

**EXHIBIT NO. TAD-3HCT  
DOCKET NO. UE-070725  
WITNESS: TOM DE BOER**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Amended Petition of**

**PUGET SOUND ENERGY, INC.**

**For an Order Authorizing the Use of the  
Proceeds From the Sale of Renewable Energy  
Credits and Carbon Financial Instruments**

**Docket No. UE-070725**

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF  
TOM DE BOER  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**IN SUPPORT OF AMENDED PETITION FOR AN ORDER AUTHORIZING  
THE USE OF THE PROCEEDS FROM THE SALE OF RENEWABLE ENERGY  
CREDITS AND CARBON FINANCIAL INSTRUMENTS**

**REDACTED  
VERSION**

**FEBRUARY 18, 2010**

**PUGET SOUND ENERGY, INC.**

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF  
TOM DE BOER**

**CONTENTS**

|      |   |    |
|------|---|----|
| I.   | INTRODUCTION .....  | 1  |
| II.  | RATEPAYERS ARE NOT ENTITLED TO ALL THE REC PROCEEDS<br>SIMPLY BECAUSE THE WIND RESOURCES ARE INCLUDED IN<br>RATES ..... | 3  |
| III. | SETTLEMENT OF THE CALIFORNIA LITIGATION PROVIDED<br>SIGNIFICANT CUSTOMER VALUE .....                                    | 7  |
| IV.  | ALLOCATION OF REVENUE ISSUES .....  | 19 |
| V.   | ADDITIONAL REC REPORTING IS UNNECESSARY .....   | 20 |
| VI.  | CONCLUSION .....  | 22 |

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF**  
3 **TOM DE BOER**

4 **I. INTRODUCTION**

5 **Q. Are you the same Tom DeBoer who provided in this proceeding prefiled direct**  
6 **testimony, Exhibit No. TAD-1T, on October 7, 2009, on behalf of Puget Sound**  
7 **Energy, Inc. ("PSE" or "the Company")?**

8 A. Yes.

9 **Q. What is the purpose of your prefiled rebuttal testimony?**

10 A. My prefiled direct testimony, Exhibit No. TAD-1T, explained and supported PSE's  
11 proposal for the use of proceeds from PSE's sale of Renewable Energy Credits  
12 ("REC") and Carbon Financial Instruments ("CFI") (collectively "REC Proceeds")  
13 to fund certain low income programs, to satisfy a portion of PSE's California  
14 Receivable and to return the bulk of the revenues to electric customers. I address  
15 the latter two issues in my prefiled rebuttal testimony, and the Joint Parties address  
16 the low income funding in their prefiled rebuttal testimony, Exhibit No. JOINT-2T.  
17 My rebuttal testimony responds to the testimony of several parties opposing or  
18 suggesting modifications to PSE's proposal, including:

- 19 1. Michael P. Parvinen, witness for the Staff of the Washington Utilities and  
20 Transportation Commission ("Staff"),

2. Scott Norwood, witness for the Public Counsel section of the Washington State Attorney General's Office ("Public Counsel"),
3. Kevin C. Higgins, witness for The Kroger Co. ("Kroger") on behalf of its Fred Meyer Stores and Quality Food Centers division, and
4. Donald W. Schoenbeck, witness for Industrial Customers of Northwest Utilities ("ICNU").

**Q. Please summarize the positions taken by the above listed parties in their respective response testimonies.**

A. Staff advocates that the Commission reject PSE's proposal and provide all of the REC Proceeds to customers either through a regulatory liability account or, alternatively, using an approach similar to the Production Tax Credits ("PTC") tracker mechanism.

Public Counsel does not take a position on the low income aspect of the proposal except to recommend that any proceeds allocated to low income customers be from proceeds collected after November 2009. Public Counsel testifies that the Commission should reject PSE's proposal and use the proceeds that existed as of November 30, 2009 to reduce rate base, and credit the remaining REC Proceeds to customers via an approach similar to the PTC tracker mechanism. Finally Public Counsel suggests the Commission impose a REC reporting obligation on PSE.

Kroger testifies that it would be appropriate to credit 100 percent of the REC Proceeds to customers but also testifies that the Commission has discretion to

1 credit REC Proceeds to the special purposes proposed by PSE and the Joint  
2 Parties. Kroger recommends that the timing of the credits should give more  
3 weight to rate relief to customers as a whole if the Commission approves a  
4 portion of the REC Proceeds for low income and the California Receivable.

5 ICNU recommends rejection of PSE's proposed use of the REC Proceeds and  
6 advocates the revenues should be credited to customers using the same allocation  
7 as the costs of the resources generating the RECs. ICNU does not support using a  
8 portion of the REC funds for low income programs, but advocates that if such  
9 funding occurs, any monies earmarked for increasing low income programs  
10 should come from the net benefit assigned to the residential class, based on a  
11 theory that the direct beneficiaries of these program commitments are the  
12 residential class.

13 **II. RATEPAYERS ARE NOT ENTITLED TO ALL THE REC**  
14 **PROCEEDS SIMPLY BECAUSE THE WIND RESOURCES ARE**  
15 **INCLUDED IN RATES**

16 **Q. How do you respond to the arguments made by several parties that because**  
17 **the facilities generating the RECs are included in rates, ratepayers should**  
18 **receive 100 percent of the REC Proceeds?**

19 A. The Company agrees with the parties that the customers should receive some, if  
20 not the majority, of the benefits attributable to the sale of the RECs. In fact,  
21 under the Company's proposal in this proceeding, customers would receive over

1 ■ percent of the REC Proceeds. However, the parties' arguments that customers  
2 should receive all of the benefits of the RECs based solely on the fact that the  
3 operating and carrying costs of generating plants that generate the RECs are  
4 included in rates is based on a false premise.

5 The capital cost of such projects, like all utility plant, are provided for in the first  
6 instance by the providers of debt and equity capital. Customers purchase an  
7 energy service related to such investments and receive the full benefit of these  
8 plants being in the Company's portfolio before even considering the benefits  
9 received from REC transactions. The wind resources that create the REC benefits  
10 were added to the Company's resource portfolio based on the following financial  
11 considerations: capital costs invested by the Company plus the operating costs,  
12 net of PTCs, compared to the other resource alternatives available. The  
13 Commission found that these wind resources were prudent and cost effective –  
14 absent any REC benefits—based on the Commission's prudence review.

15 **Q. Was the value of RECs considered in the decision to purchase Hopkins Ridge**  
16 **and Wild Horse or enter into the Klondike III power purchase agreement?**

17 A. No. At the time these projects were being developed, the markets for compliance  
18 and voluntary RECs were in their infancy; values were *de minimis*, renewable  
19 attribute definitions were evolving, market terms and conditions were evolving  
20 and state regulatory rules governing markets and transactions were evolving, and  
21 indeed, are still very much in a state of flux. This is especially true in the state of

REDACTED

1 California, which has become one of the largest compliance markets in the  
2 country. Accordingly, the decision to acquire both the Hopkins Ridge and Wild  
3 Horse projects and the decision to enter into the Klondike III power purchase  
4 agreement were all made without giving weight to any potential benefits  
5 associated with prospective REC sales. Such prospective benefits were not part  
6 of PSE's formal economic analysis of those plants. These projects were  
7 determined to be cost effective long-term energy resources without taking into  
8 consideration any value of prospective REC sales or even potential carbon related  
9 values, the markets for which were even more undeveloped at that time.

10 **Q. Did any party to those cases object to the fact that PSE's analyses of these**  
11 **wind plants did not include the value of prospective REC sales or that PSE**  
12 **would bear the risk of ownership prior to the Commission's final order on**  
13 **those matters?**

14 A. No. In those proceedings, the parties did not object to the fact that the analyses of  
15 the wind resources did not include the value of prospective REC sales, nor did  
16 they object to the fact that the Company would own the plants and bear the risks  
17 of ownership. While it is not possible to know with certainty why the parties then  
18 ignored potential REC values, it is quite possible it was for the reasons noted  
19 above: the marketplace was in its infancy and little or no value in the intangible  
20 attributes of wind power were evident or reasonably predictable. Indeed in the  
21 2004-2006 time frame, a great many forces were arrayed opposing the creation of

1 a Washington state renewable portfolio standard ("RPS") and even those parties  
2 that favored such a standard often expressed opposition to creating a tradable  
3 REC product. Such policy controversies continue today. It is therefore,  
4 disingenuous and inequitable now for these parties to argue that the Company  
5 should be required to provide the full benefit associated with the RECs to  
6 customers without allowing the Company to recover any of the costs that gave  
7 rise to the opportunity or giving any consideration for the Company's ingenuity in  
8 creating this added value for its customers.

9 **Q. When customers pay their electric bill are they assuming ownership rights to**  
10 **the underlying electric generation plant?**

11 A. Absolutely not. The Company supplies the capital to fund construction of its  
12 generation facilities. When customers pay their electric bill they are paying for  
13 "Electric Service." Electric Service is a defined term in PSE's Commission-  
14 approved tariff book. In Schedule 80, Electric Service is defined as: "The  
15 availability of electric energy at the Point of Delivery for use by the Customer,  
16 irrespective of whether electric energy is actually used." It is absurd to suggest  
17 that every time electric customers pay their electric bill, they are purchasing a  
18 piece of an electric generation plant. Owning and operating these plants is a risk  
19 the Company manages – not the customer.  
20

1                   **III.     SETTLEMENT OF THE CALIFORNIA LITIGATION**  
2                   **PROVIDED SIGNIFICANT CUSTOMER VALUE**

3   **Q.     Mr. Schoenbeck testifies that the prices received for the REC sales to**

4   [REDACTED]  
5   [REDACTED]  
6   [REDACTED]  
7   [REDACTED]  
8   [REDACTED]  
9   [REDACTED]  
10 [REDACTED]

11 [REDACTED] For example, in [REDACTED], PSE received an indicative term  
12 sheet from an interested party seeking to engage in transactions in the California  
13 compliance market with a price of [REDACTED] for California RPS-eligible RECs  
14 plus energy. The term sheet is provided as Exhibit No. TAD-4HC. While such  
15 transaction was not ultimately consummated, it does provide a benchmark with  
16 respect to California compliance REC prices – at least in the view of one market  
17 participant, and indicates a [REDACTED]

18 [REDACTED]

**REDACTED**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

**Q.** [REDACTED]  
[REDACTED]  
[REDACTED]

**A.** In addition to the [REDACTED], PSE  
has [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. Copies of the documents relating to these  
transactions are provided as Exhibit No. TAD-5HC. [REDACTED]  
[REDACTED]  
[REDACTED]

REDACTED

**Q:** [REDACTED]  
[REDACTED]  
[REDACTED]

**A.** Yes. As also described in Exhibit No. SN-14C, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17

[REDACTED]

[REDACTED]

[REDACTED]

**Q. What do you conclude from these data points into the California Compliance REC market?**

**A.** While the market data are not plentiful, [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Even Public Counsel

recognized the price differences. Public Counsel witness Scott Norwood

observed: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

REDACTED

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19

**Q. Do you have any additional thoughts about the REC transactions in question?**

REDACTED

**A.** The REC market data PSE had when it entered into the settlement negotiations with the California parties suggested a REC value in the range of

and, in the initial settlement discussions,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38

**Q. Do you agree with Public Council’s assertion that the [REDACTED]**  
**[REDACTED]**

**A. No. PSE's Response to Public Counsel Data Request No. 009, attached as Exhibit**  
**No. SN-14C to Mr. Norwood’s testimony, and excerpted in relevant part below,**  
**describes how the [REDACTED]:**

[REDACTED]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

[REDACTED]

As noted in the data request response, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Q. Public Counsel makes the assertion that “there was significant uncertainty as to whether** [REDACTED]

[REDACTED]

[REDACTED] **Is this**

**accurate?**

REDACTED

**A.** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

REDACTED

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

[REDACTED]

**Q. Public Counsel also implies that [REDACTED]**  
**[REDACTED]**  
**[REDACTED] How do you respond?**

**A.** Again Public Counsel completely misses the point. First, the “prices” for power sold (and which created the first step in calculating the amount due as the California Receivable) were determined in the California-created market auction process of the Independent System Operator (“ISO”). Second, Public Counsel misinterprets PSE's Response to Public Counsel Data Request No. 10, which is provided as Exhibit No. TAD-7C. None of PSE’s California Receivables claim arose from a direct sale to the California utilities, SCE, PG&E or SDG&E. Rather the California market structure dictated by California law during the energy crisis generally precluded direct purchases by these utilities. Instead, their purchases (except for “grandfathered” arrangements) had to be through the Power Exchange (“PX”) and ISO market auctions. In 2000 and 2001 these California utilities did not make timely or complete payments to the ISO and the PX for power received. It was this lack of funding which created the unpaid bills, or receivables, for energy suppliers such as PSE. Finally, the amount of PSE’s California Receivable was consistent with the net amount remaining to be paid to PSE *after* the price adjustments that were being imposed in the FERC process.

1 There were no material remaining price disputes pending as to those calculations,  
2 except to add interest to the \$21 million.

3 **Q. Is PSE seeking to retain REC Proceeds** [REDACTED]

4 [REDACTED]

5 A. No. PSE is seeking approval to retain 40% of the REC Proceeds until the

6 \$21,062,800 California Receivable is satisfied. As described above, both the [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 **Q. Do you agree with Public Counsel's argument that absent a successful**  
10 **outcome in the California litigation, PSE would not otherwise have been able**  
11 **to collect the receivable?** [REDACTED]

12 A. As I previously discussed, PSE believed it had a strong litigation position and  
13 intended to aggressively pursue the California parties for the receivable.

14 However, PSE has never sought to recover the California Receivable from its  
15 Washington retail ratepayers. For the reasons already described,

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

Q.

A. PSE voluntarily gave up its opportunity to collect on the California Receivable

. In exchange, PSE is requesting a small portion of these revenues to equitably compensate it for the lost litigation opportunity. PSE pursued the litigation over many years because it believed it would ultimately prevail. In addition, had PSE prevailed in the litigation, it would have received interest on the \$21 million receivable.

REDACTED

Q.

A. Yes. As noted by Kroger witness Kevin Higgins, “[t]he sale of RECs and CFIs is a very positive development for PSE and its customers.” (Higgins, p.5, lines 10-11).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

[REDACTED]

**Q. Why does PSE claim that it could have collected more than the \$21 million California Receivable it is seeking in this docket?**

A. The \$21 million receivable is the amount PSE maintains on its books for financial accounting purposes. In addition, FERC rules allow for interest on this amount. PSE requested only to recover the remaining \$21 million it has on its books and is not requesting recovery of any interest on that amount.

REDACTED

**Q.** [REDACTED]

A. [REDACTED]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

[REDACTED]

**Q. Do you agree with ICNU’s statement that “PSE’s claim that the substantial net revenue amount is attributable or tied to its California receivable claim is wrong, based upon publicly available information”?**

REDACTED

**A.** No. Mr. Schoenbeck’s argument seems to be that because the [REDACTED]

[REDACTED]

1  
2  
3  
4  
5  
6  
  
7  
8  
  
9  
10  
11  
  
12  
  
13  
14  
  
15  
16  
17  
18  
19

[REDACTED]

**Q. Did the settlement of the California litigation provide other significant benefit to customers?**

A. Yes. The settlement of this long-running dispute with the California utilities enables the ability to structure commercial transactions with these utilities on a going forward basis.

REDACTED

**IV. ALLOCATION OF REVENUE ISSUES**

**Q. What is PSE's response to the various proposals for allocation of the REC Proceeds to customers?**

A. PSE believes that its proposal to provide a credit to customers in the form of an offset against a regulatory asset is a reasonable approach that allows customers to receive the benefit of the credit from the REC Proceeds without experiencing rate volatility. However, PSE recognizes that there are other reasonable approaches to allocating these credits to customers, as suggested by the parties to this case.

1                   **V.       ADDITIONAL REC REPORTING IS UNNECESSARY**

2       **Q.       Should the Commission require REC reporting by PSE as suggested by**  
3       **Public Counsel?**

4       A.       No, separate reporting is not necessary. Public Counsel attempts to justify the  
5               need for reporting through vague allegations of “questions” about PSE’s  
6               treatment of RECs and by pointing to the reporting requirements placed on  
7               PacifiCorp. There are significant differences between PSE and PacifiCorp, the  
8               “model” Public Counsel is proposing. In addition, quantification of REC  
9               transactions is exactly what this proceeding will decide. Regardless of the  
10              mechanism the Commission selects to credit the REC Proceeds to customers, it  
11              will require annual compliance or tariff filings. These filings will provide all the  
12              information necessary rendering a separate REC reporting obligation superfluous.

13      **Q.       What is your response to Public Counsel’s vague allegations of “questions”**  
14      **about PSE’s treatment of RECs?**

15      A.       In response to PSE Data Request No. 1, Exhibit No. TAD-8, Public Counsel did  
16               not articulate any actual issues with PSE's treatment of RECs other than the fact  
17               that PSE filed this petition seeking Commission approval of the disposition of  
18               REC proceeds. In fact, PSE itself raised the issue of REC revenues as far back as  
19               2005 and specifically in April 2007 when it filed the original accounting petition

1 in this docket seeking a Commission determination of the proper regulatory  
2 treatment of REC revenues.

3 **Q. Has PSE kept the Commission informed about RECs prior to the wind**  
4 **plants being added into the portfolio?**

5 A. Yes. PSE informed the Commission about the potential value of RECs as early as  
6 2005, in Docket Number UE- 050870 as part of Eric M. Markell's prefiled direct  
7 testimony.

8 **Q. Why are PacifiCorp reporting requirements not relevant?**

9 A. PacifiCorp operates in six different states and has a relatively small presence in  
10 Washington, and the reporting requirement primarily address concerns relating to  
11 the multiple jurisdictions in which PacifiCorp operates. While reporting might  
12 make sense under PacifiCorp's circumstances, it does not make sense for PSE  
13 which operates solely in the state of Washington.

14 **Q. Does Staff provide an accurate description of how a PSE decision to write-off**  
15 **the \$21 million California Receivable would affect rates?**

16 A. No. This receivable is associated with secondary sales. The write-off associated  
17 with the \$21 million would be charged back to power sales and is not part of the  
18 bad debt calculation described by Mr. Parvinen in response to PSE Data Request  
19 No. 3, Exhibit No. TAD-9.

1 **VI. CONCLUSION**

2 **Q. Does this conclude your testimony?**

3 **A. Yes, it does.**