind projects in Columbia and Garfield Counties, Washington for a purchase price of $[redacted]

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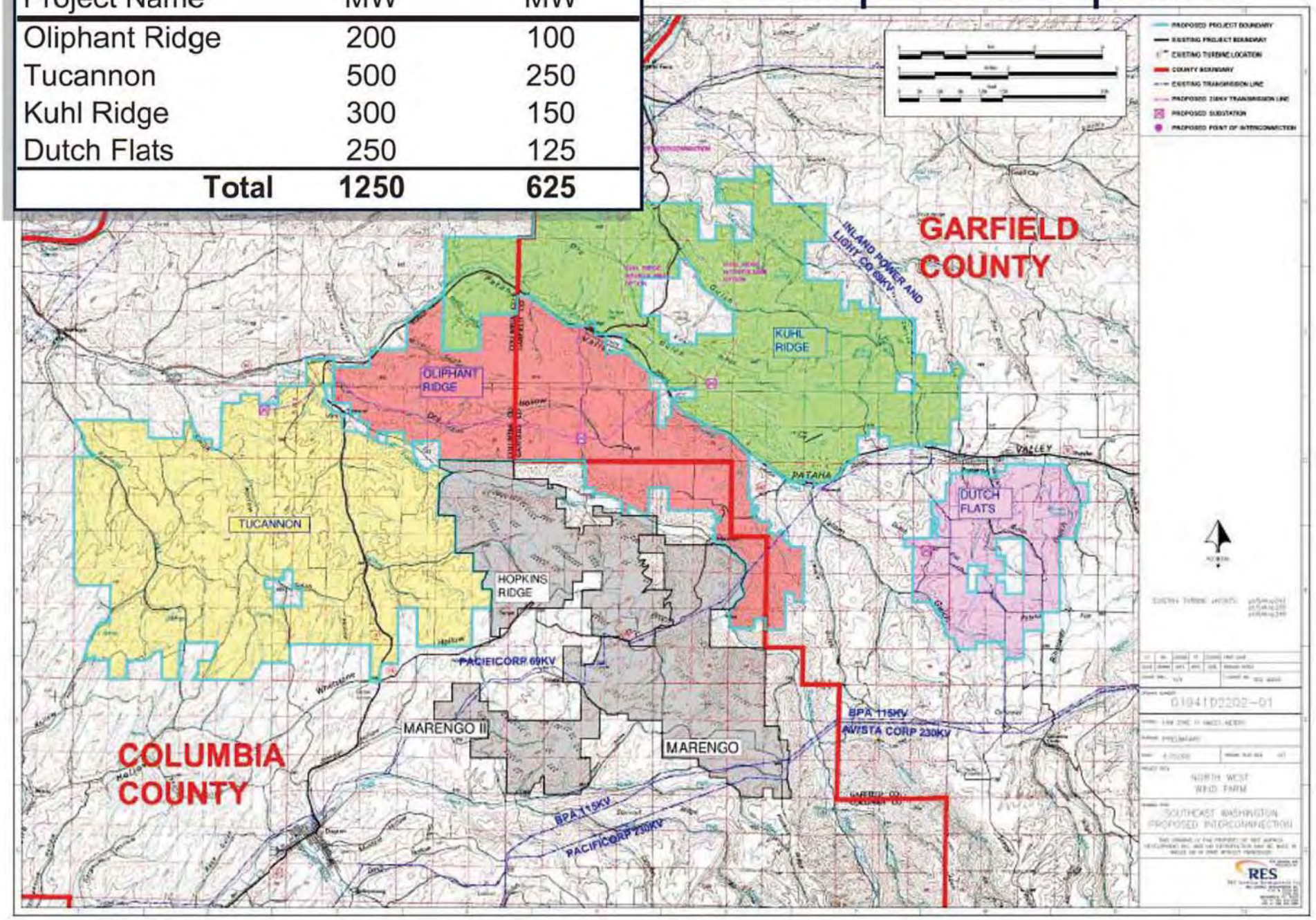
Development Pipeline

Project Name	Total MW	PSE Share MW
Oliphant Ridge	200	100
Tucannon	500	250
Kuhl Ridge	300	150
Dutch Flats	250	125
Total	**1250**	**625**



Key Commercial Terms of JDA*

REDACTED VERSION

- [redacted]
  - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
    - [redacted]
- [redacted]
  - [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted]

** Reflects current terms; deal subject to change as a result of further negotiations.*

Joint Development Structure

[redacted]

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Credit Risk

[redacted]

- [redacted]
  - [redacted]
  - [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]

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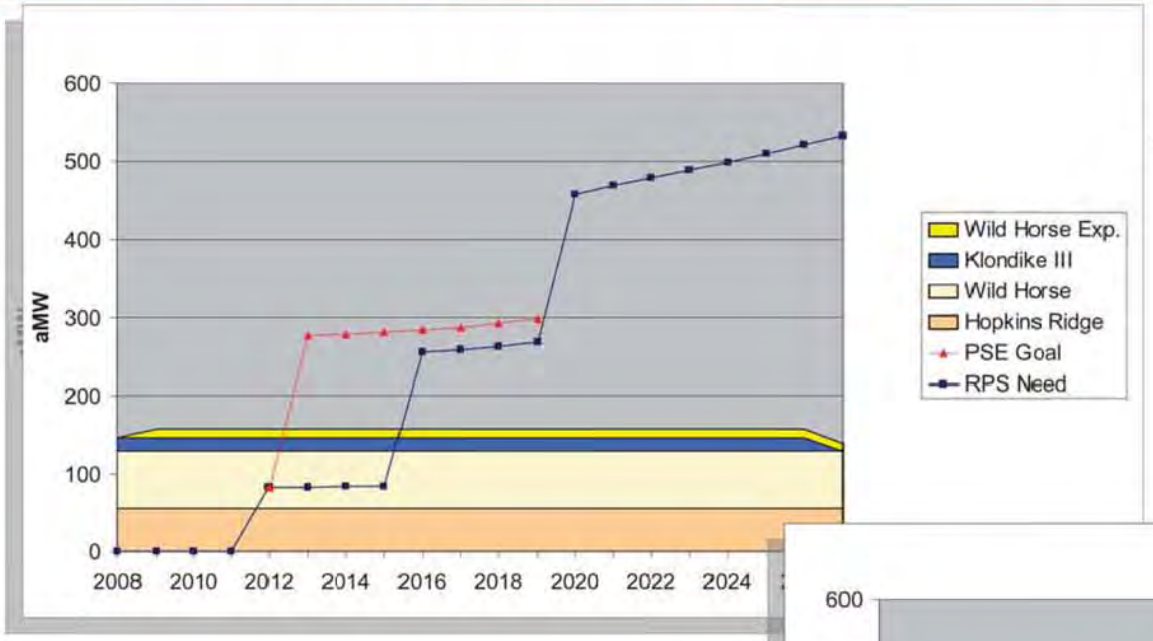
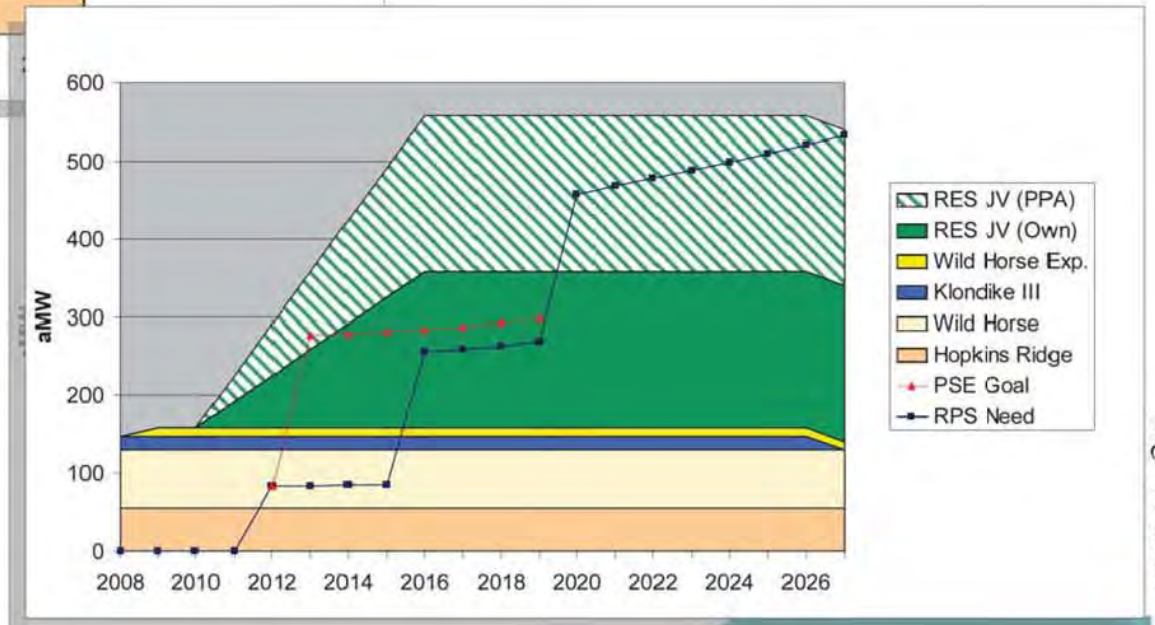
RPS Targets and PSE Goals



PSE Renewables
<u>without</u> RES JV

PSE Renewables
<u>with</u> RES JV



Note: RPS need from FY07 load forecast

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Communications and Community

Strategies

- Communicate the unprecedented economic opportunity for Columbia & Garfield counties
- Demonstrate a continued commitment to improving the community

Key Messages

- Economic Benefit – An unprecedented opportunity that will bring tax benefits, jobs and new choices for the area's young people and families
- Private Property Rights – A proven, long-term source of income that will allow agricultural landowners to gain the full benefit of their property
- Environment – A resource that will help Washington state meet its renewable energy standards and increase our energy independence
- Public Participation – A commitment to public participation and involvement in following local, county and state processes

Communications and Community

Supporters

- Federal, state and local elected officials
- "Citizens for Economic Diversity"
- Local business and economic leaders
- Participating local landowners

Opponents

- "Friends of Scenic Columbia County"
  - Dick Ducharme (*retired lobbyist & Columbia Co. planning commissioner)*
- Isolated small businesses
- Isolated home owners

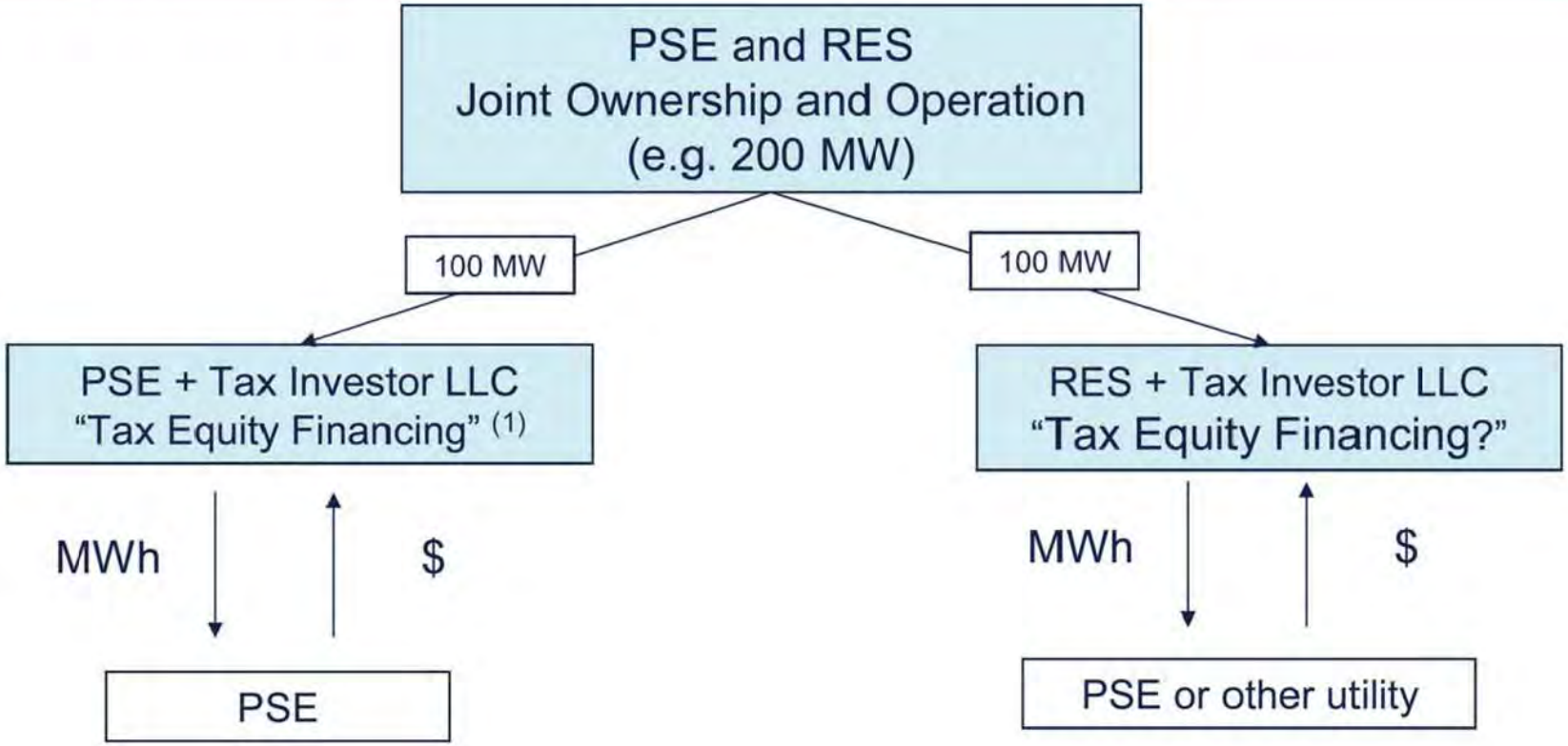
Preliminary Accounting & Regulatory Treatment

Project	Total MW	PSE Share MW	Valuation $/kW	Price $000's
Oliphant Ridge	200	100	$[redacted]	$[redacted]
Tucannon	500	250	$[redacted]	$[redacted]
Kuhl Ridge	300	150	$[redacted]	$[redacted]
Dutch Flats	250	125	$[redacted]	$[redacted]
Total	**1,250**	**625**	$[redacted]	$[redacted]

REDACTED VERSION

- Allocation of purchase price across projects
- Upon signing create capital work orders for each project
- Accrue expenditures for each project in capital work orders
- If project reaches COD – record in plant asset accounts
- If project fails – request cost recovery in special accounting petition; e.g. amortization of expenses over 5 year period
- Accounting methodology may result in write-downs despite full development of 625 MW
- Revenue requirement recovered from PSE customers will reflect consolidation of project costs on PSE books net of the minority interest of tax investor(s)

Project Ownership and Financing



(1) Notes on Tax Equity Financing:

- Tax Equity Financing potentially allows PSE customers to realize a portion of the benefits of Production Tax Credits (PTC)
- PTC extension passed by House included language resolving related party issue; expect affirmative Treasury ruling.
- Variations on Developer/Tax Investor partnership structure, such as "pay-as-you-go" structure, will likely be necessary to optimize tax equity financing in a regulated utility environment.
- If tax equity financing issues not resolved, successful development will result in an asset that is projected to be worth more than the development fees and incremental expenses.

Deal Risks

RISKS	COMMENTS
Project development risks (e.g., permitting, community response, wind response, etc.)	• RES/PSE established members of community • Favorable local government and permitting process • Proven development success with 3 operating projects
Project development costs	• Economies of scale • Development costs very small percentage of total costs • Accounting petition for cost recovery
Sale of RES	• Expedite agreement signing and closing • Buy-out provision in JDA
Transmission payments	• Defer transmission if projects are behind schedule • Request redirect to other projects
Equipment Availability	• Acquire wind turbines under a phased supply agreement
Change of law (e.g., repeal of RPS, etc.)	• Low probability • Active lobbying efforts • Likelihood of future GHG legislation should increase value of renewables in portfolio
Material market shift (e.g., distressed wind market or technology shift)	• Increase in RPS requirements and potential national RPS suggest this is low probability risk • Hold development assets until market changes
Shelf-life risks	• 5 year term on land leases • Strong relationships with landowners provide best opportunity for renewals and extensions

Alternatives to RES JDA

ALTERNATE	PROS	CONS
[redacted] JDA	• Ownership opportunity • Low development risks • Diversity of Ownership and PPA	• PPA "Put" obligates PSE to buy • 40% Own / 60% PPA
Purchasing fully developed wind projects	• Ownership opportunity • Lower risks • May avoid controversy	• Higher costs • Opportunities may be few given developers' desires for PPAs • Community receptivity without PSE involvement may be impaired • Less control over meeting RPS
PPAs with fully developed wind projects	• Diversification of wind profiles from different locations within region • Lower risks	• No rate base • Market pricing – higher costs to pay developer returns • Replacement costs after term expires • Counterparty credit risk • Less control over meeting RPS
Alternative renewables e.g., large scale solar or biomass	• Diversification of technology	• Early stage risks • Higher costs • Technology risk • Less experienced and lower-capitalized developers • Uncertain fuel supply for biomass

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Future EMC / Board of Directors Approvals

- Approval Milestones
  - Final project approval
  - Turbine deposits and supply agreements
  - BOP construction agreements
  - Transmission service agreements*

- EMC will be kept informed regarding development projects, budgets, schedules and progress

**See Resource Integration EMC presentation dated May 27, 2008*

Key Findings / Benefits

- Lower project costs by avoiding high developer fees associated with acquiring fully developed projects
- Project ownership opportunity in increasing PPA driven market
- PSE/RES jointly control development with an exclusive arrangement for Columbia and Garfield Counties

Development Value:

- Full Developer Fee* $[redacted] per kW
- Recent Market Offer $[redacted] per kW
- RES Fee (Credit Suisse) $[redacted] per kW
- Estimated Value* $[redacted] per kW

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- RES/PSE project development team & experience
- Phased development and construction opportunity
- Opportunity to achieve rights to a significant portion of RPS requirement in one transaction
- RES Construction – experienced and strong PSE relationship – as project constructor

Source: Thorndike Landing, July 2007

Recommendation to EMC

Approval to enter into Joint Development Agreement ("JDA") with RES America Development Inc., Blue Sky Wind, LLC and RES America Construction Inc. ("RES") to acquire half interest in development stage wind projects in Columbia and Garfield Counties, Washington for a purchase price of $[redacted]

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The Energy To Do Great Things

RES/PSE Joint Development

Columbia County and Garfield County

Wind Development

APPENDIX

PUGET SOUND ENERGY

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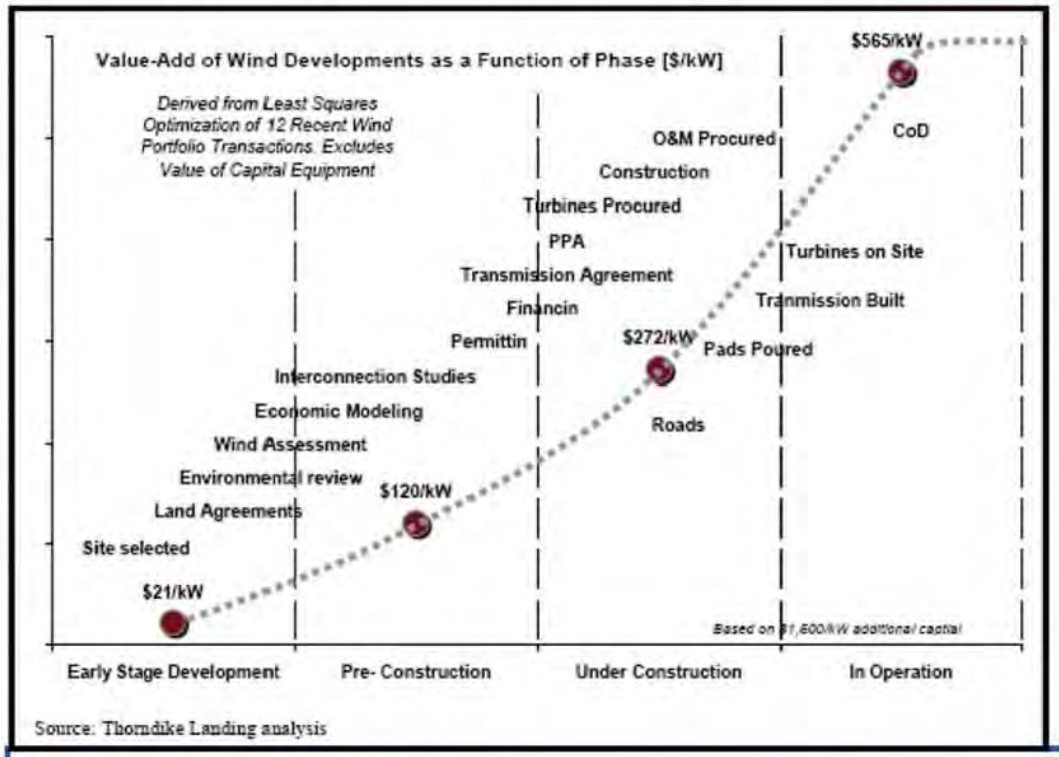
Development Stage Valuation



Source: Thorndike Landing analysis

RES valuation as compared to [redacted] analysis from July 2007.

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RES Valuation (Credit Suisse)								
Project Name	Real Estate	Wind	Interconnect	Permit	Transmission	PPA	MW	$/kW
Oliphant Ridge	3	3	3	3	3	3	200	$150
Tucannon	3	3	3	3	3	3	500	$50
Kuhl Ridge	2	2	3	-	-	-	300	$20
Dutch Flats	1	1	3	-	-	-	250	$10
							Weighted Valuation =	$51

Key = 1 = Uncertainty
2 = Confidence
3 = Highly confident

Exhibit No. ___ (RG-10HC)
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Budgetary Capital Cost Estimate

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Budgetary Capital Cost*

625 MW	$/kW	$000's	% of Costs
JDA	[redacted]	[redacted]	[redacted]
Development Costs**	[redacted]	[redacted]	[redacted]
Owner Construction Costs	[redacted]	[redacted]	[redacted]
Turbine Supply	[redacted]	[redacted]	[redacted]
BOP Construction	[redacted]	[redacted]	[redacted]
Contingency	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

*Expressed in $2008 and does not include escalation

**Does not include transmission deposits

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Flip Structure with Tax Equity Financing

Investment

PSE or Developer	≈40% - 60%
Tax Investor	≈60% - 40%

Returns (Typical Flip Structure – Not finalized for PSE)

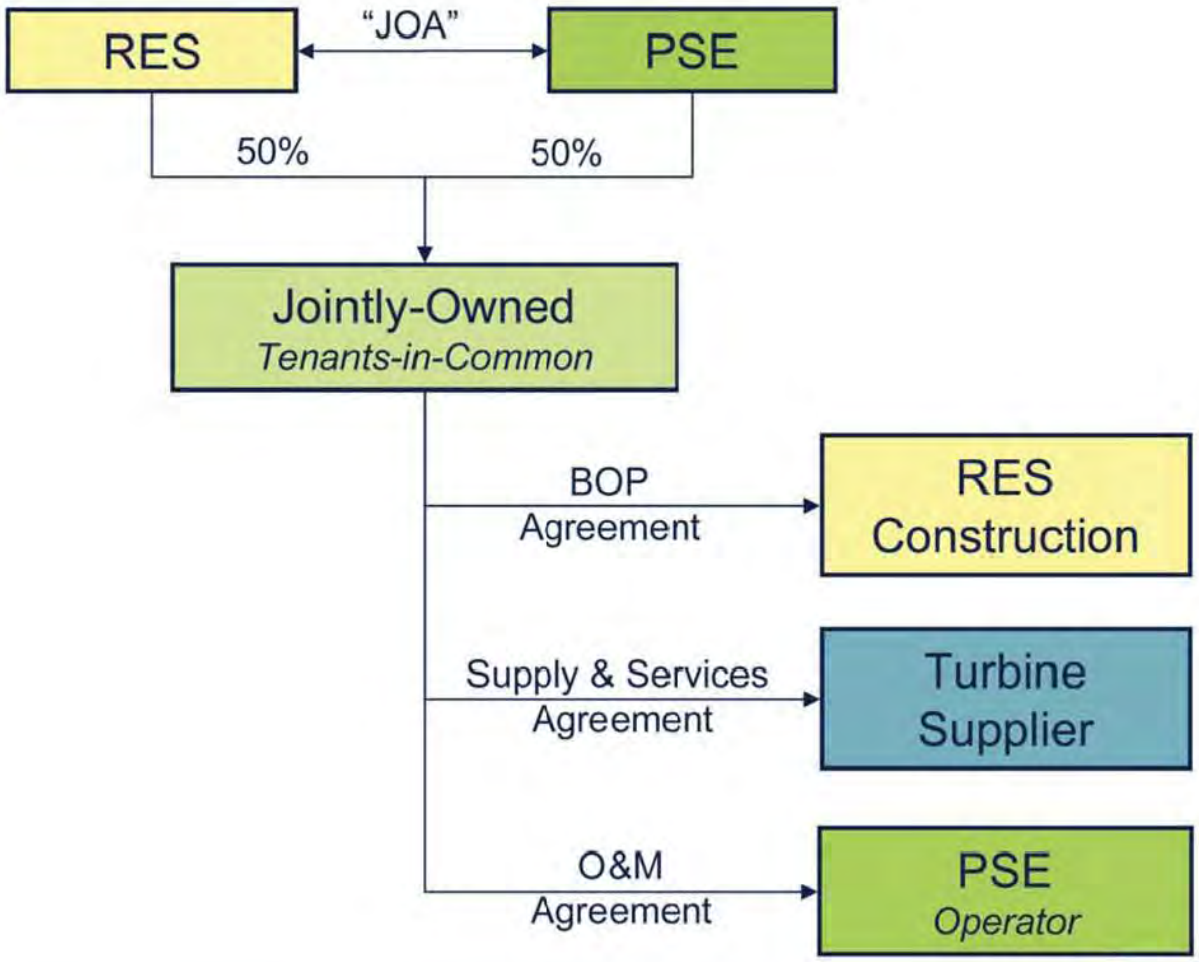
	Period 1	Period 2	Period 3
Cash Returns			
PSE or Developer	100%	0%	95%
Tax Investor	0%	100%	5%
Gross Income Loss and Tax Credits			
PSE or Developer	1%	1%	95%
Tax Investor	99%	99%	5%

Other:

- PSE may purchase tax investor's interest in project at fair market value after Period 2
- Tax investor must receive some cash return in addition to value of Production Tax Credits and accelerated depreciation
- Cost of Flip Structure to PSE customers is expected to be higher than traditional PSE ownership (assuming PSE could use PTC) due to fees for tax equity financing. After-tax returns required by tax investors may be higher or lower than PSE allowed after-tax return of 7.06%.

Joint Ownership Structure

Upon RES/PSE Management Committee "Final Project Approval", then governance by Joint Ownership Agreement and other specific contracts



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Turbine Supply Agreements

- PSE may elect to enter into a long-term turbine supply agreement that includes up to 625 MW delivered over multiple years of the projects' construction timing

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- Benefits:
  - Provides opportunity for lowers costs and better terms with vendors
  - Secures turbine supply with lower risks to price escalation
- Risks:
  - Turbine delivery and payment are required regardless of project success
- Turbine costs for 625 MW of wind turbines is approximately $[redacted]
  - Current range of turbine costs is $[redacted] per MW
  - *(Costs are in $2008 dollars and does not include escalation)*

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Wind Integration

- Projects will be interconnected to BPA transmission system via a new 230/500 kV substation on BPA Little Goose–Lower Granite 500 kV line
- BPA will provide wind integration services for projects
  - Current BPA wind integration rates are $0.68 per kW-month
- Additional costs include:
  - BPA generation imbalance: <[redacted] per MWh *(from experience at Hopkins Ridge)*
  - PSE day-ahead services: [redacted] per MWh *(based on 2008 General Rate Case)*
- If BPA rates become excessive, PSE could place projects into its control area
- Currently, PSE is evaluating the use of reciprocating engines for wind integration and ancillary services

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Development Overview

AREA	SUMMARY OF FINDINGS
Development Schedule	• Oliphant (200 MW) expected COD 2011 • Then, 200 MW per year over next 5 yrs (2016) • Pacing dependent on timing of permits, ability to secure turbines, and the transmission integration
Real Estate	• 102,400 acres; 128 land owners • Title work, curative title work, surveys and environmental work remains • Assignments of lease rights and inevitable lease amendments will need to be accomplished • Solid base of work by RES real estate group established to date
Meteorology	• ≈[redacted] n.c.f.; ≈[redacted] m/s mean wind speed (across all projects) • 5 live met masts & 1 long-term reference • Additional data/observations from other RES wind developments in area • Additional 20+ met masts proposed for additional measurement
Interconnection	• New 230/500 kV sub on BPA Little Goose–Lower Granite 500 kV line • RES holds 1,250 MW of BPA Interconnection Requests • 5 - System Impact Study Agreements

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Development Overview continued

AREA	SUMMARY OF FINDINGS
Transmission	• PSE requesting 600 MW in BPA Network Open Season • See Resource Integration's EMC presentation dated May 27, 2008
Environmental & Permitting	• Both counties working on Comprehensive Plans and/or Zoning Codes to allow for Wind Resource Development and both local governments are supportive of wind • Avian studies are underway with cultural studies to be conducted after harvest in July • Permitting strategy is to develop one Draft Environmental Impact Statement (DEIS) inclusive of all four projects within both counties
Community & Communications	• Opponent organization is present – "Friends of Scenic Columbia County" 20 members • Supporters steadily grow – "Citizens for Economic Diversity" 250+ members • PSE & RES are business members in Dayton and have strong relationships with government officials, land owners, and community organizations

Real Estate

Project Name	Total MW	Land Owners	Acres
Oliphant Ridge	200	26	17,000
Tucannon	500	40	43,000
Kuhl Ridge	300	37	32,000
Dutch Flats	250	25	10,400
Total	**1,250**	**128**	**102,400**

- Land leases:
  - [redacted] year initial term
  - [redacted] year lease term
  - Initial payments: $[redacted] per acre (min. $[redacted]/yr)
  - Installation payments: $[redacted] per MW
  - Operating rent: [redacted] of gross revenues
- Anemometer agreements:
  - 1 - 3 year term
  - $[redacted] - $[redacted] per year; [redacted]
- Transmission easements:
  - $[redacted] per mile

- Tucannon & Oliphant Ridge largely leased
- Kuhl Ridge & Dutch Flats
  - Few leases finalized; signed anemometer agreements
- Transmission route and easement rights in preliminary stage of design
- BPA Interconnection site and property rights in preliminary discussions

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*Lease terms are typical

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Permitting and Environmental

Permitting Plan

- Build upon the strong efforts by Garfield/Columbia counties to establish renewable energy as a goal in their Comprehensive Plans.
- Single environmental review for four projects in two counties through development of an Environmental Impact Statement.
- Trigger environmental review with CUP application to Garfield County in July, 08.
- Lead SEPA agency to be Garfield County; EIS consultant managed by PSE-RES.

Risks/Limitations

- Eager local governments with little or no staff.
- Procedural processes must be consistent with county code and state regulations.
- Opposition Group in Columbia County.

Mitigation Strategies

- Continue to build relationships with County/Agencies.
- Use combined expertise of PSE/RES to manage process and control issues.
- Look for opportunities to listen and respond appropriately to community input.

Transmission Integration

Interconnection

- RES submitted request to BPA for 1250 MW
- PSE is supporting RES with interconnection issues

Transmission*

- PSE requested 600 MW and must commit to taking transmission service close of Network Open Season by June 16, 2008
- Significant dollars at risk due to term of service and inability to change capacity

See Resource Integration's EMC presentation dated May 27, 2008

Community Profile

Columbia County:

- 4,087 people
- $17,374 per capita income

Dayton:

- 2,655 people
- $15,925 per capita income

Garfield County:

- 2,223 people
- $16,992 per capita income

Pomeroy:

- 1,517 people
- $15,782 per capita income

Washington per capita income $22,973

King County per capita income $29,521

Proposed project scale:

- ≈$[redacted] total investment
- 1250 MW; ≈700 turbines (1.8 MW per turbine)
- [redacted] years construction
- [redacted] construction jobs
- $[redacted] annual royalties ($[redacted] per MW)
- $[redacted] annual taxes*
- [redacted] years operating lifetime

**(based on $5,500/MW taxes paid 2007 Kittitas & Columbia counties)*

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Exhibit No. ___ (RG-10HC)
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PUGET SOUND ENERGY
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SUMMARY OF PROPOSED WIND POWER JOINT DEVELOPMENT AGREEMENT ("JDA") AND RELATED PROJECT AGREEMENTS WITH RES AMERICA DEVELOPMENTS INC. ("RES")

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

REDACTED VERSION

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

REDACTED VERSION

Joint Ownership Agreement

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

REDACTED VERSION

Construction Contract

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

REDACTED VERSION

Operations and Maintenance Agreement

[redacted]

Note: Reflects current terms; deal subject to change as a result of further negotiations.

REDACTED
VERSION

PUGET SOUND ENERGY

MEMORANDUM

TO: RES PSE JDA	EVALUATION GROUP: Community Outreach
FROM: Anne Walsh, Brian Lenz, Andy Wappler	DATE: 5/20/08

Section 1: Summary of Findings for Area of Review

COMMUNITY OUTREACH PLAN

The goal of the PSE/RES Joint Development Agreement (JDA) is to develop approximately 1250 megawatts of wind power in southeastern Washington, specifically in Columbia and Garfield counties. PSE's and RES' ability to build a relationship of trust and demonstrate that we are good and responsible neighbors will be crucial to successfully permitting and operating these projects. The key local communities are Dayton, Pomeroy and Starbuck. The regional communities of Walla Walla, Lewiston and the Tri-Cities are also important regarding larger populations in the area but are not discussed in this plan.

To build positive community relationships and to demonstrate corporate integrity, PSE/RES will need to continue being a business member of the Dayton community and expand its presence in Pomeroy and Starbuck as a stakeholder in local issues that involve economic diversity and environmental stewardship.

The community outreach strategy includes five venues to communicate with the public and community leaders and demonstrate our commitment to economic diversity and environmental stewardship. The following describes each of the five venues, its purpose and minimum frequency.

1. INFORMATION EVENTS - Open houses, tours and speaking engagements with community groups

These informational events would occur in Dayton, Starbuck and Pomeroy with a focus on gathering input on peoples concerns about wind power and providing the public and community leaders opportunities to experience a wind farm (tour). Open houses, presentations and tours for school groups, Kiwanis, hospital staff, county staff, Cattleman's Association, elected officials, etc will be encouraged and provided. Experts would be provided for sensitive topics such as noise, wildlife and visual. A minimum of 20 such events should occur each year between the three local communities.

Additionally, information to key legislative and governmental representatives would be delivered by PSE leadership and its State and Federal liaisons to prepare officials for the magnitude of these projects and to gain their support.

2. PUBLICATIONS - Brochures, local print and radio advertising, and videos

Publications will be used to bring project specific and general wind power information to the communities, as well as general information about the companies and our values. Brochures will be used to accompany informational events. Local print and radio advertising will encourage tours and promote local community events and organizations, whereby PSE/RES is promoting the local businesses that are benefiting from wind power. Videos will be used to explain wind power and technical issues that can be difficult to explain such as noise or lighting concerns.

Brochures - A minimum of three to four different brochures each year will be needed to support tours and informational events.

Print Ads - There are four local publications in the area: Dayton Chronicle, Blue Mountain News, East Washingtonian and the Friends and Neighbors. A minimum of one ad per month per publications is

recommended.

Radio Ads - Radio advertising with NPR and in Walla Walla and Lewiston would be effective with a minimum of a six-month summer season advertisements for tours.

Videos - A minimum of 3 videos that are designed to tackle the most discussed issues is recommended: noise, wildlife and lighting. These videos should have local positive testimonials woven in them. An additional video that provides an up tower tour would also be beneficial.

3. LOCAL COMMUNITY EVENTS – Participate in and provide charitable contributions to the local Chamber of Commerce and events designed to promote economic vitality or environmental stewardship

Rural communities host a number of events to encourage visitors to come to their town. To gain recognition as a community business, funding these events demonstrates a commitment to supporting the community with its sponsored event.

Together the towns of Dayton, Starbuck and Pomeroy hold approximately 15 of these types of events. It is recommended that some level of funding be provided for each event and in each community. At least one event should be selected or a new one created, whereby a premier sponsorship is provided and a leadership role and participation is taken by the companies.

4. COMMUNITY PROJECTS – Fund special community projects in each community

Each community that the wind projects will be located near are small. Dayton has approximately 2500 residents, Pomeroy 700 residents and Starbuck near 150 residents. With a small population there are limited business and financial resources to support community projects. Gratitude from the community and recognition for supporting local projects will generate positive relationships between these communities and the companies. Many of these community projects are focused on historic preservation of each town's unique agricultural heritage. An important theme of wind power is that it is compatible with agriculture. By helping to protect the past it will help pave the future of an agricultural industry that includes wind power.

5. COMMUNITY PRESENCE – Building a presence in the community

Short-term Presence - Wind power can be daunting. Huge machines, tales of negative impacts from opponents, large corporations from the "Westside" or Great Britain. Communities are curious and they want to get to know more about this industry and our companies. Community leaders recognized that their region needs to have economic growth for the local towns to survive the changes in agricultural practices (fewer people and business). They want to see and speak to someone about this new wind business and meet PSE and RES. It is recommended that an office be located in downtown Pomeroy. It can initially be used by visiting staff and consultants as office space, which will demonstrate to the community the beginning of what may come: positive economic impacts and more people in the community. With time the Pomeroy office can be manned a couple days a week by Dayton Office personnel that will participate in local business organizations and eventually a receptionist could be located in the office to provide a communication point between the community and company staff.

Long-term Presence – With projects that may total near 1200 megawatts of power generation and 100,000 acres of leased private land, PSE/RES will have a vested interest in the region and will be a long-time partner with the local communities. Ongoing community relationship building and maintenance will support the success of project operations. A Renewable Energy Center that is primarily a wind and electrical technician training center would validate our commitment to the communities and provide a venue for education, learning, generate a skilled labor force for the new jobs these projects will bring to the region. It is recommended that a Renewable Energy Center that is oriented toward education and learning be funded in 2011.

Section 2: Risk Assessment

RISKS

In the state of Washington wind power projects can be permitted through two different regulatory programs:
1. Obtain a local county conditional use permit which includes an environmental analysis under the State Policy Environmental Policy (SEPA) or

2. Obtain a state site certificate that is authorized by the Energy Facility Siting Council which also requires environmental analysis.

Both permitting processes require public hearings that provide for community input on wind power projects. Wind projects that are not supported by the local community cause public relation issues by damaging a company's reputation and can end up in expensive lawsuits. By embracing a community early in the project process and gaining local support the proposed project's schedules and costs can be managed with more certainty.

The risks to the southeast Washington projects include the following:

1. Schedule – educating the community about the project and gaining its support during the SEPA process can cause community resistance or the need for more detailed information which could affect project schedules.

2. Appeals – Both Columbia and Garfield county have developed or are in the process of developing Comprehensive Plan and Zoning Ordinances that provide for wind power development. During these processes public hearings and state agency SEPA review is required by law. If either county has missed a step or time line a valid appeal could be made and affect the project. Likewise, when a Conditional Use Permit application is submitted to these counties the permit process could be appealed.

3. Opponent Organization is present – A group of opponents have been active in the Columbia County Comprehensive Plan and zoning ordinance process. The group is called "Friends of Scenic Columbia County" (FSCC) and is comprised of approximately 20 individuals. They raise any wind power-related issue they find on the internet, advertise in the local print media and participate in all public meetings and hearings. Additionally, one of the members is a Planning Commissioner, Dick DuCharme.

To date the FSCC has not grown with more supporters and in fact a counter organization comprised of wind power proponents has formed. It is called "Citizens For Economic Diversity" (CFED). Its supporters have steadily grown and their membership is recorded at 250 members to date.

Section 3: Mitigation/Next Steps

1. Implement the Community Outreach Plan no later than July 2008 with the following first steps:
   - Rent office space in Pomeroy, Garfield County and establish a presence in the community and maintain a downtown presence in Dayton, Columbia County
   - Support project proponents and landowners with information and resources to maintain community support with ad support, informational videos and brochures
   - Provide project benefits information to the public, key community leaders and state and federal elected officials with publications, tours, presentations and open houses.
   - Participate and contribute to the communities of Dayton, Starbuck and Pomeroy as a business member with community project funding and event sponsorships

2. Participate in county government processes and community planning to develop a positive relationship with community leaders, agency officials and the public.

3. Support and integrate community outreach with project permitting activities.

Garfield/Columbia Wind Facilities Expansion
Communications, Community Relations and Government Relations Plan

Project Overview:
$[redacted] dollar investment
Up to 1250 megawatts / up to 600-700 turbines @ 1.8 MW per turbine
[redacted] years construction
[redacted] construction jobs (FTE each year of construction)
[redacted] annual royalties (estimated on [redacted] annual royalty per MW)
[redacted] annual taxes (estimated on [redacted]/MW 2007 taxes paid Kittitas & Columbia cos.)
[redacted] years operating lifetime

Project Segments: (by projected order of permitting/construction)
Oliphant Ridge – 200 MW (Garfield/Columbia County)
Tucannon Ridge – 500 MW (Columbia County)
Kuhl Ridge– 300 MW (Garfield/Columbia County)
Dutch Flats – 250 MW (Garfield County)

Project Ownership:
Joint Development Agreement of RES and PSE (50-50% development cost split)

Existing Columbia/Garfield Wind Facilities:
Hopkins Ridge (150 MW/83 turbines)
Marengo I + II (PacifiCorp – 210 MW/117 turbines)

Garfield/Columbia Wind Facilities Expansion
Communications, Community Relations and Government Relations Plan

Key Messages:

Economic Benefit
The proposed expansion of the Garfield/Columbia county wind facilities will bring long-term economic stability and a new base of taxes and jobs to the community.

- Wind energy is a proven fit with the area's traditional agricultural economy.
- Wind energy will bring good jobs today and for the future.
- Wind energy will expand the tax base, benefitting local government services and schools.
- Wind energy will expand the tax base, easing the tax burden on residents and small business.
- Wind energy will give the area's young people greater future career opportunities.

Environmental Goals
The proposed expansion of the Garfield/Columbia county wind facilities will bring a long-term source of clean, renewable energy to Washington state, and will help bring energy independence and a diversity of resources to the region and the nation.

- Wind energy is a proven way to meet state environmental goals.
- Wind energy adds stability and diversity to the state's energy resources.
- Wind energy gives the state and our nation greater energy independence.

Private Property
The proposed expansion of the Garfield/Columbia county wind facilities will allow area landowners to gain the full benefit of a new and sustainable resource from their property, with a use that is compatible with existing agriculture.

- Wind energy is an excellent way for landowners to gain full value from their investments.
- Wind energy allows landowners a proven opportunity for gaining the benefits of a sustainable resource on their property.

Process and Public Participation
The proposed expansion of the Garfield/Columbia county wind facilities will include public participation and involvement, to ensure that development meets community needs.

- The process in developing the Garfield and Columbia county projects will include public involvement so that the projects meet community needs.
- Any development will follow local, county and state processes.

Garfield/Columbia Wind Facilities Expansion
Communications, Community Relations and Government Relations Plan

Audiences:

Elected Officials

Federal Officials (office locations):
Senators Patty Murray & Maria Cantwell (Spokane and TriCities offices)
Congressional representatives – Doc Hastings and Cathy McMorris-Rogers
(Spokane and TriCities offices)

State Officials:
Governor Christine Gregoire & staff (Olympia)
EFSEC Jim Luce & Jeff Tayer
State representatives – 16th District Hewitt/Walsh/Grant
9th District Hailey/Schoesler/Schmick

State Officials (office locations):
Governor Christine Gregoire (Olympia)
EFSEC
State representatives – 16th District Hewitt/Walsh/Grant
9th District Hailey/Schoesler/Schmick

Local Officials (office locations):
Garfield County Commission (Robanske, Jones)
Columbia County Commission (Burton, Klavano, Ledgerwood)
Garfield County Planning Commission and Director
Columbia County Planning Commission and Director
Garfield County Board of Adjustment
Columbia County Board of Adjustment
Mayor and city council of Dayton
Mayor and city council of Pomeroy
Dayton Chamber of Commerce
Pomeroy Chamber of Commerce
Palouse Economic Development Council
Citizens for Economic Development
Port Districts

Garfield/Columbia Wind Facilities Expansion
Communications, Community Relations and Government Relations Plan

Audiences:

Regulatory Agencies

Federal Agencies (office locations & issues):
Federal Aviation Administration – (flight paths)
Corps of Engineers
Department of Defense (flight paths)
Bonneville Power Administration (S.Wright/V. Van Zandt - transmission)
Farm Services Administration – (Dayton/CRP lands)
National Resource Conservation Service – (Dayton/Farmland Management)

State Agencies (people/office locations & issues):
Department of Natural Resources (D. Sutherland/Olympia, Milt Johnson/Ellensburg, Ryan Cloud/Pasco)
Department of Fish & Wildlife (Jeff Koenings/Olympia, Jeff Tayer/Yakima{also EFSEC}, Travis Nelson/Wind and Water, Mike Ritter, Tom Sherm)
Department of Ecology (J. Manning/Olympia, Grant Pfeifer/Spokane)
State Historic Preservation Office (Allison Brooks)
Department of Health
Department of Transportation

Tribes
Confederated Tribes of the Umatilla Indian Reservation (Pendleton)
Nez Perce (Lewiston)
Tribal issues: Concerns over historic and cultural sites on off-reservation land ceded by the tribes.

Garfield/Columbia Wind Facilities Expansion
Communications, Community Relations and Government Relations Plan

Media:

National
New York Times, Wall Street Journal, Dow Jones News Service, Reuters, Bloomberg Business News, Associated Press

State
Seattle Times, Seattle P-I, Olympian, Spokane Spokesman-Review, Seattle & Spokane broadcast media

Local
Walla Walla Union-Bulletin, Yakima Herald, TriCities Republic, Ellensburg Daily Record, Blue Mountain News, Dayton Chronicle

PUGET SOUND ENERGY

MEMORANDUM

TO: RES PSE JDA	EVALUATION GROUP: Permitting & Environmental
FROM: Larry Tornberg	DATE: 5/20/08

Introduction

PSE and RES are considering four potential projects in Columbia and Garfield counties. The Tucannon project is located west of the existing Hopkins Ridge Project, entirely within Columbia County. The Oliphant Ridge Project straddles the Columbia and Garfield county line and is directly north of the Hopkins Ridge Project. Kuhl Ridge is primarily within Garfield County with 5 square miles of project lands in Columbia County. KR is located north and northeast of Oliphant Ridge. The Dutch Flats Project is located east of Hopkins Ridge and is located entirely within Garfield County.

Both counties are working on amending their Comprehensive Plans and/or Zoning Codes to allow for Wind Resource Development. Both local governments are supportive of wind as another agricultural crop for local landowners with direct tax benefits to the county. Much of the regulatory basis for wind resource development comes from the Hopkins Ridge MDNS (issued 11-24-2004) and the four Conditional Use Permits (issued 12-21-2004) which incorporate conditions of approval developed by RES and Columbia County.

The permitting strategy is to develop one Draft Environmental Impact Statement (DEIS) inclusive of all four projects with Garfield County as the lead agency for SEPA and Columbia County as a cooperating agency. Each county would then issue development permits consistent with their Comprehensive Plan and Zoning Code. The local processes are described below.

Garfield County

Comprehensive Plan
On April 21, 2008, Garfield County Commissioners adopted their 2007 Comprehensive Plan which incorporates a favorable renewable energy goal and objective. Most of the RES and PSE requested changes were incorporated. Goals within the Utilities Element of the Comp Plan describe concepts to be used in decision-making. Goal 1(B) is to facilitate the provision of utilities that are environmentally sensitive, safe and reliable, aesthetically compatible with the surrounding land uses, and available at reasonable economic costs. Grant Morgan (Planning Director, County Engineer, and Planning Commission member) has told PSE that the Planning Commission considers wind turbines to be aesthetically compatible with agriculture and that the implementing zoning ordinance will provide for wind turbine construction based on minimum setbacks and standards. The inclusion of the phrase aesthetically compatible is unfortunate and is not defined by case law.

Zoning Code
The county is working on development regulations to permit wind energy facilities by conditional use through revision to Chapter 1.05 of the Zoning Code. Don Brigham, Garfield County Planning Consultant has prepared a new draft of the proposed zoning ordinance on May 19 following a public hearing on May 12. The county's goal is to seek additional public comment and finalize the zoning ordinance by July 24. The moratorium on wind development applications expires on July 25, 2008.

Section 1.05.090 addresses the requirements and standards for the review and granting of conditional uses for Alternative Energy Facilities. A valid Conditional Use Permit (CUP) is required prior to commencing construction. County Road Use and Right-of-Way permits are necessary prior to road construction and a Building Permits must be obtained before foundations are prepared.

Section 1.05.090(4) requires 24 copies of the application to include:

- area and dimensions of the tract of land;
- corridors within which proposed wind tower turbines will be located;
- number, dimensions, and area of all turbine spaces including the size of the monopole and turbine or generator;
- location and dimensions of all roads and connections to county roads;
- location of any proposed buildings i.e. operations and maintenance buildings or substations;
- location of any existing buildings;
- location of water, sewer or any existing gas lines;
- a map or maps of the existing and proposed site topography including grading and drainage plans; and
- any other applicable information as might be necessary to interpret the compliance of the plans to the regulations of this ordinance.

Unique to most CUP processes, Garfield County requires the application to include a detailed socioeconomic impact analysis. This analysis identifies primary, secondary, positive as well as negative impacts on the socioeconomic environment in the area potentially affected by the project, with particular attention to the impact of the proposed facility on population, work force, property values, housing, health facilities and services, education facilities, governmental services, and the local economy.

The CUP application must provide evidence sufficient for the Hearing Examiner to conclude that, as conditioned, the Wind Energy Facility is

- is either compatible with other uses in the surrounding area or is no more incompatible than are other outright permitted uses in the applicable zone;
- will not materially endanger the health safety, and welfare of the surrounding community to an extent greater than that associated with other permitted uses in the applicable zone;
- would not cause the pedestrian and vehicular traffic in the neighborhood to an extent greater than that associated with other permitted uses in the applicable zone;
- will be supported by adequate service facilities and would not adversely affect public services to the surrounding area; and
- is not in conflict with the goals and policies expressed in the current version of the County's comprehensive plan.

The Zoning Official reviews the application of completeness after seeking comments from the County Engineer, Health Officer, Building Inspector and the affected utilities.

Setbacks [1.05.090(8)]. The minimum setbacks for Wind Energy Towers are:

- Urban Growth Area. Lands within the Urban Growth Area are excluded from the siting of Wind Energy Towers.
- Highway 12. Setbacks along all other portions of Hwy 12 shall be Wind Energy Tower total extended height plus one hundred feet.
- County Roads. Setbacks from the rights-of-way of all county paved or bituminous-surfaced roads shall be the total extended height of the Wind Energy Tower plus 100 feet. Setbacks from the rights-of-way of all county gravel or unpaved roads shall be one hundred feet from the closest blade tip of the Wind Energy Tower.
- Project Area Boundary. Setbacks from Wind Energy Tower project area boundaries shall be the total extended height of the Wind Energy Tower plus one hundred feet, unless waived in writing by an affected property owner.
- Residences. Setbacks from existing residential structures shall be a minimum of one-quarter mile or four times the total extended height of the Wind Energy Tower, whichever is greater. A waiver or consent to smaller residential setback distances shall be documented by a fully executed, notarized agreement by the fee title owner, in a format that can be recorded so as to appear in the affected real property's condition of title.

Section 1.05.090(9) lists conditions of approval for construction, water and water runoff, erosion, transportation, plants, animals, recreation, historic and cultural resources, noise and visual, health and safety, and decommissioning. Opponents are most likely to address visual and noise impacts. As stated above, the Utilities Element of the Comp Plan does require that the renewable facilities be "aesthetically" compatible with other uses. The Planning Director believes that wind towers are compatible with other uses in the Agricultural Land Use Zone. The decision will be made by the Hearing Examiner with some possibility that this criteria becomes an element of developing case law.

The State of Washington regulates noise based on time of day as well as the land use of the noise source and the receiver (WAC 173-60). The land use of the wind farm is industrial, which is a Class C EDNA (Environmental Designation for Noise Abatement), and a residence is a Class A EDNA. For a Class C EDNA noise source potentially impacting a Class A EDNA receiver, the daytime limit is 60 dBA and the nighttime limit is 50 dBA at the receiving property. The daytime and nighttime periods are defined as 7 a.m. to 10 p.m. and 10 p.m. to 7 a.m. For a point of reference a typical office environment has a 50 dBA sound level and a normal conversation has a 60 dBA sound level.

The Hearings Examiner shall hold at least one public hearing on the application prior to taking action and shall, within 30 days of receiving the application, make a written decision of approval, approval with conditions, or disapproval. Appeals go the County Commissioners within 15 days of the Hearing Examiner decision. Appeals of the County Commissioner decision go to Superior Court within 15 days of the board decision.

Columbia County

On May 19, the Columbia County Board of Commissioners adopted the 2007 Comprehensive Plan Update as recommended by the Planning Commission. It did not include all of the comments that PSE and RES had proposed but there is sufficient language in the Plan to establish renewable energy as a goal for the county. The Critical Areas Ordinance will likely be adopted after further discussions with the Department of Ecology and the Walla Walla Watershed.

The Planning Commission continues its work on the Zoning Ordinance after considering five options to address wind energy in the county including an option by pro-wind supporters, Citizens for Economic Diversity and another by opponents 'Friends.' County Planner, Richard Hendricksen, would prefer to keep the existing code with some additional setbacks from turbines and use SEPA to further condition individual projects. PSE and RES are encouraging the county to use a Hearings Examiner to replace the Board of Adjustment as the decision-maker on permits.

PSE/RES Combined Projects Permitting Strategy

PSE and RES believe that environmental review can be best accomplished through the development of a single Draft Environmental Impact Statement (DEIS) inclusive of all four projects within Garfield County and Columbia County. We would propose that Garfield County be the lead agency for SEPA review and Columbia County would act as a cooperating agency. Avian studies are underway with cultural studies to be conducted after the harvest in July.

Preapplication meetings will be scheduled with both counties in the immediate future. Two prospective environmental consultants will be asked to provide proposals on the EIS structure and supporting environmental studies. The Project Team will work toward submittal of a Conditional Use Permit Application and supporting environmental documentation on July 25, 2008 to Garfield County. This will occur just after expiration of the county moratorium on wind applications and prior to other wind developers who may have other interests in the county. The Garfield CUP would include application for the Oliphant Ridge, Kuhl Ridge and Dutch Flats projects.

Permit submittals to Columbia County for the Tucannon, Oliphant Ridge, and small portion of the Kuhl Ridge Project in Columbia County will follow after the county completes action on its zoning ordinance.

Upon land use approval by both counties, additional permits will be secured from the Federal Aviation Administration, both counties for use of ROW and Road Access, WSDOT Transportation Plan, appropriate Reseeding and Vegetations Plans, JARPA Permit as needed, County Building Permits, and a NPDES Construction Stormwater Permit.

PUGET SOUND ENERGY

MEMORANDUM

TO: RES PSE JDA	EVALUATION GROUP: Real Estate
FROM: Kurt Krebs	DATE: 5/21/08

RES is in various stages of real estate acquisition for each of the four (4) projects under consideration by Puget Sound Energy. The four (4) projects, Tucannon, Oliphant Ridge, Kuhl Ridge and Dutch Flats, occupy lands that are West, North and East of PSE's existing Hopkins Ridge wind project. All of the project lands are similar in topography to Hopkins Ridge and are utilized for agricultural purposes. The projects are traversed with various County roads and in the case of Tucannon and Kuhl Ridge, State Highway 12. The Tucannon project is west of Hopkins Ridge and entirely within Columbia County. The proposed Oliphant Ridge project occupies lands in both Columbia and Garfield Counties and is north of Hopkins Ridge. The Kuhl Ridge project is north of the proposed Oliphant Ridge project and predominately is within Garfield County; a small portion of Kuhl Ridge is within Columbia County. Lastly, the Dutch Flats project is east of Hopkins Ridge in Garfield County and is South of the town of Pomeroy. A map depicting the location and proposed boundary of each described project and the Columbia/Garfield County line is attached.

A summary of the real estate issues for each of the four (4) projects, together with transmission easement rights and interconnection substation sites, are as follows:

Tucannon Project

The Tucannon project, as proposed, consists of approximately 40 land owners and covers approximately 43,000 acres. The project will be constructed and operate on leased lands. Each lease has a term of 35 years. Terms of the lease consist of Initial Payments, Installation Payments and Operating Rent. Initial Payments consist of a payment upon signature and execution of the lease, additional Initial Payments are due on the anniversary date of the execution of the lease for years 2, 3, and 4. Generally the payment due is equal to $[redacted] per acre per year with a minimum annual fee of $[redacted] Upon the commencement of construction of turbine (s) upon the leased lands, a one time Installation Payment is due to Lessor. The Installation Fee consists of a one-time payment of $[redacted] per megawatt of installed rated capacity upon Lessor's property; [redacted] The installation fee varies from lease to lease but appears to be in the range of $[redacted] to $[redacted] of installed rated capacity. Upon Commercial Operations, Operating Rent commences and is based on a monetary payment equal to a dollar amount (x) megawatt hours generated i.e. $[redacted] x MWh generated with a minimum annual rent established in the event of less than expected annual MWh generated. Particular terms, including minimum rents, installation payments and operating rent may differ from lease to lease but are broadly close to those figures as noted above. Leasing activity by RES continues. Of particular note, negotiations with a significant land owner, Charles Mead,

REDACTED VERSION

continues with positive progress.

Additionally, PSE and RES continue work with WA State Dept. of Natural Resources to lease lands within the proposed borders of the Tucannon project. It is expected that a majority of leasing activity will be complete within the next month. A spreadsheet identified as Tucannon and as authored by RES is attached hereto. The spreadsheet is quickly out of date as a result of ongoing activity but was current as of early May 2008.

Oliphant Ridge

The Oliphant Ridge project, as proposed, would occupy approximately 17,000 acres with the leased lands being in both Garfield and Columbia counties. Approximately 26 land owners are within the proposed project boundary. Leases have been signed with approximately two thirds of the land owners. As with the Tucannon project, payments consisting of initial payments, installation payments and operating rent will apply per the terms of each lease. Negotiations continue to finalize outstanding leasing activity. Several property owners have signed Anemometer Agreements, which allow for construction of wind monitoring equipment upon their land, but more importantly preserves the exclusive right to negotiate a definitive lease for wind energy development. The terms of Anemometer Agreements vary from one to three years and payment terms from $[redacted] to $[redacted] per year per land owner.

Kuhl Ridge

Kuhl Ridge consists of approximately 37 property owners and 32,000 acres. This project is not as developed as either the Tucannon or Oliphant Ridge projects. However, Anemometer Agreements are signed on a majority of the proposed project lands with the discussions continuing with those parties yet to sign. A significant land owner, as shown in white on the rose-colored project map, is currently not interested in any wind development. Considerable real estate work and lease negotiations remain. A RES authored spreadsheet for Kuhl Ridge is attached.

Dutch Flat

Dutch Flat is the least developed of the four proposed wind projects. The project consists of approximately 25 land owners and covers approximately 10,400 acres. Similar to Kuhl Ridge, no leases have been signed, however a majority of property owners have signed Anemometer Agreements with just a few agreements yet to be signed. Formal leasing activity has not yet started. As with the other projects, a RES spreadsheet for Dutch Flat is attached.

Transmission Route & Easements

The overhead transmission route and required easements are yet to be finalized. Preliminary engineering and route selection is being formalized by RES and its transmission design/build contractor. RES has had informal discussions with several large land owners concerning possible acquisition of a transmission easement corridor. While much work remains, acquisition of the necessary easements appears, at this time, to be an attainable objective. Expected costs for the transmission route for any lands not under a wind lease are expected to be $[redacted] per mile per year tied to a [redacted]

As with the transmission route, final details as to the location and size of the proposed BPA interconnection substation site are yet to be formalized. However, PSE and RES have jointly met with

a large land owner concerning possible purchase of up to 15 acres of land for the BPA interconnection substation. A verbal agreement with the land owners to sell their property for the BPA site has been agreed, subject to mutually agreeable financial terms and definitive location and dimensions of the property rights requested.

In summary, the Tucannon and Oliphant Ridge projects are the most advanced in terms of real estate rights. Kuhl Ridge and Dutch Flats are not as advanced. Title work, curative title work, surveys and environmental work remains. Assignments of lease rights and inevitable lease amendments will need to be accomplished. However, a solid base of work by RES real estate group has been established to date and should greatly assist in the work remaining.

PUGET SOUND ENERGY

MEMORANDUM

TO: RES PSE JDA	EVALUATION GROUP: Resource Integration
FROM: Jason Yedinak	DATE: May 20, 2008

Section 1: Summary of Findings for Area of Review

Transmission

Resource Integration has requested a total of 600 MW of firm transmission capacity from BPA for this development. The requests are broken into 3 x 200 MW segments with start dates in December 2011, June 2012, and December 2012. All requests have a ten year term. Each 200 MW transmission request is submitted in 50 MW and 25 MW chunks to allow for deferral of smaller proportions to match actual installed capacity.

A deposit for one month's capacity charge at the PTP rate has been made to BPA in the amount of $778,800. These requests will enter BPA's 2008 Network Open Season upon signing Precendent Agreements, committing PSE to pay for the requested capacity for the duration of the ten year term. The net payments over this term total $93,456,000. The Network Open Season also requires a security deposit of one year's capacity charge at the PTP rate, at $9,345,600.

Interconnection

RES has submitted a total of 1302 MW into BPA's interconnection queue for this development. All requests have a start date of December 2011 and are under study by BPA. BPA has indicated that the ideal 500 kV substation required for interconnection of the development would be rated at 1250 MW due to transformer size, and RES has agreed to study this amount instead of the full 1302 MW. Results from the feasibility study show that a significant amount of generation in the area is connected to RAS and issues need to be resolved to connect such a large wind development. Historical analysis indicates that curtailment due to RAS would effect the project only a few times in a five year period.

Section 2: Risk Assessment
Transmission There are a significant number of dollars at risk by committing to the 600 MW of transmission service. The requested capacity can only be reduced before the closing of Network Open Season on June 16, 2008. If the development does not build out to the expected capacity, transmission costs will still be incurred for ten years. The start dates of the request are also not flexible, but transmission service can be defferred in monthly increments up to one full year at the cost of one month's capacity at the PTP rate. Transmission may be defferred up to five times. Interconnection There is not much risk with the interconnection process. Study costs are the only dollars at risk during the early stages of the process. Start dates are also flexible, and are important later on in the process when an EPC agreement must be signed with BPA to begin building the necessary interconnection facilities. RAS issues need to be resolved in order to estimate potential curtailments periods that effect the economics of the development.
Section 3: Mitigation/Next Steps
Transmission Sign Precent Agreements for the full 600 MW of transmission capacity. Defer transmission in appropriate chunks if wind projects get behind schedule. Request to redirect POR to other project if an excess amount of transmission is available. Interconnection Continue to support RES with Interconnection study issues.

PUGET SOUND ENERGY

MEMORANDUM

Date: July 17, 2007

To: Scott Williams
Christine Philipps

From: Cathy Yu

Re: Accounting for Wind Power Project Development Costs

This memo addresses the accounting treatment for development costs for a wind power project that PSE is expected to develop. These development costs are categorized in five phases: prospecting, site acquisition, detailed site feasibility permitting, and construction. Costs include direct expenses such as consulting fees, legal fees, and equipment costs as well as indirect expenses such as PSE's staff time spent on the project. Costs incurred before the construction phase are at risk as a project may not proceed to construction, either because the wind resource is not adequate or because a permit cannot be obtained.

Authoritative Guidance

Generally Accepted Accounting Principles (GAAP) literature generally does not support capitalizing preliminary investigation pre-acquisition or due diligence costs when researching new capital asset additions. Capitalization creates an asset, and FASB Concept Statement No. 7 Paragraph 172 states:

> *"Future economic benefit is the essence of an asset....An asset has the capacity to serve the entity by being exchanged for something else of value to the entity, by being used to produce something of value to the entity, or by being used to settle its liabilities."*

Pre-acquisition costs related to real estate project might be capitalized if certain criteria are met. SFAS No. 67 (SFAS 67), Accounting for Costs and Initial Rental Operations of Real Estate Projects, define pre-acquisition costs as "costs related to a property that are incurred for the express purpose of, but prior to, obtaining that property." Examples of pre-acquisitions costs may be costs of surveying, zoning or traffic studies, or payments to obtain an option on the property.

SFAS 67, paragraph 4, states that ***pre-acquisition costs shall be capitalized if all of the following conditions are met and otherwise shall be charged to expense as incurred***:

a. The costs are directly identifiable with the ***specific property***.
b. The costs would be capitalized if the property were already acquired.

c. Acquisition of the property or of an option to acquire the property is ***probable***.

SFAS 67 requires that, except for purchase options, no costs can be capitalized that are incurred before the acquisition of the property becomes "probable". Capitalized pre-acquisition costs shall be included as project costs upon the acquisition of the property or shall be charged to expense when it is probable that the property will not be acquired (SFAS 67, paragraph 5).

EITF 97-11 provides accounting for internal costs for identifying and acquiring real estate projects. EITF 97-11 states that ***internal costs of pre-acquisition activities*** incurred in connection with the acquisition of a property that will be classified as non-operating at the date of acquisition that are ***directly identifiable*** with the acquired property and that were incurred subsequent to the time that acquisition of that specific property was considered ***probable*** should be capitalized as part of the cost of that acquisition.

AICPA's Statement of Position (SOP) 98-5, Reporting on the Costs of Start-Up Activities, requires that costs of start-up activities, including organization costs, be expensed as incurred. Conclusion in the SOP are based in part on the fact that start-up costs are not specifically identifiable as assets, have indeterminate lives, are inherent in a continuing business, and are related to an enterprise as a whole. Start-up are defined broadly in the SOP as those one-time activities related to, for instance, opening a new facility, or commencing some new operation. The SOP specifies that costs of acquiring or constructing long-lived assets and getting them ready for their intended uses are excluded. As the Wind Project is a long-lived asset, thus, SOP 98-5 does not apply.

Costs Associated With the Wind Development Project

Prospecting Stage
This stage includes the location of potential sites. Activities include researching wind potential, potential transmission solutions, and likelihood of successful permitting, property ownership, building relationships with land owners, and visiting sites. Costs include expenses such as travel, consultant fees for preliminary wind resource assessments, and internal costs such as time spent on the project by Resource Acquisition/Resource Integration/Real Estate/Community Relations staff.

Costs incurred in this stage <u>should be expensed</u> as this stage involves researching potential sites and thus costs fail to meet the "directly identifiable" and "acquisition of the property is probable" conditions for capitalizing per SFAS No. 67, paragraph 4.

Site Acquisition
If the wind resource, transmission, and permitting are promising, and landowners are willing, the next step is to tie up the land in the form of leases. These leases typically include signing fees and minimum rent payments.

Costs incurred in this stage include direct costs such as legal fees for preparation and review of leases, survey and title work, travel and signing fees and rent. Costs also include PSE staff time spent on the project.

We should assess whether the project is probable in terms of obtaining board approval, obtaining leases and permit, and obtaining resources for the project. After we have determined that the project is probable, direct costs incurred in this stage shall be capitalized, except for lease payments for land or buildings, as they meet the three conditions for capitalizing per SFAS No. 67. Internal costs shall also be capitalized per EITF 97-11, if the construction of the project is probable. Note however, that the capitalized costs should be expensed if it is no longer probable that the property will be acquired.

Accounting for lease payments would depend on whether the lease is an operating lease or capital lease based on the criteria set in SFAS No. 13, paragraph 7. The four criteria are:

* automatic transfer of title
* bargain purchase option
* lease term equals or exceeds 75% of remaining estimated economic life of leased property
* present value of minimum lease payments equals or exceeds 90% of the excess of fair value of fair value of leased property over any related investment tax credit retained by the lessor

If the lease meets any of the above criteria, the lease should be considered a capital lease. Otherwise, the lease is an operating lease, and FSP FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period, would apply. Note: FSP 13-1 does not address rental costs other than those associated with building and ground operating leases.

Per FSP 13-1, paragraph 6: *"There is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense."*

Thus, lease payment incurred in this stage should be expensed for an operating lease, or capitalized for a capital lease.

Detailed Site Feasibility

Wind projects generally require at least one full year of on-site wind data. This stage includes preliminary feasibility and environmental studies, as well as transmission and interconnection studies.

Direct costs in this stage include consultant and contractor time to erect towers, monitor and interpret wind data, complete environmental studies and travel. Direct costs also include fees and deposits associated with transmission and interconnection applications and studies. Internal costs include PSE staff time spent on the project.

Assuming that the project is determined to be probable, direct costs incurred in this stage shall be capitalized, except for lease payments for land or buildings, as they meet the three conditions for capitalizing per SFAS No. 67. Internal costs shall also be capitalized

per EITF 97-11. Note however, that the capitalized costs should be expensed if it is no longer probable that the property will be acquired.

Lease payments incurred in this stage should either be expensed (for an operating lease), or capitalized (for a capital lease).

Permitting
This stage involves co-ordination with appropriate authorities, completion of site and environmental studies, preliminary engineering, preparation and submittal of the applications, attending hearings, community relations and corporate communications.

Direct costs include consultant fees for site studies, preliminary engineering, legal fees, travel, and printing/publication costs. Internal costs include PSE staff time spent on the project.

Direct costs incurred in this stage shall be capitalized, except for lease payments for land or buildings, as they meet the three conditions for capitalizing per SFAS No. 67. Internal costs that are directly identifiable with the project shall also be capitalized per EITF 97-11. Note however, that the capitalized costs should be expensed if it is no longer probable that the property will be acquired.

Lease payments incurred in this stage should either be expensed (for an operating lease), or capitalized (for a capital lease).

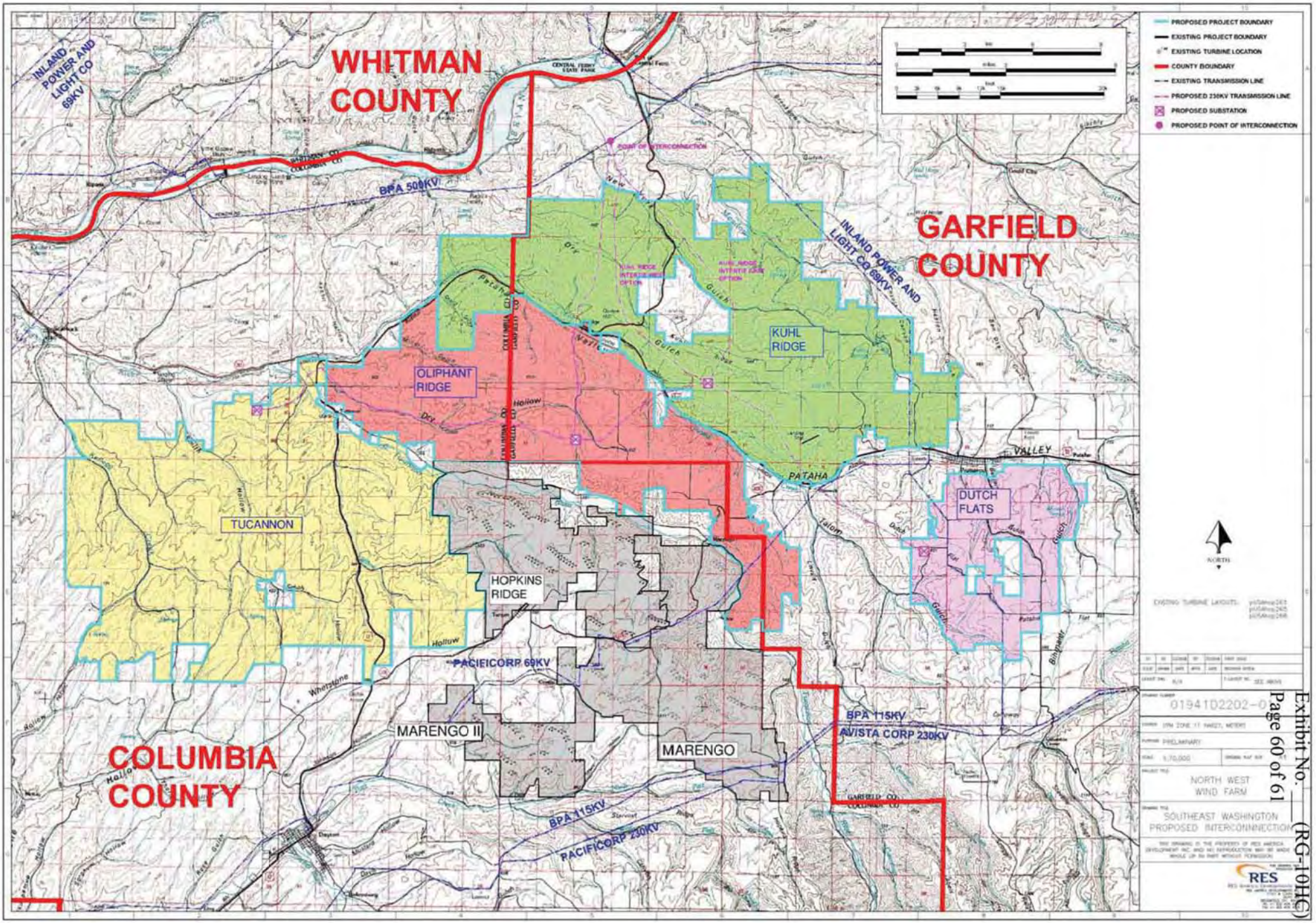
Construction
This stage involves preparation of final design and construction plans, purchase of turbines and other equipment, construction of balance of plant (roads, electrical, etc.) and turbine erection and start-up.

Direct costs includes consultant fees for final engineering design and construction plans, equipment costs for turbines, substation equipment, etc., and construction fees for balance of plant work. Internal costs include PSE staff time spent on the project.

Direct costs incurred in this stage shall be capitalized, except for lease payments for land or buildings. Internal costs associated with the project shall also be capitalized.

Lease payments incurred in this stage should either be expensed (for an operating lease), or capitalized (for a capital lease).

Cc: Mike Stranik
Natalie Hayashi



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7 miles 230kv
Dutch - Kuhl
8 Miles 230kv
Kuhl - Intertie
4 miles 230kv
Olphant - Kuhl
8 Miles 230kv
Olphant - Intertie
10 Miles 230kv
Tucannon-Olphant
Kuhl Sub
Olphant Sub
Dutch
Intertie
Tucannon West
Tucannon East
Pomeroy
Benjamin
Ben Day
Heaton
Coyote Canyon
Breedown
Meadow
New York
Dry
Watley
Patah
Tatum
Linville
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Smith
Rabbit
Ridgeth
Gould City
COLUMBIA CO
GARFIELD CO
WHITMAN CO
Magnetic Declination
17° E
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