

**EXHIBIT NO. ___(RG-15HC)
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___**

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

**REDACTED
VERSION**

JUNE 13, 2011

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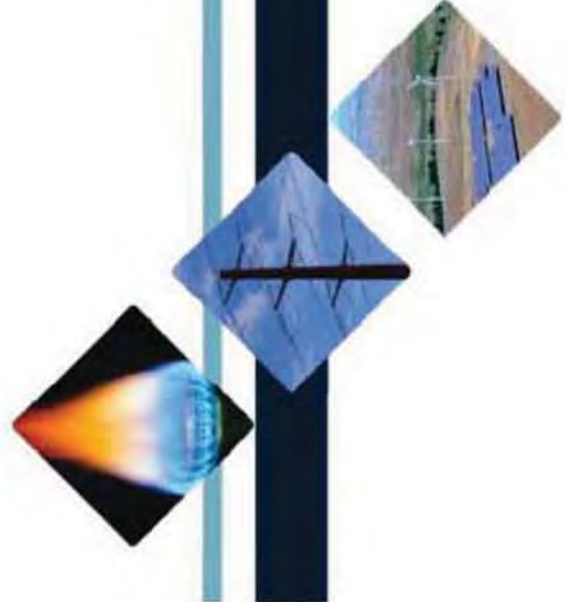
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Purchase of Remaining 50% Interest in Lower Snake River Wind Project Development Rights

Asset Management Committee

Roger Garratt
Director, Resource Acquisition & Emerging Technologies

June 11, 2009



PUGET SOUND ENERGY
The Energy To Do Great Things

Recommendation

- Recommendation to continue execution of original development strategy and seek approval from the Board of Directors to purchase remaining 50% undivided interest in Lower Snake River Wind Project development rights for \$ [REDACTED] and for approval of an increase in the total 2009 capital budget up to \$ [REDACTED].
 - Purchase provides the Company with 100% interest in exclusive rights to develop Lower Snake River Wind Project

- Recommendation is only for the purchase of the late-stage development rights and for approval of 2009 development costs, including estimated turbine deposits and pre-LGIA payments to BPA for interconnection costs. The authorization for engineering and construction of plant will be sought under future, separate recommendation

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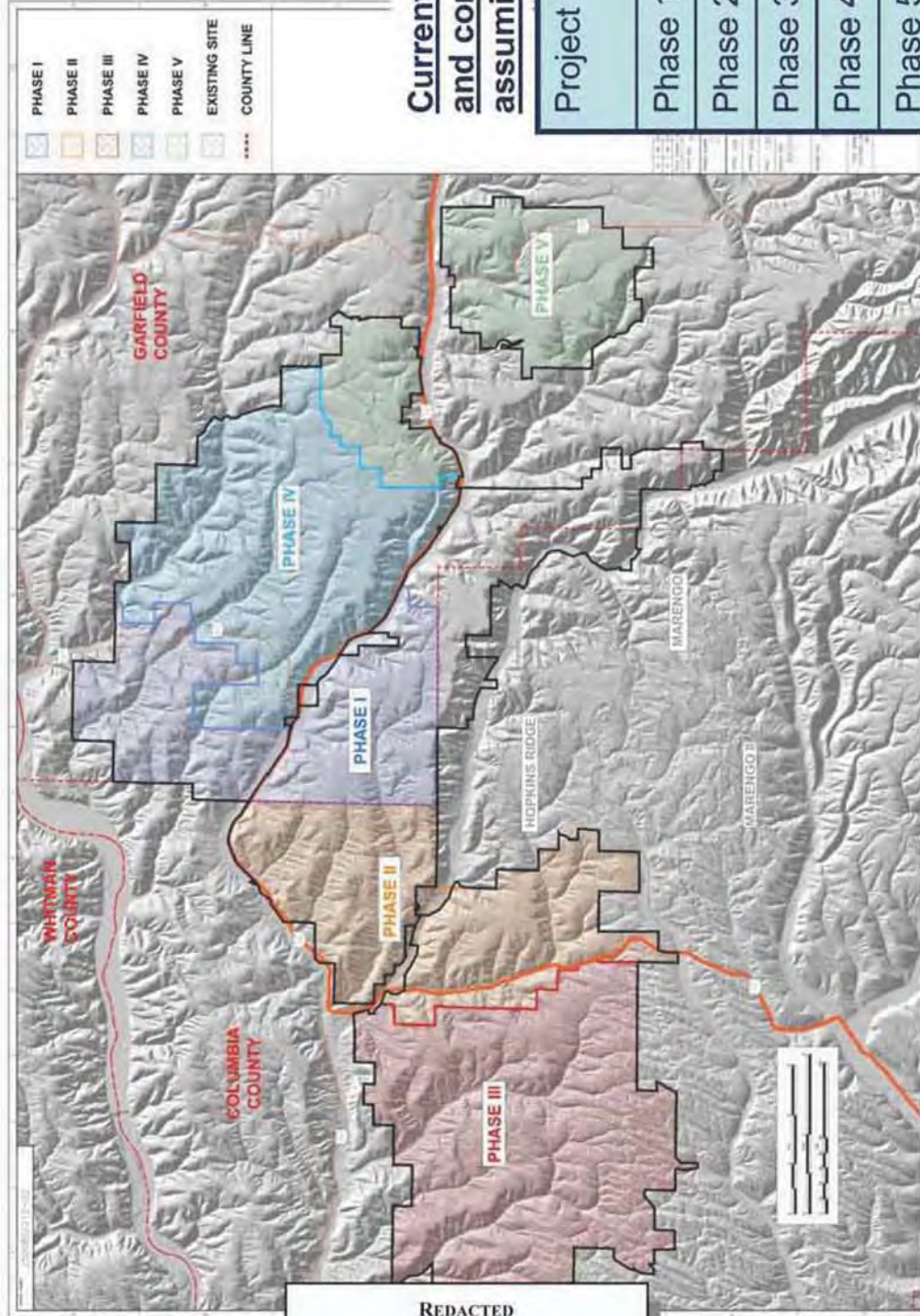
Presentation Outline

Outline of Presentation

- Project History
- Recommended Transaction
- Evaluation of Alternatives
- Capital Budget
- Recommendation



Lower Snake River Wind Project Description



Currently forecast development and construction schedule assuming 100% PSE ownership

Project	Capacity (MW)	COD
Phase 1		
Phase 2		
Phase 3		
Phase 4		
Phase 5		

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Project History

Date	Event
May 1, 2008	PSE offers \$ [REDACTED] kW plus royalty for second half of Lower Snake River development rights; RES asks for \$ [REDACTED] kW and no deal is reached. PSE and RES verbally agree to \$ [REDACTED] kW for first half of development rights
Sep 15, 2008	<i>Lehman Brothers files for bankruptcy protection</i>
Nov 26, 2008	PSE & RES sign Joint Development Agreement. (DJIA at 8,726)
Mar 23, 2009	RES issues marketing material for sale of their 50% interest. (DJIA at 7,775)
May 15, 2009	<p>PSE signs Option Letter for the purchase of the RES 50% undivided interest for \$ [REDACTED] (about \$ [REDACTED] kW).</p> <ul style="list-style-type: none"> • Option expires June 30, 2009 • PSE can terminate option at its sole discretion and at no cost <p>• Key Conditions:</p> <ul style="list-style-type: none"> • Closing Conditions define RES delivered work products • [REDACTED] • PSE still obligated to use RES Construction under JDA BOP forms • [REDACTED]

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Recent PSE Activities

Developer and Location	Capacity (MW)	Est. COD	Date of PSE offer	PSE offer	Result
		2010	Mar 5, 2009	\$ [REDACTED] kW plus turbine obligation	Counterparty countered at ~\$ [REDACTED] kW
		2010	Apr 7, 2009	\$ [REDACTED] kW plus turbine obligation	Rejected by Counterparty
		2010	Feb 17, 2009	\$ [REDACTED] kW plus turbine obligation	Rejected by Counterparty

Note: Project valuations ultimately must reflect stage of development, location, timing, market conditions, and energy resource characteristics.

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Comparison of Purchase Price

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- Purchase of Second 50%:** [REDACTED]
- Development Work Products
 - CUP permit application filed Jan, 2009
 - EIS scoping meetings held in Pomeroy and Dayton
 - Draft EIS scheduled to be issued July 6, 2009
 - Environmental, cultural, socioeconomic, avian studies well underway
 - Turbine Layout, OH collection system, O&M facilities through preliminary design
 - 22 additional leases executed

- Purchase of First 50%:** [REDACTED]
- Development Work Products
 - Preliminary Wind Resource Analysis
 - Anemometer agreements
 - Incomplete real estate package

RES Delivered Products at Closing

As Conditions to Close, RES delivers

- Complete real estate packages for Phases I through IV.
Anemometer agreements for Phase V
- Layout drawings and engineering plans for Phases I and II:
 - Turbine layouts, including turbine details
 - 30% road design package
 - Underground and Overhead collections systems and SCADA systems
 - Substation locations
 - Transmission line locations
 - O&M building locations
 - Facility communications and fiber optic layouts
- RES deliverables support valuation in late pre-construction stage

PSE Development Strategy Review

- Move up development chain to control options
- Minimize acquisition cost, as compared to more fully developed projects
- Be in a position, with respect to development partner, to utilize leverage to step up to a larger position if and when our partner was unable to move forward
- Strategy playing out as we had hoped (although earlier than expected due to market events)

Comparison of Options

Alternative	Pro	Con
1) 100% PSE Ownership	<ol style="list-style-type: none"> 1. Provides control of project and better opportunity to obtain tax incentives 2. Allows potential sale of development rights unencumbered by RES' interest 	<ol style="list-style-type: none"> 1. Increased capital expenditures over current plan 2. Opens long wind position
2) RES Sells Interest to Unknown Partner	Maintains planned wind capacity and budget for PSE	<ol style="list-style-type: none"> 1. New partner will bring uncertainty and will slow development 2. New partner may not execute development plan
3) RES remains as Partner	Development schedule approval and remedy provisions of JDA allow PSE to proceed without RES	RES unlikely to meet its near-term development obligations, but may litigate JDA remedies if forced out of early projects

Alternative: RES Remains as Partner

Consequence: Possible Development Schedule Slippage

- Upcoming BPA payments (\$[REDACTED]MM due 8/09) and open development issues may provide RES with excuses to try to put off approval of material expenditures
- RES unlikely to sign up for turbines unless credit markets significantly improve (i.e., availability of turbine or development loans)
- If RES is too slow in approving development matters or expenses, PSE may seek to enforce remedies under the JDA
 - However, likely will be difficult to establish that RES is not acting in good faith or is in default
 - Remedies will take time and will likely cause delays sufficient to cause ITC or Grant incentives to be lost

- JDA Remedies



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Tax Incentives - Timing Considerations

- Production Tax Credit extended through 2012
 - PSE ability to utilize uncertain due to limited tax appetite
 - Third party tax equity in regulated utility context poses significant regulatory and accounting challenges
- 30% Investment Tax Credit/Treasury Grant
 - To qualify for Grant “construction” of project must begin before end of 2010 and project must be placed in service before end of 2012
 - Currently unclear how IRS will determine when “construction” actually begins (e.g., material construction activities, or is signing of construction contract enough?)
- Projected in service date for first LSR project is not until late 2011 due to need for new BPA facilities
 - Key issue: delays caused by, or due to, RES (e.g., delays or inability to obtain financing), potentially may jeopardize PSE’s ability to meet tax deadlines

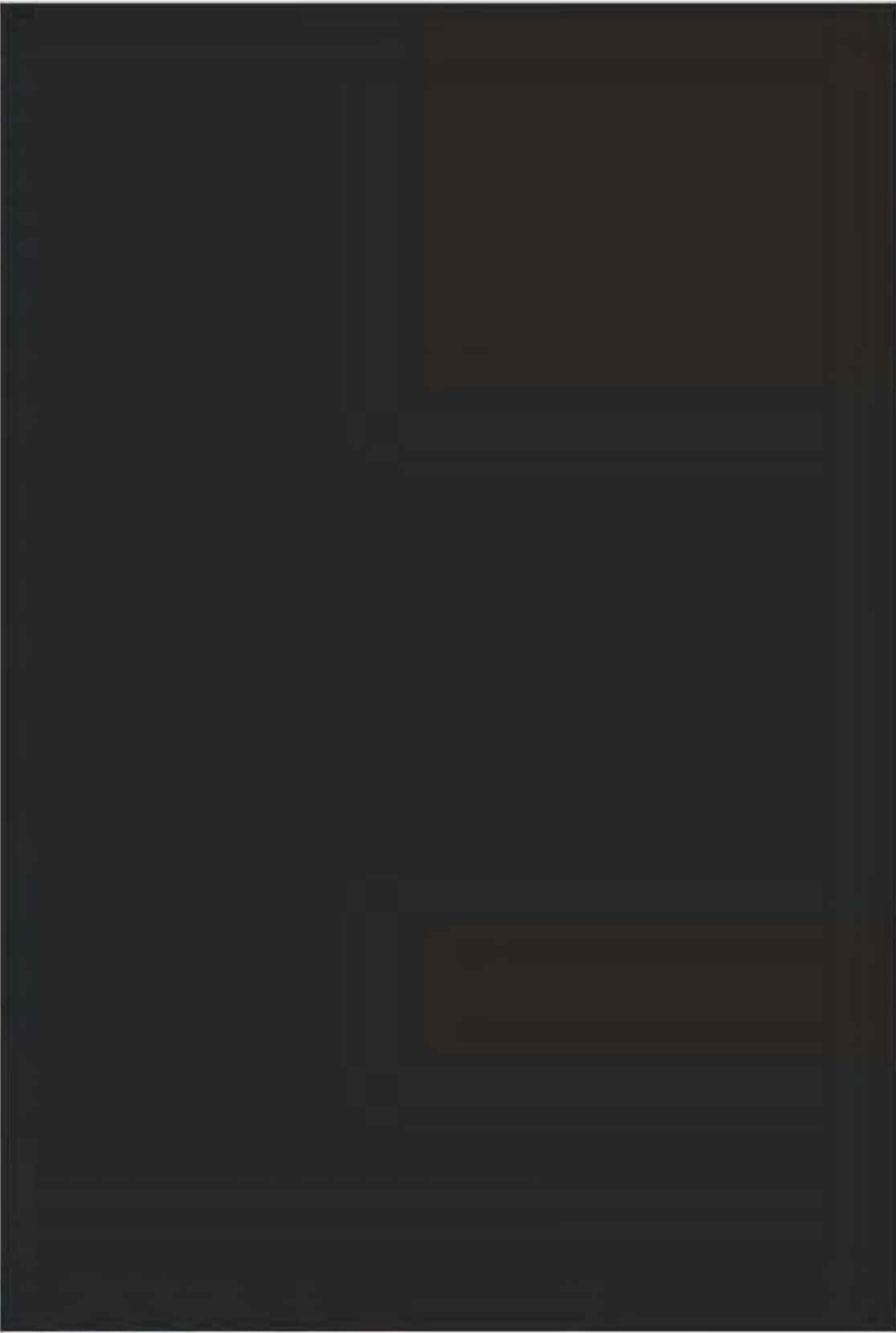
Capital Expenditure Summary

100% PSE Ownership Draft 5-year Plan (\$000)									
Year	2009	2010	2011	2012	2013	2014	Total 2015-2022	Total 2009-2022	
Development Rights									
Development Costs									
Transmission Cost									
Wind Turbine Generators									
Balance Of Plant									
Construction Management									
Other Costs									
Contingency									
Subtotal									
BPA Interconnect Cost*									
Expenditure Total									
Previous Estimate (3/09)									
Increase/Decrease									

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* - BPA Interconnection Cost is regulatory cost; 80% assumed to be refunded as transmission credits

Renewable Portfolio Standard and 100% PSE Ownership



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Factors Supporting Renewables

- Federal Stimulus provisions require 2012 COD
- Pending Federal RPS legislation and ‘cap & trade’ system would require increased renewables development
- Potential sale of Renewable Energy Credits (RECs) under favorable market conditions
- Expected upward price pressure in development fees, wind turbine pricing, and construction costs
 - Hedge against rising renewable cost
- Reduces risk by controlling development schedule
- Community support; development shelf life

Future Corporate Approvals

- The current approval is for the purchase of the late-stage development rights and increased 2009 capital budget only.
- Future EMC approvals will be sought for:
 - Contract Authorizations
 - Turbine Procurement
 - Balance of Plant Agreement
 - BPA engineering and procurement agreements and LGIA
 - Project Authorizations
 - Phase 1 through 5

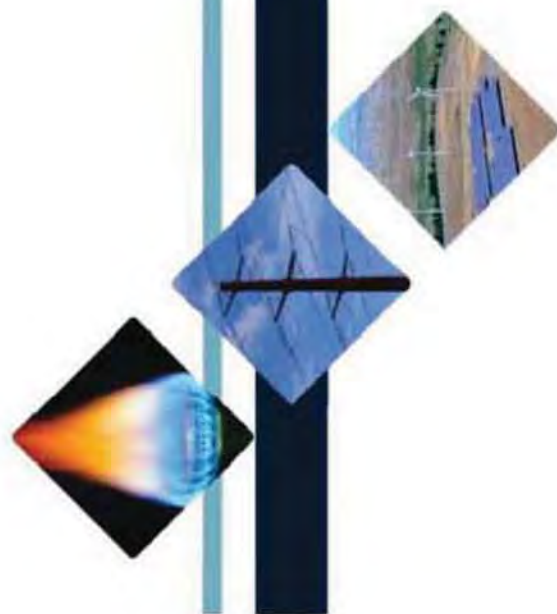
Recommendation

- Recommendation to continue execution of original development strategy and seek approval from the Board of Directors to purchase remaining 50% undivided interest in Lower Snake River Wind Project development rights for \$ [REDACTED] and for approval of an increase in the total 2009 capital budget up to \$ [REDACTED].
 - Purchase provides the Company with 100% interest in exclusive rights to develop Lower Snake River Wind Project

- Recommendation is only for the purchase of the late-stage development rights and for approval of 2009 development costs, including estimated turbine deposits and pre-LGIA payments to BPA for interconnection costs. The authorization for engineering and construction of plant will be sought under future, separate recommendation

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Purchase of Remaining 50% Interest in Lower Snake River Wind Project Development Rights



Appendix



Contract Holdbacks

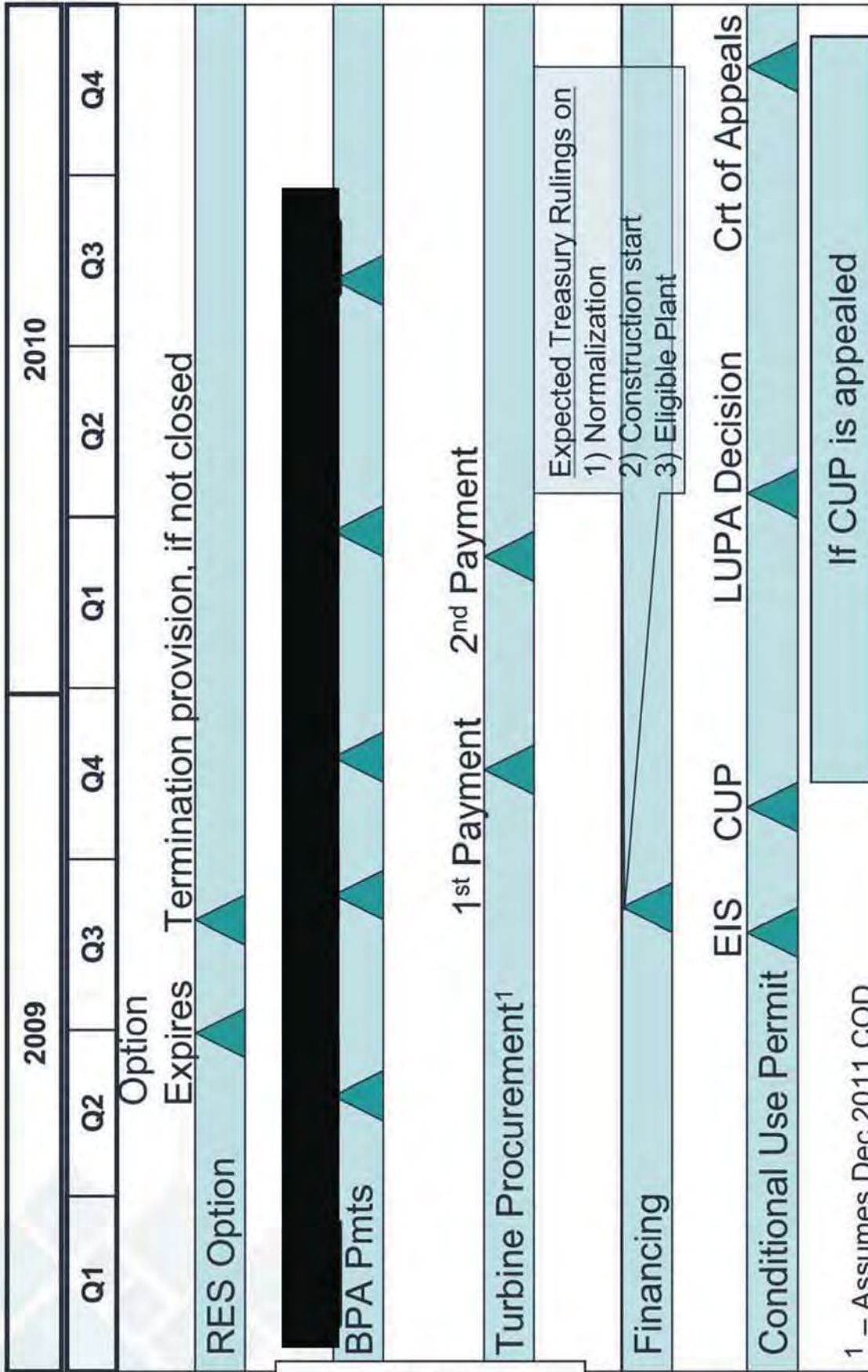
Holdback Item	Holdback Amount
Mortgage-related agreements (e.g., subordination documents)	\$ [REDACTED] each (\$ [REDACTED] total)
Settlements with key project opponents	\$ [REDACTED]
Lease acquisitions (7 open agreements)	\$ [REDACTED] total

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Key Decisions and Open Issues

Item	Description
Purchase RES 50% Share of LSRP	Purchase of exclusive late-stage development rights. Real estate leases will start to require renewal in 2012
BPA E&P Agreement	Engineering and Procurement Agreement for the Construction of Central Ferry Substation.
Turbine Procurement	Majority expense of plant requires 18-24 month lead time
Project Financing	Open issues regarding implementation of February 2009 Federal Stimulus Bill create uncertainty regarding project financing: PTC with Flip v. ITC/Grant
Conditional Use Permit	Delivery date of unappealable permit could be as early as December 2009 or as late as December 2010, if appealed.

Timeline of Key Information and Decisions



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1 – Assumes Dec 2011 COD

Financing - Regulatory Treatment & Financing Methodology

Grant Ratemaking Treatment	Preferred Financing Structure	Required Government Action
Normalized, 25 year amortization	Production Tax Credit with "Flip" Financing	No Federal Action Required
Normalized, 10 year amortization	Grant in lieu of Investment Tax Credit	Treasury Ruling
No Normalization, but benefits amortized (assume 10 years)	Grant in lieu of Investment Tax Credit	Treasury Ruling with Congressional support or new legislation

Construction Timing Factors

Factors Favoring Later

Construction

- Delivery of Unappealable Permit
- BPA Central Ferry Substation Construction
- Current RPS Standards
- Current PSE Renewable Goal
- Uncertain Project Financing Rules

Factors Favoring Earlier

Construction

- Federal Stimulus provisions require 2012 COD
- Proposed federal RPS and climate change legislation favoring renewables
- Anticipated upward pressure on development premiums
- Current depressed turbine market
- Lease renewals open door to competitors
- Potential sale of RECs
- Community support; development shelf life

Recommended Purchase of the RES 50% interest gives PSE control of the development and construction schedule so that the Company can adjust to changing conditions and new information

2009 Capital Expenditures

PSE Forecast Cash Flows for Lower Snake River Wind Project

Case I: 50% PSE Interest, 50% RES Interest as TIC

	YTD ¹	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009
Purchase Price - First Half											
BPA Payment - Mod 4											
Develop Cost - RES JDA ²											
WTG deposits ³											
Total											

Case II: 100% PSE owned - Assume RES Closing Jun-09

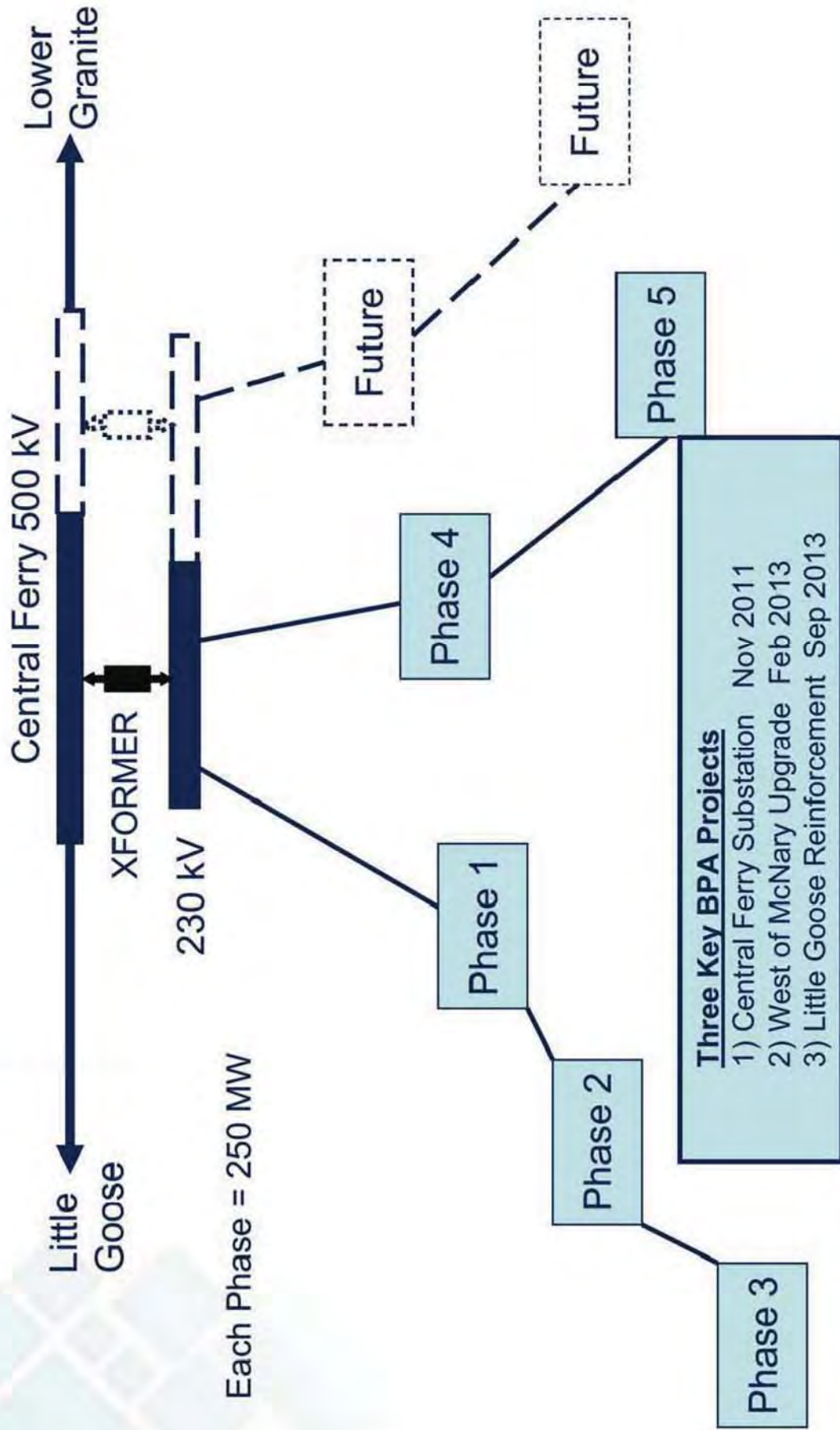
	YTD	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009
Purchase Price - First Half											
Purchase Price - Second Half											
BPA Reimbursement to RES for BPA Pmts prior to Closing											
BPA Payments - Mod 4											
Develop Cost - RES JDA ²											
Forward Develop Cost											
Incremental WTG deposits ⁴											
Total											

Notes

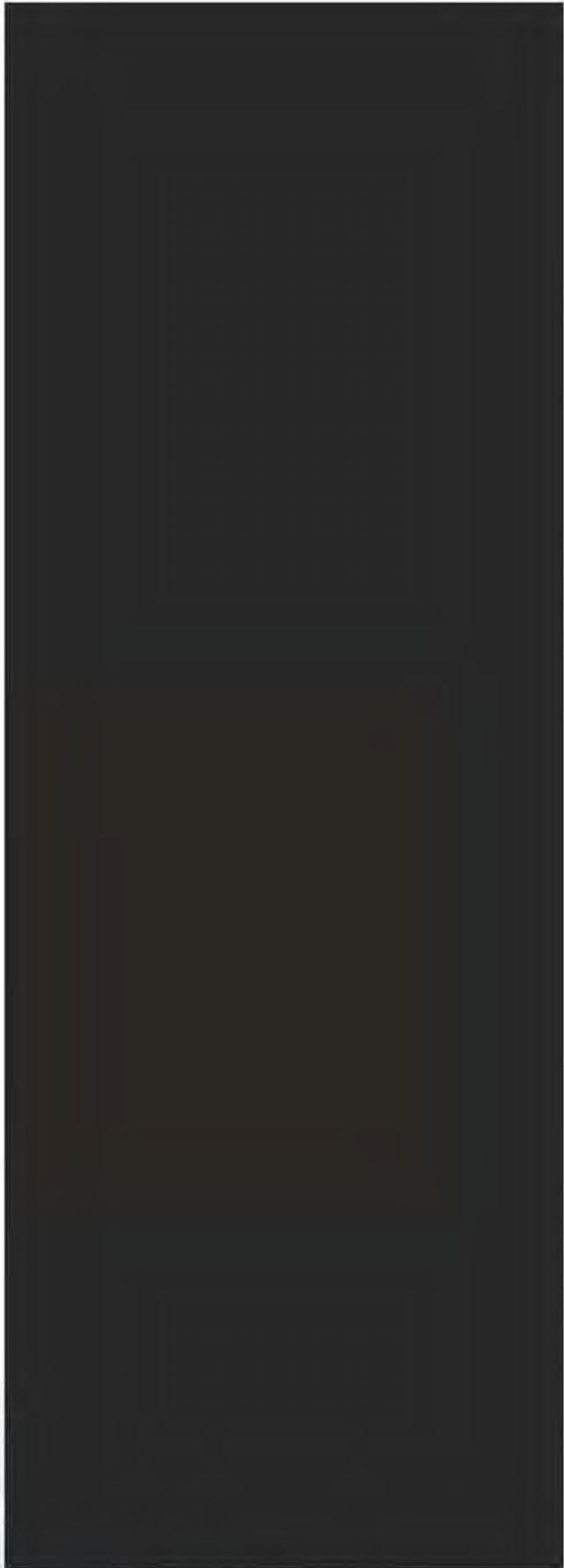
- 1) Includes Aug 08 BPA Pmt
- 2) See Development Cost Schedule
- 3) Assume WTG schedule in approved development Plan
- 4) Assumes 250 MW

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Simplified LSR Wind Project Layout



Transmission Strategy



- 800 MW transmission obtained through the 2008 BPA Network Open Season
 - 600 MW by PSE; 200 MW by RES
 - 550 of 800 MW contingent upon the completion of the following projects:
 - West of McNary Reinforcement (Feb. 2013 schedule)
 - Little Goose Reinforcement (Nov. 2013 schedule)
- [REDACTED]
- Short-term transmission will be requested where need exists
- Excess transmission will be deferred at estimated cost of ~\$130K/100 MW/year

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Development Schedule and Financing

Lower Snake River Wind Project Develop Schedules and Financing Assumption

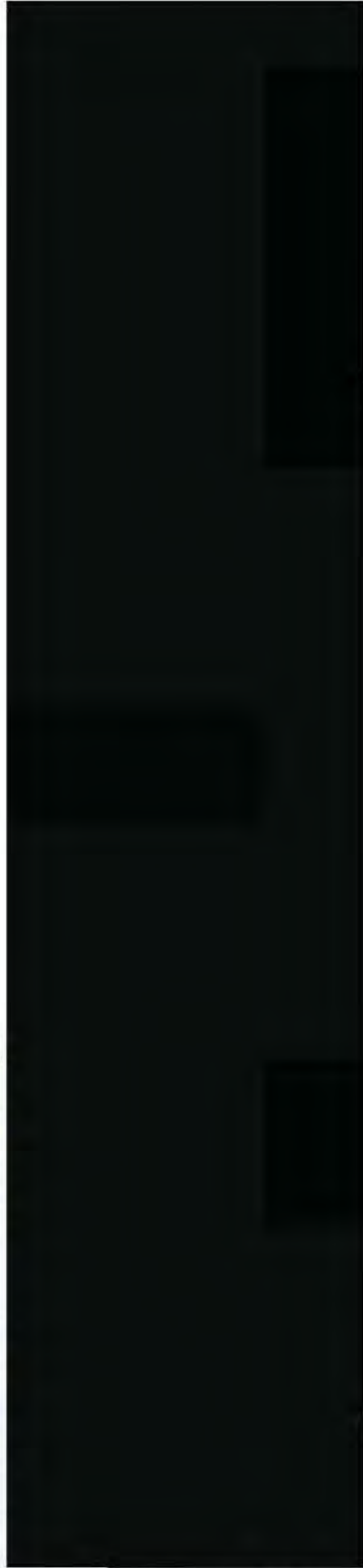
Year	Installed MW			Financing
	Levelized IRP	IRP	50% PSE Ownership	
2011	100	100		Grant*
2012	100	100		Grant*
2013	100			Balance Sheet
2014	100			Balance Sheet
2015	100			Balance Sheet
2016	100	200		
2017	100			
2018	100			
2019	100			Balance Sheet
2020	100	600		
2021				Balance Sheet
Total MW	1000	1000	1250	625

* assumes normalization and 10-year amortization

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Alternative: RES Remains as Partner

Arbitration Remedy



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Alternative: RES Remains as Partner

Buy-Sell mechanism in case of a deadlock



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Alternative: RES Remains as Partner

“Withdrawing Party” Buy-out



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Alternative: RES Remains as Partner

Squeeze Down



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Alternative: RES Remains as Partner

Certain Risks of Continuing with RES



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Risk Analysis

Description	Consequence	Mitigation Plan
<p><i>Financing</i></p> <p>1. Timing and form of financing related to Federal Stimulus provisions</p> <p>2. Limited availability of tax equity partners and regulatory accounting challenges may create uncertainties structuring utility rate-based “flip”</p>	<p>1. Increased project cost</p> <p>2. Stranded development cost</p>	<p>1. PSE financial models use conservation assumptions to factor in potential downside costs.</p> <p>2. PSE Federal Relations Team engaged with Treasury to clarify potential implementation policies.</p>
<p><i>Permitting and Community Acceptance</i></p> <p>Permit restrictions may limited installed capacity</p>	<p>Increased project cost (\$/mWh)</p>	<p>1. Current plant layout and design efforts follow all setback and other relevant planning provisions.</p> <p>2. Conservation permitting strategy limited avenues for appeal.</p> <p>3. Conservative permitting schedule assumes Conditional Use Permit is appealed</p>

Risk Analysis

Description	Consequence	Mitigation Plan
<p><i>Technology</i></p> <p>Improvements in WTG technology likely to yield improved capacity factors</p>	<p>Higher project cost relative to later wind plants</p>	<p>Turbine supply agreements will include warranty and service provisions. Technology factors to be considered in turbine supply award.</p>
<p><i>Reduced need for renewables</i></p>		
<p>Future efforts in state legislature may result in reduced RPS standard</p>	<p>PSE portfolio may contain more wind resource than required by state law</p>	<ol style="list-style-type: none"> 1. Likely Federal RPS standard. 2. Recent move to regulate GHG suggests continued increased pressure on renewable generation.
<p><i>Construction</i></p>		
<p>Construction delays, faulty equipment, or unexpected material issues</p>	<p>Cost over-runs</p>	<ol style="list-style-type: none"> 1. RES Construction in place for construction phase using 'open-book' accounting. 2. Ensure contractor follows best-practices re insurable risks.

Risk Analysis

Description	Consequence	Mitigation Plan
<p><i>Real estate risk for late-stage development</i></p> <p>Development of late-stage projects (Phases 4 and 5) may exceed the life of existing leases and anemometer agreements</p>	<p>Late-stage projects will require renewal of lease agreements resulting in higher project costs</p>	<ol style="list-style-type: none"> 1. Update lease agreements as necessary. 2. Maintain positive presence in community.

Executive Summary



Lower Snake River Wind Project Executive Summary November, 2009

Development Update

The Lower Snake River Wind Project ("LSRWP") development activities include actions related to permitting, the build out schedule and strategy, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement. The primary activities are summarized as follows:

Permitting

The Final Environmental Impact Statement ("FEIS") appeal period ended on October 21. One appeal to the FEIS was filed and then withdrawn. The Company settled with the appellant. The settlement was executed before the SEPA appeals hearing that had been scheduled to coincide with the Garfield County Conditional Use Permit Hearing on November 5th. The LSRWP has a SEPA permit with no appeals.

The Garfield County Conditional Use Permit (CUP) hearing was conducted on November 5, 2009. Following presentations by Garfield County and PSE staff recommending approval of the CUP, several project supporters and project landowner participants testified and filed written comments in support of the project. There was one opponent that testified against the project and two letters of opposition filed with the Hearing Examiner. The Hearing Examiner indicated that he will make a decision on the CUP no later than December 1st.

A Columbia County CUP pre-application meeting was held on November 6th with PSE development staff and council, and Columbia County Planning staff and counsel to kickoff the Columbia County CUP application process. Payment to the County for the CUP staffing reimbursement agreement was made following the meeting. Pre-Application meetings with the

Executive Summary



Columbia County Roads Department and Fire District No.1 will be on November 20th. The draft CUP application will be filed with Columbia County in early December. Following acceptance of the CUP application by the County a 21-day public comment period will begin. Public comment will close at the end of December and a Columbia County CUP hearing is targeted for late January.

Construction Permitting for Phase 1 is underway. The development team has begun the initial work anticipated for administrative permits with state and local agencies.

Build Out Schedule and Strategy

In October Resource Acquisition staff presented the Energy Management Committee ("EMC") with analysis and recommendation of a preferred development schedule that targets early completion of projects to capture the renewable incentives provided in the American Recovery and Reinvestment Act. Following the EMC presentation the development staff has been formulating a development strategy that meets the goals of the preferred development schedule. The strategy includes maximizing the available build-out areas in each phase in order to meet the development schedule.

Wind Turbine Generator ("WTG") Procurement

Negotiations are underway for both the Turbine Supply Agreement (TSA) and the Service Maintenance Agreement (SMA) with Siemens for the procurement of 109 Siemens SWT 101 2.3 MW wind turbines for Phase I of LSRWP. A red-line of the Siemens the draft agreements has been provided to Siemens and is currently being negotiated. The executive team traveled to Denmark to tour the Siemens manufacturing and testing facilities in order to obtain a better understanding of Siemens and the SWT 101-2.3 MW wind turbines. The PSE WTG team anticipates recommending the negotiated TSA and SMA agreements for approval at the January Board of Directors Meeting.

Balance Of Plant (BOP)

Negotiations are underway for the BOP Agreement with RES Construction ("RES") for Phase I. A draft red-line BOP Agreement has been provided to RES for review and comment. The

Executive Summary



revised document reflects the roles agreed to with RES at an initial meeting held at RES Corporate Headquarters in Broomfield, Colorado in October. The revised documents reflect the engineering responsibilities for the design of the BOP components. RES will retain design responsibilities for WTG foundations and the underground collection system detailed design. Burns & McDonnell will have design responsibility for the remainder of the BOP scope including layout and optimization of the power collection system. RES will remain responsible for all construction activities. Burns & McDonnell is currently preparing preliminary designs for Phase I in support of the BOP Agreement to enable RES to revise the BOP construction cost estimate. We anticipate recommending the BOP contract for approval at the January Board of Directors meeting.

Engineering & Design

Burns & McDonnell is underway on the engineering design of Phase I. Design work is progressing on the transmission line design, substation design, power collection system design, road design, site design, and facility design. Several contracts in support of the design have been awarded and are underway including transmission line route survey, substation site surveys, and preliminary geotechnical investigations. Development staff prepared a plan and budget for building facilities that will be constructed in Phase 1 which was approved by the Management Committee

BPA Interconnection

BPA continues work on NEPA analysis and design of the Central Ferry Substation. PSE staff has concerns about BPA's proposed schedule. The Company is continuing to attempt to assist BPA, where possible, to advance the schedule. If the Company is unsuccessful in advancing the BPA schedule, it will delay the assumed Phase 1 substantial completion date by a few months (but still in time to qualify for the Treasury grant).

BPA ROD

Following the Garfield County CUP Hearing, PSE development staff met with BPA permitting staff on November 10th to discuss BPA's development of the Record Of Decision ("ROD") for the BPA Central Ferry Substation site. Based on the fact that LSRWP has no SEPA appeals and

Executive Summary



the strong public support evident at the Garfield County CUP hearing, BPA is currently preparing the ROD. A draft ROD is anticipated in early December.

Procurement

BPA informed PSE staff that the order for the Central Ferry transformers has been placed.

Large Generation Interconnection Agreement (LGIA):

A draft LGIA has been received and is currently being reviewed by PSE. PSE will be meeting with BPA over the next several weeks to negotiate the terms of the LGIA. The PSE team anticipates recommending the negotiated LGIA agreement for approval at the January Board of Directors Meeting.

Budget Report

	Original 2009 Budget	Approved Changes	Current 2009 Budget	2009 Spent	2009 Forecast
LSR Wind + Transmission Total + AFUDC					
AFUDC					
LSR Wind + Transmission Total					
Transmission					
BPA Payments prior to Closing					
BPA Reimbursement to RES					
BPA Payments post-closing					
Lower Snake River Wind Total					
Development Rights					
Purchase Price-First Half					
Purchase Price-Second Half					
Development Costs					

Note: 2009 Forecast assumes that WTG deposit will be made in early 2010.

Executive Summary



Lower Snake River Wind Project Executive Summary December, 2009

Development Update

The Lower Snake River Wind Project ("LSRWP") development activities include actions related to permitting, treatment of renewable incentives, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement. The primary activities are summarized as follows:

Permitting

The Garfield County Hearing Examiner issued the Conditional Use Permit ("CUP") on November 25, 2009. The CUP contains all the provisions and requirements necessary to construct the Project. Staff review of the permit conditions indicates all terms are acceptable to the Company. The CUP appeal period will expire at close of business on December 24, 2009. No appeals have been filed to date.

In neighboring Columbia County, the Company filed a draft CUP application on December 14, 2009. Columbia County is currently reviewing the draft application for completeness. Following acceptance of the CUP application by the County, a 21-day public comment period will begin. A Columbia County CUP hearing is targeted for late January. Staff anticipates the Columbia County environmental analysis will substantially rely on the analysis conducted to support the Garfield County permit.

Construction Permitting for Phase 1 is underway. The development team has begun the initial work anticipated for administrative permits necessary for construction with state and local agencies.

Executive Summary



Renewable Incentives

On September 20, 2009, the Company filed a petition with the Washington Utility and Transportation Commission ("WUTC") requesting an order approving accounting and normalization treatment of the U.S. Treasury grant for the Wild Horse Expansion Project. On December 10, 2009, the WUTC issued an order granting the proposed accounting and normalization treatment reflecting a ten year amortization period of the grant proceeds. While this order is specific to the Wild Horse Expansion Project, it may indicate support for similar treatment of the grant benefits for the Lower Snake River Project.

Wind Turbine Generator ("WTG") Procurement

Negotiations are progressing well with Siemens for both the Turbine Supply Agreement (TSA) and the Service Maintenance Agreement (SMA) for the procurement of 109 Siemens SWT 101 2.3 MW wind turbines for Phase I of LSRWP. [REDACTED]

Balance Of Plant ("BOP")

Negotiations are continuing for the BOP Agreement with RES Construction ("RES") for Phase I. [REDACTED]

Engineering & Design

Burns & McDonnell is underway on the engineering design of Phase I. Design work is progressing on the transmission line, substation, power collection system, road work, site, and facility. Several contracts in support of the design have been awarded and are underway including transmission line route survey, substation site surveys, and preliminary geotechnical investigations.

BPA Interconnection

Executive Summary



PSE staff met with BPA to negotiate the Large Generator Interconnection Agreement. Much of the agreement is standard FERC language and the most of the discussions are concerned with items that are exhibits to the agreement. BPA is finalizing their proposed design, procurement, and construction schedule for the Central Ferry Substation. Staff currently anticipates the substation will energize on December 1, 2011.

BPA is negotiating a task order contract with HDR for the design of the substation, and they anticipate starting the design work by the end of the year. PSE is considering design and construction of the access road to the substation in an effort to advance the overall schedule.

BPA RECORD OF DECISION ("ROD")

Staff have reviewed and commented on the draft ROD. The Company anticipates a signed ROD in January.

Budget Report

	2009 Budget	2009 Spent	2009 YE Forecast	2009 YE Variance
LSR Wind + Transmission Total + AFUDC				
AFUDC				
LSR Wind + Transmission Total				
Transmission				
BPA Payments prior to Closing				
BPA Reimbursement to RES				
BPA Payments post-closing				
Lower Snake River Wind Total				
Development Rights				
Purchase Price-First Half				
Purchase Price-Second Half				
Development Costs				

Note: 2009 Forecast assumes that WTG deposit will be made in early 2010.

Executive Summary



Lower Snake River Wind Project Executive Summary January, 2010

Development Update

The Lower Snake River Wind Project ("LSRWP") development activities include actions related to permitting, treatment of renewable incentives, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement.

Previously, the LSRWP development plan considered Phase I and Phase II as 250 MW developments with commercial operations beginning in December 2011, and December 2012, respectively. Recently, the development plan has been revised considering local permitting issues in Garfield and Columbia Counties and recent guidance with respect to the 2010 safe harbor provisions related to qualifying for the grant under the American Recovery and Reinvestment Act ("ARRA"). As described below, the Company has secured an unappealable permit in Garfield County and the Columbia County process may not produce a similar permit until the third quarter of 2010. Also, recent guidance regarding the ARRA provisions indicates only on-site work or receipt of turbines on site qualifies for the 2010 safe harbor provisions related to the US Treasury grant.

Given these factors, Phase I has been expanded to 340 MW (149 turbines), all in Garfield County with commercial operation in late 2011 or early 2012. Phase I as currently planned (340 MW) would replace the combined Phase I & Phase II 500 MW projects previously envisioned. The safe harbor provisions necessary to qualify for the US Treasury grant, defined as 5% of qualifying plant, would be met by construction of roads and foundations in 2010 following a decision by the Board of Directors in May.

The primary activities are summarized as follows:

Executive Summary



Permitting

The Garfield County Hearing Examiner issued the Conditional Use Permit ("CUP") on November 25, 2009 and the CUP appeal period expired at close of business on December 28, 2009. No appeals were filed and the Company has secured an unappealable permit in Garfield County.

In neighboring Columbia County, the Company filed a draft CUP application on December 14, 2009. Columbia County has reviewed the draft application and deemed it complete. The County expects to issue their public notice on January 27, which will commence a 21-day public comment period. The CUP Hearing date has been scheduled for March 12.

Construction permitting for Phase 1 is underway. The development team has reviewed the CUP requirements and assigned lead personnel for the initial work anticipated for administrative permits necessary for construction with state and local agencies.

Renewable Incentives

No new information at this time.

Wind Turbine Generator ("WTG") Procurement

Negotiations are progressing well with Siemens for both the Turbine Supply Agreement (TSA) and the Service Maintenance Agreement (SMA) for the procurement of 149 Siemens SWT 101 2.3 MW wind turbines for Phase I of LSRWP. The negotiating teams are scheduled to meet in February to finalize terms.

Balance Of Plant ("BOP")

Negotiations are continuing for the BOP Agreement with RES Construction ("RES") for Phase I. The negotiating teams are currently re-scoping the BOP work plan in consideration of the 2010 work campaign and the additional WTGs. [REDACTED]

Executive Summary



Engineering & Design

Burns & McDonnell is underway on the engineering design of Phase I. Design work is progressing on the transmission line, substation, power collection system, road work, site, and facility. Several contracts in support of the design have been awarded and are underway including transmission line route survey, substation site surveys, and preliminary geotechnical investigations. Micrositing of the turbines north of US Route 12 is currently underway.

BPA Interconnection

BPA is finalizing their proposed design, procurement, and construction schedule for the Central Ferry Substation. Staff currently anticipates the substation will energize on December 1, 2011. BPA will use HDR for the design of the substation. PSE is considering design and construction of the access road to the substation in an effort to advance the overall schedule.

BPA RECORD OF DECISION ("ROD")

The ROD has completed internal review at BPA and is on the Administrator's desk for signature. The Company anticipates a signed ROD by month's end.

Budget Report

	2009 Budget	2009 Spent	2009 YE Variance (over) / under	Total Spend Inception to Date
LSR Wind + Transmission Total + AFUDC				
AFUDC				
LSR Wind + Transmission Total				
Transmission				
BPA Payments prior to Closing				
BPA Reimbursement to RES				
BPA Payments post-closing				
Lower Snake River Wind Total				
Development Rights				
Purchase Price-First Half				
Purchase Price-Second Half				
Development Costs				

Note: 2009 Forecast assumes that WTG deposit will be made in early 2010.

Executive Summary



Lower Snake River Wind Project Executive Summary February, 2010

Development Update

The Lower Snake River Wind Project ("LSRWP") development activities include actions related to permitting, treatment of renewable incentives, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement.

The primary activities are summarized as follows:

Permitting

Construction permitting for Phase 1 in Garfield County is underway. Project staff is preparing for the March 12 CUP Hearing in Columbia County for future Phases 2 and 3.

Renewable Incentives

No new information at this time.

Wind Turbine Generator ("WTG") Procurement

The negotiations for both Turbine Supply Agreement (TSA) and the Service Maintenance Agreement (SMA) for the procurement of 149 Siemens SWT 101 2.3 MW wind turbines for Phase I of LSRWP are advanced. The negotiating teams meet in February and expect to have final documents ready to execute immediately after Board approval in May.

Balance Of Plant ("BOP")

Negotiations are continuing for the BOP Agreement with RES Construction ("RES") for Phase I. The negotiating team expects to have final documents ready to execute immediately after Board approval in May.

Executive Summary



Engineering & Design

Work continues on Phase 1 design specifications and layout. Micro-siting is complete for all 149 proposed turbine locations. Geotechnical investigations are underway for the access roads and foundation locations. Burns and McDonnell have completed the 90% design of turbine access road that will also provide access to the Central Ferry Substation.

BPA Interconnection

BPA issued the Record of Decision (“ROD”) for the electrical interconnection of the Project on January 28, 2010. This document marks compliance with all environmental review associated with the National Environmental Policy Act (“NEPA”) necessary to construct the Central Ferry Substation. BPA requires a signed ROD before the agency will execute a Large Generator Interconnection Agreement (“LGIA”).

Budget Report

	2010 Budget	Current 2010 Forecast	2010 Spent through Jan 31	2010 YE Forecast
LSR Wind + Transmission Total + AFUDC				
AFUDC				
LSR Wind + Transmission Total				
Transmission				
Lower Snake River Wind Total				
Development				
Wind Turbine Generators				
Balance of Plant				
Construction Management				
Contingency				
Cognos Fixed 1% Construction OH				

REDACTED
VERSION

Executive Summary



Lower Snake River Wind Project Executive Summary March, 2010

Development Update

The Lower Snake River Wind Project ("LSRWP") development activities include actions related to permitting, treatment of renewable incentives, engineering and design for Phase 1, and negotiating the Turbine Supply Agreement, Service Maintenance Agreement, Balance of Plant Agreement, and Large Generation Interconnection Agreement.

The primary activities are summarized as follows:

Permitting

Discussions with Columbia County staff regarding the Columbia County Conditional Use Permit ("CUP") are proceeding. The CUP Hearing was originally scheduled for March 12 but has been postponed until April 29 in Dayton, Washington.

Construction permitting for Phase 1 in Garfield County is underway. In coordination with Garfield County and RES Construction, PSE is developing and submitting construction permits per the Garfield County CUP. PSE staff have conducted review meetings with the appropriate state oversight agencies to discuss the 2010 construction plan and anticipate securing the necessary approvals to proceed according to plan.

Renewable Incentives

The US Department of Treasury issued revised guidance regarding the start of construction safe harbor provisions. The revised guidance clarifies that documented contracted costs incurred in the offsite manufacture of wind turbine generators may be applied towards the safe harbor provisions. Dewey & LeBoeuf are revising their January 10, 2010 memorandum regarding "Beginning of Construction under the Section 1603 Treasury Cash Grant Program" to consider the revised Treasury guidance.

Executive Summary



Wind Turbine Generator (“WTG”) Procurement

The negotiations for both Turbine Supply Agreement (TSA) and the Service Maintenance Agreement (SMA) for the procurement of 149 Siemens SWT 101 2.3 MW wind turbines for Phase I of LSRWP are advanced. [REDACTED]

Balance Of Plant (“BOP”)

Negotiations are continuing for the BOP Agreement with RES Construction (“RES”) for Phase I. The negotiating team expects to have final documents ready to execute immediately after Board approval in May.

Engineering & Design

Work continues on Phase 1 design specifications and layout. Burns & McDonnell have issued for construction drawings for the string A access road that connects State Route 127 with the Central Ferry Substation site. Preliminary site work for this road is planned for April to support BPA's construction schedule.

BPA Interconnection

PSE received a revised draft Large Generator Interconnection Agreement (“LGIA”) to PSE. The draft contains a revised budget, payment schedule, and commercial operation date. BPA's current estimate of the total cost construct the Central Ferry Substation is now \$102 million. A meeting is scheduled with BPA to discuss their revised proposal.

Executive Summary



Budget Report

	Original 2010 Budget	Revised 2010 Budget	2010 Spent through Feb 28	2010 YE Forecast
LSR Wind + Transmission Total + AFUDC				
AFUDC				
LSR Wind + Transmission Total				
Transmission				
Lower Snake River Wind Total				
Development				
Wind Turbine Generators				
Balance of Plant				
Construction Management				
Contingency				
Cognos Fixed 1% Construction OH				

Executive Summary



Lower Snake River Wind Project Executive Summary June, 2010

Phase I Construction Update

Phase I of the Lower Snake River Wind Project is under construction. The two-year construction effort will build roads, foundations, and other balance of plant (BOP) in 2010 and erect and commission 149 Siemens 2.3 MW wind turbine generators in 2011. PSE expects the commercial operation in early 2012 when BPA's Central Ferry Substation is complete.

Construction activities to date have included mobilization, quarry development, and road construction. RES Construction, the BOP contractor, is mobilizing crews to the site and establishing construction offices at the site. The first of three project quarries was developed and has produced the required output of crushed rock material for road building.

Construction of the String 1 road, which provides access to the Central Ferry Substation site, is progressing.

BPA Interconnection Construction

BPA's schedule to select and retain a construction contractor has slipped. BPA held a pre-bid conference with the re-qualified bidders on June 14th at the Central Ferry site. BPA expects to receive bids to construct the substation on June 28, and they anticipate selecting a contractor in early July.

Development Update

Development activities now relate primarily to subsequent phases of the Lower Snake River Wind Project.

The primary development activities are summarized as follows:

Executive Summary



Permitting

The Columbia County Hearings Examiner issued the Conditional Use Permit (“CUP”) on May 12, 2010, covering future developments of the Project in Columbia County. On June 7, an appeal was filed by Mr. Peterson with the Columbia County Superior Court judge. The appeal asks that the judge require the applicant, PSE, to correct several SEPA-related procedural matters. Under the Land Use Petition Act (“LUPA”), PSE expects the appeal process to take between four and six months. PSE is confident in successfully defending the CUP based on a robust public process and rigorous environmental review conducted under SEPA. The appellant, Mr. Peterson, has contacted PSE to discuss settlement and an initial meeting is set for early July.

Engineering & Design

Work continues on layouts and designs for future phases of the Project. As currently planned and assuming 2.3 MW wind turbine generators, potential layouts indicate the total project has as much as [REDACTED] MW capacity, including Phase I.

Budget Report

	Original 2010 Budget	Revised 2010 Budget	2010 Spent through May 31	2010 YE Forecast
LSR Wind + Transmission Total + AFUDC	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
AFUDC	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
LSR Wind + Transmission Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transmission	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Lower Snake River Wind Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Development	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Wind Turbine Generators	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance of Plant	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Construction Management	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Contingency	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cognos Fixed 1% Construction OH	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Executive Summary



Lower Snake River Wind Project Executive Summary July 2010

Phase I Construction Update

Phase I of the Lower Snake River Wind Project is under construction. The two-year construction effort will build roads, foundations, and other balance of plant (BOP) in 2010 and erect and commission 149 Siemens 2.3 MW wind turbine generators in 2011. PSE expects commercial operation in early 2012 when BPA's Central Ferry Substation is complete.

Construction activities to date have included mobilization, quarrying aggregates, building roads and constructing turbine foundations. At the end of July, String #1 and String #2 roads have been essentially completed, representing approximately 30% of the total road length to be built. Turbine foundation work is proceeding well following up behind the roads and is 13% complete.

Construction of the String 1 road, which provides access to the Central Ferry Substation site was completed by June 29th in advance of the mobilization of the BPA substation contractor.

BPA Interconnection Construction

BPA awarded a construction contract (Phase 1) comprising earthwork, foundations, grounding and cable trenches to Wilson Construction in mid July. Wilson mobilized and started work on site by the end of July. The Phase 1 work is expected to be complete, according to the BPA schedule, by mid October and then a Phase 2 package will be bid.

Development Update

Development activities now relate primarily to subsequent phases of the Lower Snake River Wind Project.

The primary development activities are summarized as follows:

Executive Summary



Permitting

The Columbia County Hearings Examiner issued the Conditional Use Permit ("CUP") on May 12, 2010, covering future developments of the Project in Columbia County. Jim Peterson filed an appeal with the Columbia County Superior Court judge and settlement discussions are progressing.

Engineering & Design

Nothing to report

Budget Report

	Original 2010 Budget	Revised 2010 Budget	2010 Spent through June 30	2010 YE Forecast
LSR Wind + Transmission Total + AFUDC				
AFUDC				
LSR Wind + Transmission Total				
Transmission				
Lower Snake River Wind Total				
Development ¹				
Wind Turbine Generators				
Balance of Plant				
Construction Management ²				
Contingency				
Cognos Fixed 1% Construction OH				

1. Includes Phase 1 Post NTP Development Costs

2. Includes \$821,578 for Construction Insurance spent in May

Executive Summary



Lower Snake River Wind Project Phase 1 Construction Report November 21, 2010

Overview

Overall the project is on schedule and within budget with no significant issues not yet addressed. Contractual relations with the TSA contractor (Siemens) and the BOP contractor (RES) remain good. The project enjoys widespread general support in the local community and with both local and state agencies.

Schedule Progress

A Primavera P6 detailed schedule is maintained and updated weekly. The project is on schedule and currently there are no critical path items that would prevent us from taking advantage of an earlier BPA back feed date if it becomes available. Earlier this year, with Management Committee approval, we accelerated several 2011 work items to start construction in 2010, including String #6 roads and foundations and the two project substations.

Safety

To date there have been, 1 lost time, 1 injury, 2 minor injury, 13 damage and 279 near misses recorded. The high near miss total is a function of the RES zero tolerance policy for minor infractions of any kind.

Budget Status

The project is currently tracking within budget. Both the Siemens TSA and the RES BOP contracts are at budget with no commercial change orders signed or in preparation. A total of \$1.5MM out of a \$20MM of contingency has been identified as necessary to cover "as found" ground conditions on site. The project is on track to meet the "safe haven" provisions of the Federal Stimulus package and is also tracking above the required 15% apprentice labor required to qualify for the State renewable energy program credit.

Roads

Roads serving all 149 turbines, BPA Central Ferry and the two project substations are in place and serviceable. We are presently carrying out dimensional checks on all crane pads to ensure they meet Siemens requirements.

Foundations

All 149 turbine foundations have been concreted and work is wrapping up on the associated electrical vaults and backfilling. All concrete results for 28 days exceeded the specified design requirement of 5,000 psi.

Executive Summary



Collection System

Work is currently in progress installing the U/G Collection system in Strings #1 and #2. This work started a little later than originally scheduled due to material delivery issues, but we are confident that the selected contractor (Robinson Bros.) will recover. The plan is to continue working on additional sections of the U/G Collection system as long as weather permits.

Project Substations

Both project substations have been cleared, graded and underground drainage has been installed. The main substation contract has now been awarded and work will start shortly on foundations.

BPA Interconnection

BPA contractor Wilson Construction completed work on the grading, foundations and below ground work at Central Ferry in October. We have been advised that NTP on the BPA Phase-II contract award (above ground structures) is expected in early December. Scheduled completion of Phase II is given by BPA as June 11th 2011. Phase III which comprises the Control Building has not yet completed design. BPA has indicated a target date of October 15th 2011 for back feed power may be possible and PSE will work with the Phase II contractor, when appointed, to try to achieve this.

Project Transmission Line

The detailed design of the transmission line and support structures, including foundations is nearing completing. The plan is to bid this work in early 2011, start work by April and complete by the end of August 2011.

Turbine Production

Siemens production of nacelles and hubs has started. Fabrication of towers and blades is due to start next month. Recent factory inspections have confirmed that Siemens factories are not running at full capacity and production of components in the timeframe required to support the contract will not be a problem.

Turbine Delivery

No turbine equipment has yet shipped.

Turbine Erection

Siemens plans to start mobilizing erection crews to the site next March. Two crane crews will be utilized able to erect between 8 and 10 turbines per week.

Turbine Commissioning

The present plan is to use portable generators to pre-commission units in advance of back feed power being available. If the back feed power date can be advanced the plan may be modified later.

Executive Summary



Pomeroy O&M Building

The building design was completed and bids were received in early November. From six bidders Opp & Siebold from Walla Walla was selected and will start work once the contract formalities have been completed. An advance contract to clear the site and terrace the hillside was completed in October.

PSE Communications

A total of nine (9) microwave sites are required to provide communication to LSR. Three of these sites have been under construction this year and are nearing completion, two are existing sites that require additional internal equipment only and the remaining four sites will be started next year.

Local Relations

Community support remains strong. Individual project landowners have been consulted throughout the year on details of road alignment, cut and fill slopes, etc., so as to minimize the impact on their farming operations. The official groundbreaking ceremony held at the Pomeroy fairgrounds at the end of September was well attended and featured prominently in the local press.

Other items of interest/importance from the month

All necessary easements required to support the project have either been obtained or are in process.

Lower Snake River Project
Phase 1 Construction Report
December 22, 2010

Overall Project Status Summary

Overall the project is on schedule and within budget with no significant issues not yet addressed. Contractual relations with the TSA contractor (Siemens) and the BOP contractor (RES) remain good. The project enjoys widespread general support in the local community and with both local and state agencies.

Schedule Progress

A Primavera P6 detailed schedule is maintained and updated weekly. The project is on schedule and currently there are no critical path items that would prevent us from taking advantage of an earlier BPA back feed date if it becomes available. Earlier this year, with Management Committee approval, we accelerated several 2011 work items to start construction in 2010, including String #6 roads, String #6 foundations and the two project substations. The String #6 foundations have been completed and substantial progress has been made with the other items that were started early.

Safety

To date there have been 1 lost time, 2 injury, 2 minor injury, 13 damage and 327 near misses recorded. The high near miss total is a function of the RES zero tolerance policy for minor infractions of any kind.

Budget Status

The project is currently tracking within budget. Both the Siemens TSA and the RES BOP contracts are at budget with no commercial change orders signed or in preparation. A total of \$ [REDACTED] out of a \$ [REDACTED] of contingency has been identified as necessary to cover "as found" ground conditions on site. The project has met the "safe haven" provisions of the Federal Stimulus package and is also tracking above the required 15% apprentice labor required to qualify for the State renewable energy program credit.

Roads

Roads serving all 149 turbines, BPA Central Ferry and the two project substations are in place and serviceable

Foundations

All 149 turbine foundations have been completed.

Collection System

Work is currently in progress installing the U/G Collection system in Strings #1 and #2. This work started a little later than originally scheduled due to material delivery issues, but we are confident that the selected contractor (Robinson Bros.) will recover. The work has also been impacted by recent adverse weather conditions (mainly snow). The plan is to continue working on sections of the U/G Collection system throughout the winter, as long as weather permits, in order to be out of this area before Siemens mobilizes in March.

Project Substations

Both project substations have been cleared, graded and underground drainage has been installed. The main substation contractor TICE and subcontractor JH Kelly have mobilized and started work on the foundations at both locations.

BPA Interconnection

BPA contractor Wilson Construction completed work on the grading, foundations and below ground work at Central Ferry in October. BPA awarded Phase-II (above ground structures) to Wilson Construction on December 1st and they remobilized the following week. Scheduled completion of Phase II is given by BPA as June 1st 2011 with the Control House structure required by April 29th, 2011. Phase III which comprises the Control Building electrical panels, control and protection, RAS, data and communications is at 90% design. BPA has indicated a target date of October 15th 2011 for back feed power may be possible and PSE will work with BPA and the Phase II contractor to try to achieve this.

Project Transmission Line

The detailed design of the transmission line and support structures, including foundations, is now at 90% and under final review. The plan is to bid this work in early 2011, start work by April and complete by the end of August 2011.

Turbine Production

Siemens production of all major components has started. Recent factory inspections and Siemens status reports have confirmed that production in some Siemens factories is running up to 12 weeks ahead of schedule. Siemens has split some orders so not all components come from the same factory. A series of PSE led QA/QC visits have already occurred at the following factories: Gearboxes (Elgin, Illinois); Blades (Ft. Madison, Iowa); Nacelles (Brande Denmark); Gearboxes (Voerde, Germany); Power Units (Brande, Denmark); Hubs (Olgod, Denmark) and Towers (Lianyungang, China). Further visits in January will include; Nacelles (Hutchinson, Kansas); Blades (Ft. Madison, Iowa); Towers (Incheon, Korea) and Towers (Lianyungang, China). Production of components in the timeframe required to support the contract will not be a problem.

Turbine Delivery

No turbine equipment has yet shipped.

Turbine Erection

Siemens plans to start mobilizing erection crews to the site next March. Two crane crews will be utilized, together able to erect between 8 and 10 turbines per week.

Turbine Commissioning

The present plan is to use portable generators to pre-commission units in advance of back feed power being available. If the back feed power date can be advanced the plan may be modified later.

Pomeroy O&M Building

An advance contract to clear the site and terrace the hillside was completed in October.

General contractor Opp & Siebold from Walla Walla has started work on the foundations. The steel frame for the high bay warehouse structure is on order.

PSE Communications

A total of nine (9) microwave sites are required to provide communication to LSR. One site is complete. Three sites have been under construction this year and are nearing completion. Two are existing sites that require additional internal equipment only. Equipment for all these sites is currently being received and checked by PSE Communications and will be installed early in the New Year. The remaining three sites will be constructed in 2011.

Local Relations

Community support remains strong. Individual project landowners have been consulted throughout the year on details of road alignment, cut and fill slopes, etc., so as to minimize the impact on their farming operations. The official groundbreaking ceremony held at the Pomeroy fairgrounds at the end of September was well attended and featured prominently in the local press. In addition to turbine leases and infrastructure easements, several landowners have benefitted from a royalty for aggregates mined on their land.

Other items of interest/importance from the month

All necessary easements required to support the project have either been obtained or are in process.

Lower Snake River Project
Phase 1 Construction Report

January 14th, 2011

Overall Project Status Summary

Overall the project is on schedule and within budget with no significant issues. Work has been slowed by severe winter weather but as conditions allow, progress is being made. The first Siemens components are now in temporary storage in Washington and further shipments are expected over the next few weeks. The project enjoys widespread general support in the local community and with both local and state agencies.

Schedule Progress

A Primavera P6 detailed schedule is maintained and updated weekly. The project is on schedule and currently there are no critical path items that would prevent us from taking advantage of an earlier BPA back feed date if it becomes available. Construction work is now progressing on all elements of the project, with the single exception of the transmission line, which is undergoing a constructability review this month.

Safety

To date there have been 1 lost time, 2 injury, 2 minor injury, 14 damage and 346 near misses recorded. The only change from last month is in the near miss category. The high near miss total is a function of the RES zero tolerance policy for minor infractions of any kind.

Budget Status

The project is currently tracking within budget. Both the Siemens TSA and the RES BOP contracts are at budget with no commercial change orders signed or in preparation. The project has met the "safe haven" provisions of the Federal Stimulus package and is also tracking above the required 15% apprentice labor required to qualify for the State renewable energy program credit. Actual apprentice hours for all of 2010 equaled 18.8%.

Roads

Roads serving all 149 turbines, BPA Central Ferry and the two project substations are in place and serviceable

Foundations

All 149 turbine foundations have been completed.

Collection System

Work continues installing the U/G Collection system in Strings #1 and #2. The work continues to be impacted by adverse weather conditions (mainly snow). In between weather systems, work in these two areas is progressing and is approximately 50% complete. Materials to support setting and terminating the step up transformers are expected on site this week and this work will now commence. The plan remains to complete the underground cable work in order to be out of these two areas before Siemens mobilizes in March.

Project Substations

Both project substations have been cleared, graded and underground drainage has been installed. Foundation work at Dodge Junction is about 70% complete and at Phalen Gulch foundations are at about 10% complete. Work continues under an approved cold weather concrete plan when conditions allow. The initial structural steel deliveries are expected on site before the end of January.

BPA Interconnection

BPA awarded Phase-II (above ground structures) to Wilson Construction on December 1st and they remobilized the following week. Wilson has made extraordinary progress and has some steelwork erected in both the 500kV and the 230kV yards. Scheduled completion of Phase II is given by BPA as June 1st 2011 with the Control House structure required by April 29th, 2011 and looks as if it can be attained. We are currently waiting for BPA to advise a start date on Phase III which comprises the Control Building electrical panels, control and protection, RAS, data and communications. BPA has indicated a target date of October 15th 2011 for back feed power may be possible.

Project Transmission Line

The plan is to bid this work in early 2011, start work by April and complete by the end of August 2011.

Turbine Production

Siemens production of all major components is in progress with some locations predicting completion up to 14 weeks ahead of schedule. A series of PSE led QA/QC visits have already occurred at the following factories: Gearboxes (Elgin, Illinois); Blades (Ft. Madison, Iowa – two visits); Nacelles (Brande Denmark); Gearboxes (Voerde, Germany); Power Units (Brande, Denmark); Hubs (Olgod, Denmark), Towers (Lianyungang, China) and Nacelles (Hutchinson, Kansas). Overall manufacturing quality has been good, but a number of procedural and documentation deficiencies have been noted and are being addressed by Siemens. Further visits this month will include; Towers (Incheon, Korea) and Towers (Lianyungang, China). Production of components in the timeframe required to support the contract will not be a problem.

Turbine Delivery

The first 42 blades are at the rail siding at Pasco. Material will be held by Siemens in secure yards at Pasco and at the Port of Vancouver, WA until the supply contract date to start site deliveries.

Turbine Erection

Siemens has awarded the turbine erection contract to Barnhart. Siemens and Barnhart are expected to start mobilizing staff to LSR in February. Two crane crews will be utilized, together able to erect between 8 and 10 turbines per week.

Turbine Commissioning

The present plan is to use portable generators to pre-commission units in advance of back feed power being available. If the back feed power date can be advanced the plan may be modified later.

Pomeroy O&M Building

General contractor Opp & Siebold has concreted the foundations for the steel frame part of the building and is now working on the office section. Similar severe weather issues as have affected the main LSR site have slowed progress, but the contractor has committed to a recovery plan. The steel frame for the high bay warehouse structure is on order.

PSE Communications

A total of nine (9) microwave sites are required to provide communication to LSR. One site is complete. Three sites have been under construction in 2010 and are nearing completion. Two are existing sites that require additional internal equipment only. Equipment for all these sites has been received and checked by PSE Communications and is now ready for installation. The remaining three sites will be constructed in 2011.

Local Relations

Community support remains strong. Individual project landowners have been consulted throughout the project on details of road alignment, cut and fill slopes, etc., so as to minimize the impact on their farming operations.

Other items of interest/importance from the month

Periodic snow melt and rain events have required constant monitoring and upgrading of erosion control measures (BMPs). These are monitored daily and audited weekly to ensure effectiveness.

Lower Snake River Project
Phase 1 Construction Report
Board Update Summary

February 22nd, 2011

Overall Project Status Summary

Overall the project is on schedule and within budget with no significant issues. Work has continued to be slowed by winter weather but as conditions allow, good progress is being made. Siemens and Barnhart have started to mobilize to the site and turbine components are on the high seas headed towards the Port of Vancouver, WA. We expect the first complete turbine to be erected March 23rd. The project enjoys widespread general support in the local community and with both local and state agencies.

Schedule Progress

A Primavera P6 detailed schedule is maintained and updated weekly. The project is on schedule and currently there are no critical path items that would prevent us from taking advantage of an earlier BPA back feed date if it becomes available. Construction work is now progressing on all elements of the project, with the single exception of the transmission line, which is being re-priced to conform to the Issued for Construction (IFC) drawings, and will be awarded shortly.

Safety

To date there have been 1 lost time, 2 injury, 2 minor injury, 19 damage and 391 near misses recorded since the start of the project. There has been no lost time, injury or minor injury incident to date in 2011. The high near miss total is a function of the RES zero tolerance policy for minor infractions of any kind.

Budget Status

The project is currently tracking within budget. Both the Siemens Turbine Supply & Installation (TSA) and the RES Balance of Plant (BOP) contracts are at budget with no commercial change orders signed or in preparation. The Opp & Siebold Pomeroy O&M building contract is also tracking within budget. The project has met the "safe haven" provisions of the Federal Stimulus package and is also tracking above the 15% apprentice labor (on a project wide basis) required to qualify for the State renewable energy program credit.

Roads

Roads serving all 149 turbines, BPA Central Ferry and the two project substations are in place and serviceable. Siemens has run a test rig, configured to approximate the worst case profile of any component, around the site roads to check the geometry. Some tight spots were identified and are being addressed.

Foundations

All 149 turbine foundations have been completed.

Collection System

Work continues installing the U/G Collection system. Strings #1 and #2 are nearing completion with equipment terminations and String #3 U/G cable and fiber work is in progress. Sufficient work has been completed in Strings #1 and #2 to support Siemens mobilization in early March as scheduled.

Project Substations

Both project substations have underground drainage and foundation work completed. Grounding, conduit and cable duct installation is currently in progress. Structural steel is on site for both substations. Overall completion of construction at Dodge Junction is estimated at 34% and at Phalen Gulch at 23%.

BPA Interconnection

Wilson has essentially completed all steelwork in both the 500kV and the 230kV yards at Central Ferry. Work continues with the Control Building structure with the roof going on this week. Scheduled completion of the Control House structure is April 29th, 2011 and we have been advised that it is currently approximately 4 weeks behind schedule because of adverse weather. BPA has advised Phase III procurement of the panels started February 15th. The installation component of Phase III is understood to be scheduled to start in June. BPA has indicated a target date of October 15th 2011 for back feed power may be possible.

Project Transmission Line

Pricing for this work will be updated once the drawings are issued IFC next week. Work is expected to start by April and be complete by the end of August 2011.

Turbine Production

Siemens production of all major components is wrapping up in European locations. Factory inspection visits were conducted recently for towers (Pohang, Korea) and (Lianyungang, China). Further factory inspection visits are planned for nacelles (Hutchinson, Kansas) by PSE staff, and towers (Pohang, Korea) and (Lianyungang, China), by a PSE contract inspector. Overall manufacturing quality has been good, but a number of procedural and documentation deficiencies have been noted and we are awaiting Siemens response to close out those issues. Production of components in the timeframe required to support the contract will not be a problem.

Turbine Delivery

Three train loads of blades (130 no.) are currently at the rail siding at Pasco, WA and a train is scheduled to arrive each week from Ft. Madison. Two ships have departed Lianyungang and one has departed Pohang with approximately 30 complete towers. A vessel is in transit from Denmark with 33 nacelles and hubs, 75 power units and several containers of miscellaneous components. The first component deliveries are expected at site the week of March 7th.

Turbine Erection

Siemens and Barnhart have started mobilizing staff to LSR this month and will ramp up quickly by the beginning of March. Approximately one hundred supervision and crew are expected on site within the next month. Two crane crews will be utilized, together able to erect between 8 and 10 turbines per week. One crane will start in String #1 and the second crane in String #2. The first set of a tower base on the foundation is

expected on March 14th and the first stack out of a complete turbine is scheduled for March 23rd. The Siemens trailers have been set up in the site compound and are currently being hooked up to power and communications.

Turbine Commissioning

The present plan is to use portable generators to pre-commission units in advance of back feed power being available. If the back feed power date can be advanced the plan may be modified later.

Pomeroy O&M Building

General contractor Opp & Siebold has concreted the floor for the warehouse part of the building and started erecting the steel frame. All underground plumbing and electrical work for the office part of the building has been completed and that floor slab will be poured next week. Work has started on the concrete water tank and the separate storage structure (hazardous materials, covered storage and fire pump house).

PSE Communications

A total of nine (9) microwave sites are required to provide communication to LSR. One site is complete. Five sites have been under construction in 2010 and are nearing completion with equipment installation now essentially finished and commissioning work started. Work has started on the necessary permits for the remaining three sites that will be constructed in 2011.

Local Relations

Community support remains strong. Individual project landowners have been consulted throughout the project on details of road alignment, cut and fill slopes, etc., so as to minimize the impact on their farming operations.

Other items of interest/importance from the month

Periodic snow melt and rain events have required constant monitoring and upgrading of Best Management Practices (BMPs) erosion control measures. These are monitored daily and audited weekly to ensure effectiveness.

**Lower Snake River Project
Phase 1 Construction Report
March 21st, 2011**

Overall Project Status Summary

Overall the project is on schedule and within budget. Siemens/Barnhart has started receiving components and erecting turbines. The initial pace has been slow as this is the first Siemens project that Barnhart has worked and the weather has not cooperated. We have every confidence that Barnhart will recover schedule with practice, longer daylight hours and improving weather. One significant issue has arisen in the past month concerning the stresses that the Siemens component load permit trucks will impose on the Owens Road Bridge (County Bridge) that provides access to the 83 turbines located in the southern part of the site. We are attempting to resolve this issue by working collaboratively with the County Bridge Engineer, but in the event that this effort is not successful, or carries onerous conditions, studies are underway for a temporary one-way road that will bypass the bridge and connect to Highway 12.

Schedule Progress

A Primavera P6 detailed schedule is maintained and updated weekly. The project is on schedule for commercial operation on April 15th, 2012 and currently there are no critical path items that would prevent us from taking advantage of an earlier BPA back feed date if it becomes available. Construction work is now progressing on all elements of the project, with the single exception of the transmission line, which has been re-priced to conform to the Issued for Construction (IFC) drawings, and will be awarded shortly.

Safety

To date there have been 2 lost time, 2 injury, 2 minor injury, 21 damage and 430 near misses recorded since the start of the project. There has been no lost time, or injury incident to date in 2011, although there has been one minor injury. The addition to the lost time number this month is due to a re-classification by RES Head Office of a minor injury from 2010 that was later determined to require surgery. The high near miss total is a function of the RES zero tolerance policy for minor infractions of any kind.

Budget Status

The project is currently tracking within budget. Both the Siemens Turbine Supply & Installation (TSA) and the RES Balance of Plant (BOP) contracts are at budget with no commercial change orders signed. We are now in the Siemens turbine erection phase which has provision for "Wind Days" and the use of tractor units to tow deliveries when required, so these costs are being tracked. The Opp & Siebold Pomeroy O&M building contract is tracking within budget. The project has met the "safe haven" provisions of the Federal Stimulus package and is also tracking above the 15% apprentice labor (on a project wide basis) required to qualify for the State renewable energy program credit.

Roads

Roads serving all 149 turbines, BPA Central Ferry and the two project substations are in place and serviceable. Siemens has confirmed geometry and the acceptability of String #1 and String #2 roads and deliveries to those areas have commenced. Some tight spots are still being worked on String #3. RES/GBI has started work on Oliphant Road

to improve a secondary access route so that Owens Road (the main access to the southern part of the site) can be re-graded and widened. We are working with Garfield County, the County Bridge Engineer and others to resolve questions about the stress the Siemens component loads will impose on the Owens Road Bridge. While we anticipate a satisfactory resolution of the bridge stress issues the downside risk is large enough that design and the necessary studies have been started on a relief road that would be approximately 1 mile in length and would by-pass the bridge. Initial reaction from WSDOT on this temporary road connecting to SH-12 is extremely favorable because it also solves several traffic safety issues at Dodge Junction.

Foundations

All 149 turbine foundations have been completed.

Collection System

Work continues installing the U/G Collection system. Strings #1 and #2 are complete with equipment terminations, String #3 U/G cable and fiber work is nearly complete and work has started in Strings #4 and #5. U/G Collection system work has been restrained by both weather and material deliveries, so that with both those situations now improving, progress should also pick up.

Project Substations

Both project substations have underground drainage and foundation work completed. Grounding, conduit, cable duct installation and structural steel erection is now well advanced at both substations. The first of the equipment deliveries is expected later this month. Overall completion of construction at Dodge Junction is estimated at 49% and at Phalen Gulch at 30%.

BPA Interconnection

Wilson has essentially completed all steelwork in both the 500kV and the 230kV yards at Central Ferry. Work continues with the Control Building structure but BPA has advised work has been delayed up to two months by winter weather. The control panels for this building are now under fabrication. BPA has recently advised that multiple outages on the existing 500kV transmission line are being scheduled in the period August 15th through October 15th to accommodate upgrades at existing facilities and the building of the loop through at Central Ferry. This represents a slip in what we had hoped the BPA schedule would be and a further face-to-face meeting will be set up with BPA to try to get them to accelerate this work.

Project Transmission Line

Pricing for this work has been updated and components are being checked against the PSE material catalog numbers to ensure availability of replacement parts from PSE Stores. Work is expected to start next month and be complete by the end of August 2011.

Turbine Production

Siemens production of all major components in European and Far East locations has now been completed. One further factory inspection visit is planned for nacelles (Hutchinson, Kansas) by PSE staff at the beginning of April. Overall manufacturing quality has been good and production of components has been ahead of schedule throughout.

Turbine Delivery

Turbine components have started to arrive at the site and are being delivered to both String #1 and String #2. Initial deliveries were found to be bunching up on the highway and delaying traffic, so Siemens and State Patrol are addressing this issue with the drivers.

Turbine Erection

Siemens and Barnhart have mobilized approximately one hundred supervision and crew to the site. Two crane crews will be utilized, together able to erect between 8 and 10 turbines per week. Initially they are going slowly as this is the first time Barnhart has lifted and erected Siemens turbines, so there is a learning curve. The first set of a tower base on the foundation took place March 15th and the first stack out of a complete turbine is scheduled for the week of March 21st.

Turbine Commissioning

The present plan is to use portable generators to pre-commission units in advance of back feed power being available. If the back feed power date can be advanced the plan may be modified later.

Pomeroy O&M Building

General contractor Opp & Siebold has completed the concrete floors, erected the warehouse steel frame and the administration area walls. Work is now proceeding to put the roof on the administration area and the wall and roof cladding on the warehouse. The concrete water tank has been completed work is now continuing on the separate storage structure (hazardous materials, covered storage and fire pump house).

PSE Communications

A total of nine (9) microwave sites are required to provide communication to LSR. Four sites are now complete and the microwave signals have reached as far as Linville Ridge just south of Pomeroy. Further extension of the microwave system is dependant on on-going construction work at the Pomeroy O&M building and at Dodge Junction Substation. Work has started on the necessary permits for the remaining three sites that will be constructed later this year.

Local Relations

Community support remains strong. Individual project landowners have been consulted throughout the project on details of road alignment, cut and fill slopes, etc., so as to minimize the impact on their farming operations. Some complaints are to be expected from communities in Columbia County that are experiencing the traffic delays associated with the transit of permit loads through their communities. We will explain that these loads are permitted by DOT to travel at certain times in pre-determined configurations and that State Patrol will enforce compliance with the permits. The delivery and erection of these large scale components in an area where the public can see the work from the public highway is attracting attention. Some of the unauthorized people coming into these areas are landowners who are just curious but consider themselves above any site rules that we seek to enforce. We are working with our own staff, RES and Site Security to try to manage this issue.

**PUGET SOUND ENERGY***The Energy To Do Great Things*

Lower Snake River Wind Farm

Completion Date: April 2012

Total Project Budget: \$848 million



Project Summary

The Lower Snake River (LSR) wind farm is located in Garfield County, Washington. It consists of 149 Siemens turbines, totaling 343 MW. The project consists of 35 miles of access roads, and will have two separate substations, an underground collection system, 8 miles of transmission line connecting to BPA Central Ferry, and an Operating and Maintenance building for staff. RES America is the general contractor for the project.

Current Status

By the end of 2010, all roads and turbine foundations were complete. Due to winter weather conditions, this work needed to be complete by year's end to prepare for the spring deliveries of the turbine units. The first turbine was erected on April 2, 2011. As of late-April, approximately 39 turbines have been delivered to site, and 12 have been erected. The underground collection system is 50% complete. The project is on schedule and on budget.

Erection of the turbines has been slowed slightly by the number of high wind days that have occurred in March and April. On high wind days, it is not safe to erect the turbines. The contract allows for 36 high wind days, and if that number is exceeded, the contractor will be entitled to compensation and schedule extension. Other risks include damage to equipment during handling. There are some challenges bring the turbines to site as the loads are heavy and large, and the public roads are marginally adequate. The project team is proactively looking at alternate routes and methods for transportation.

LSR will connect to BPA's Central Ferry substation, and PSE continues to work with BPA to ensure that the substation will be complete in time for PSE to commission the wind turbines, and place them into service.

LSR is utilizing apprentices to perform project work, and is meeting the targets needed to qualify for the renewable portfolio bonus.