

Exhibit No. \_\_ (DCG-1HCT)  
Docket UE-121373  
Witness: David C. Gomez  
REDACTED VERSION

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Petition of

DOCKET UE-121373

**PUGET SOUND ENERGY, INC.**

**for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs**

**TESTIMONY OF**

**David C. Gomez**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Coal Transition Power Purchase Agreement: Equity component; Deferral of certain costs with interest and Prudency*

**November 2, 2012  
Corrected November 15, 2012**

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER  
Redacted Version**

1 delivered to PSE from the PPA, and the 221 MW of capacity that was originally  
2 envisioned in the 2011 IRP for a self-build SCCT resource addition.

3 In PSE's Exhibit No. \_\_\_ (CB-4HC), page 18, the RFP scoring results for  
4 Phase II show the Company-proposed plant offer as having a negative portfolio  
5 benefit of \$62.4 million, with significantly higher risks associated with the  
6 acquisition than the Alternative plant offer with its portfolio benefit of \$96.1 million.  
7 Staff's Exhibit No. \_\_\_ (DCG-4HC) shows a table of purchase price offers for both  
8 The Alternative plant and the Company-proposed plant. Staff believes that the  
9 Alternative plant's purchase price offer of [REDACTED]<sup>22</sup> is the appropriate resource  
10 benchmark for calculating an equity return based on the Alternative plant's capacity  
11 and that it is the lowest total cost and lowest risk option for the Company. Staff does  
12 not agree with PSE's addition of upgrades to the Alternative plant's purchase price to  
13 meet operational standards and for recovery of transaction costs related to the  
14 acquisition. These costs are not supported by any data and, in the case of transaction  
15 related costs, may already be included in rates.

16 Staff's Exhibit No. \_\_\_ (DCG-5) shows an updated equity return calculation  
17 for the PPA using the Alternative plant's purchase price. Staff also corrected an  
18 error in PSE's Exhibit No. \_\_\_ (RG-9) worksheet as revised by the Company on  
19 September 19, 2012. The error overstated the monthly MWh equity adder.<sup>23</sup> The  
20 revised total equity adder for the PPA at Staff's recommended levels is \$33.7  
21 million, compared to the \$86.2 million proposed by the Company. Staff

<sup>22</sup> Exhibit No. \_\_\_ (RG-8HC) at 372.

<sup>23</sup> The Company's worksheet used 31 days for every month, which overstated the MWh delivered under the PPA and consequently resulted in an erroneous equity adder of \$2.92 per MWh. A \$2.92 equity adder results in a total equity payment of \$98.1 million. The equity return based on a corrected Company equity adder of \$2.57 is \$86.2 million (\$11.8 million difference). The Company's worksheet, Exhibit No. \_\_\_ (RG-9) arrives at an equity adder of \$2.92 MWh in cell B22. When \$2.92 MWh is multiplied by the 33,595,680 MWh delivered in the PPA, the resulting equity return over the life of the PPA is \$98,099,386. The nominal return calculated by the Company in Exhibit No. \_\_\_ (RG-9), cell B15 is \$86,224,923/1,000,000. Staff worked its way backwards in the worksheet in Exhibit No. \_\_\_ (RG-9) and identified the Company's error in cell B17. The correct formula should be expressed as: = - PMT(0, 133, B15) instead of = B16/XNPV(B9,I27:I159,B27:B159).