EXHIBIT NO. ___(RG-10HCT)
DOCKET NO. UE-121373
WITNESS: ROGER GARRATT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of **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**	**Docket No. UE-121373**

PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF ROGER GARRATT ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

NOVEMBER 16, 2012

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF ROGER GARRATT

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PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL) OF ROGER GARRATT

I. INTRODUCTION

Q. Are you the same Roger Garratt who provided in this proceeding prefiled direct testimony, Exhibit No. ___(RG-1HCT), and supporting exhibits on August 20, 2012, on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes.

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

A. This rebuttal testimony responds to the following testimonies with respect to the Coal Transition PPA:

(i) the Testimony of Mr. David C. Gomez, Exhibit No. ___(DCG-1HCT), witness for the Staff of the Washington Utilities and Transportation Commission ("Commission Staff");

(ii) the Direct Testimony of Mr. Kevin D. Woodruff, Exhibit No. ___(KDW-1HCT), witness for the Public Counsel Section of the Washington Attorney General's Office ("Public Counsel"); and

(iii) the Direct Testimony of Ms. Danielle O. Dixon, Exhibit No. ___(DOD-1HCT), witness for NW Energy Coalition.

II. THE COAL TRANSITION PPA IS NECESSARY TO MEET LOAD, PROVIDES ADEQUATE PROTECTION TO PSE AND ITS CUSTOMERS, AND MEETS PSE'S NEED IN A COST-EFFECTIVE MANNER

A. The Coal Transition PPA Is Necessary to Meet Load

Q. Is the Coal Transition PPA necessary to meet load?

A. Yes. As stated in the Prefiled Direct Testimony of Mr. Chris Bevil, PSE's 2011 Integrated Resource Plan (the "2011 IRP") identified a need for additional supply-side and demand-side capacity resources beginning in 2012.[1] Throughout the 2011 Request for Proposals (the "2011 RFP") process, PSE continued to update its projected capacity need by incorporating resources added after publication of the 2011 IRP and results from the F2012 load forecast.[2] PSE ultimately determined the following projected needs for electric resource capacity:

Final Projected Need for Electric Resource Capacity

Year	2012	2013	2014	2015	2016
Projected Need (MW)	138	242	460	554	728

[1] Bevil, Exh. No. ___(CB-1HCT), at page 13, line 3, through page 14, line 8.
[2] *Id.*, at page 14, line 9, through page 16, line 18.

The Coal Transition PPA ramps to match PSE's capacity need over time:

Coal Transition PPA Volumes

Year	2012	2013	Beginning Dec. 1, 2014	Beginning Dec. 1, 2015	Beginning Dec. 1, 2014
Volumes (MWh/hr)	N/A	N/A	180	280	380

Q. Has any party to this proceeding challenged the need for the Coal Transition PPA?

A. No. Commission Staff has stipulated that the Coal Transition PPA is needed by PSE to serve customers,[3] and neither Public Counsel nor NW Energy Coalition challenges the need for the Coal Transition PPA.

B. The Coal Transition PPA Provides Adequate Protection to PSE and Its Customers

1. The Coal Transition PPA Effectively Allocates Risks and Provides Numerous Benefits to PSE and Its Customers

Q. Has Commission Staff determined that the Coal Transition PPA is cost effective and is a lowest reasonable cost resource?

A. Yes. Commission Staff stated that not only is the "[Coal Transition] PPA needed by PSE to serve its ratepayers over the term of the contract," but also that the

[3] Gomez, Exh. No. ___(DCG-1HCT), at page 3, lines 15-16.

"[Coal Transition] PPA meets this need in a cost-effective manner."[4]

Furthermore, Commission Staff states the following:

> **Q: When included as part of PSE's resource portfolio, does the total cost of the [Coal Transition] PPA (contract price and equity component) represent the "lowest reasonable cost," meaning the lowest cost mix of generating, conservation and efficiency resources, as defined in RCW 19.280.020?**
>
> A: Yes.[5]

Q. Please discuss the allocation of risks between PSE and TransAlta Centralia under the Coal Transition PPA.

A. The Coal Transition PPA is a least-cost resource that provides PSE customers a hedge against higher prices, and the allocation of risks included within the Coal Transition PPA is quite fair to PSE and its customers.

For example, the Coal Transition PPA protects PSE against counterparty credit risk but offers no comparable protection to TransAlta Centralia. PSE and its customers are protected because TransAlta Centralia must provide PSE with [redacted].[6] PSE, however, does not have to provide any performance assurance to TransAlta Centralia at any time under the Coal Transition PPA.[7] Thus, TransAlta Centralia has exposure to greater credit risk under the Coal Transition PPA, and PSE does not have such an

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[4] Gomez, Exh. No. ___(DCG-1HCT), at page 3, lines 16-17.
[5] *Id*., at page 8, line 21, through page 9, line 3.
[6] Garratt, Exh. No. ___(RG-3C), at page 33 (section 12.1 of the Coal Transition PPA).
[7] *Id*.

exposure which would likely make the Coal Transition PPA more expensive for PSE and its customers.

Additionally, TransAlta Centralia generally bears the ownership and operating risks associated with the Centralia Transition Coal Facility. Because TransAlta Centralia has committed to providing firm, fixed price power, it bears the risk that, when the Centralia Transition Coal Facility has an unexcused failure to deliver, costs of replacement power may be higher than the cost of generating power.

Further, TransAlta Centralia bears the risks and costs associated with plant decommissioning, and must have a decommissioning plan and a guarantee of funding in place prior to closure.

Q. Please discuss the benefits provided to PSE and its customers under the Coal Transition PPA.

A. PSE concluded that the Coal Transition PPA offer is a least cost and least risk resource after considering the quantitative and qualitative analyses performed in the 2011 RFP. With the revised term and volumes, the Coal Transition PPA is a least cost resource that provides PSE customers a hedge against higher prices that no other resource has been able to offer for the duration and at the price offered by TransAlta Centralia.

The Coal Transition PPA provides numerous benefits to PSE and its customers:

- The firm, fixed price structure of the Coal Transition PPA provides a hedge against rising power costs.

- The projected economic benefits of the Coal Transition PPA are favorable compared to alternative proposals offered in response to the 2011 RFP.

- The Centralia Transition Coal Facility is an existing resource with demonstrated reliable operating history.

- The volume under the Coal Transition PPA increases over the term to match PSE's capacity need.

None of the arguments or assertions made by Commission Staff, Public Counsel or NW Energy Coalition detract from the many benefits provided by the Coal Transition PPA. In fact, no party has offered any arguments that the Coal Transition PPA, including the equity return component, is not the least cost prudent resource as proposed by PSE.

Q. How does PSE respond to recommendations of other parties that the Commission restructure the Coal Transition PPA?

A. The allocation of risks and benefits under the Coal Transition PPA reflects the results of months of negotiations between TransAlta Centralia and PSE regarding complex and difficult issues. The Coal Transition PPA reflects compromises made by both counterparties. Restructuring of the Coal Transition PPA will fundamentally alter the compromises reached and the allocation of risks and benefits made by TransAlta Centralia and PSE.

2. Public Counsel's Recommended Restructuring of the Coal Transition PPA to a Unit Contingent Agreement with Dispatch Rights Would Not Benefit PSE's Customers

Q. Does PSE agree with Public Counsel's recommendation that the Commission condition approval of the Coal Transition PPA upon a restructuring of the agreement?

A. No. Public Counsel recommends that "the Commission condition approval of the Coal Transition PPA upon a requirement that the PPA be restructured as a unit contingent contract and that it incorporate dispatch rights for PSE."[8] Public Counsel's recommended restructuring of the Coal Transition PPA, however, is unnecessary and would not benefit PSE or its customers. Indeed, PSE considered unit contingent and dispatchable proposals for the output of the Centralia Transition Coal Facility and rejected those proposals in favor of the firm, fixed price Coal Transition PPA presented in this proceeding for approval.

a. Unit Contingent Agreements Do Not Inherently Enable Purchasers to Manage Power More Cost-Effectively

Q. Is Public Counsel correct that the Coal Transition PPA is not a unit contingent agreement?

A. Yes. Public Counsel is correct that the Coal Transition PPA is not a unit contingent agreement because TransAlta Centralia must "deliver fixed amounts of

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[8] Woodruff, Exh. No. ___(KDW-1HCT), at page 3, lines 8-10.

power . . . for every hour from December 1, 2014, to December 31, 2025 at fixed prices regardless of whether the Centralia plant is operating."[9]

Q. What is a unit contingent agreement?

A. A unit contingent agreement is one in which a purchaser is subject to reductions in volumes in the event that the generating capacity of a facility unavailable or reduced below certain amounts for reasons, such as scheduled or unscheduled outage, that are not limited to force majeure events. For example, in a standard unit contingent power purchase agreement (e.g., a WSPP Schedule B agreement), deliveries may be curtailed based upon mutually agreed conditions.

Q. Does a unit contingent agreement inherently enable a purchaser to manage power more cost-effectively?

A. No. Although Public Counsel suggests that a unit contingent agreement would allow "coal transition power to be managed more cost-effectively on behalf of PSE's customers,"[10] there is nothing in a unit contingent agreement that inherently enables a purchaser to manage power more cost-effectively than any other type of agreement.

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[9] Woodruff, Exh. No. ___(KDW-1HCT), at page 8, lines 3-5.
[10] *Id.*, at page 3, lines 11-12.

Q. What support does Public Counsel offer for its suggestion that a unit contingent agreement would enable PSE to manage power more cost-effectively?

A. The sole support offered by Public Counsel for its suggestion that PSE could manage power more cost-effectively under a unit contingent agreement is as follows:

> **Q: Please explain why you recommend that a unit contingent contract would be beneficial for PSE and its customers.**
>
> A: Under this approach, PSE would receive its contracted quantities of Centralia power when Centralia is operating and *receive no power when Centralia is not operating* because its variable operating costs are above market prices.[11]

Public Counsel further asserts that TransAlta Centralia would have an economic incentive to supply power from sources other than the Centralia Transition Coal Facility:

> Finally, during periods when the market prices in the PNW are below Centralia's variable operating costs, TransAlta would be expected to make the economically rational decision to reduce Centralia's output – possibly to zero – and purchase power from other sources to meet its delivery obligations under the PPA. During such periods, this strategy should be quite advantageous to TransAlta.[12]

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[11] Woodruff, Exh. No. ___(KDW-1HCT), at page 22, lines 19-23 (italics in original).
[12] *Id.*, at page 11, lines 3-8.

Similarly, Commission Staff suggests that TransAlta Centralia may supply "lower cost power from other sources, and then benefit[]from the price arbitrage."[13]

Q. Does PSE know TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility?

A. No. PSE does not know TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility. PSE also does not know when, if ever, TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility will exceed market prices.

Q. Is there evidence in the record that suggests that TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility will not exceed market prices for sustained periods of time?

A. Yes. Commission Staff provided an exhibit that suggests that it is unlikely that TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility will exceed market prices for sustained periods of time.[14] In that exhibit, Commission Staff provides estimated variable costs of the Centralia Transition Coal Facility, as reported by SNL Energy, that vary between $32.71 per MWh and $41.87 per MWh over the term of the Coal Transition PPA.[15] Commission Staff's exhibit also provides two sets of nominal Mid-C price forecasts over the term of the Coal Transition PPA—PSE's updated nominal Mid-C forecasts from

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[13] Gomez, Exh. No. ___(DCG-1HCT) at page 6, lines 9-10.
[14] Gomez, Exh. No. ___(DCG-2HC) at page 1.
[15] *Id.*

April 2012 (labeled in the exhibit as "Phase II Base w/ New Gas") and Northwest Power and Conservation Council's preliminary forecasts for October 2012(labeled in the exhibit as "NWPPCC Prelim Power Cost 10/2012").[16]

Q. Does Commission Staff's exhibit suggest that there may be years during the term of the Coal Transition PPA in which TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility are projected to exceed market prices?

A. No. Commission Staff's exhibit suggest that there is no year during the term of the Coal Transition PPA in which TransAlta Centralia's variable operating costs for the Centralia Transition Coal Facility are projected to exceed the nominal Mid-C price forecast of either PSE or the Northwest Power and Conservation Council.[17] Such evidence contradicts any suggestion that TransAlta Centralia would have an economic incentive to cease operations of the Centralia Transition Coal Facility and supply market power under the Coal Transition PPA for any significant period.

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[16] Gomez, Exh. No. ___(DCG-1HCT) at page 7, lines 2-4.
[17] *See* Gomez, Exh. No. ___(DCG-2HC) at page 1.

Q. Does Public Counsel acknowledge that TransAlta Centralia would likely operate the Centralia Transition Coal Facility at high capacity factors to meet its obligations under the Coal Transition PPA?

A. Yes. Although Public Counsel suggests that TransAlta Centralia "could choose to curtail or eliminate generation from the Centralia plant and supply the contract entirely from other sources if it wishes,"[18] Public Counsel acknowledges that, in practice, TransAlta Centralia would operate the Centralia Transition Coal Facility at high capacity factors to meet its obligations under the Coal Transition PPA:

> **Q. Do you think TransAlta *would* opt to meet its delivery obligations entirely *without* Centralia generation?**
>
> A. Probably not. I anticipate that the cost of generation from Centralia will sometimes be less than wholesale electricity market prices in the Pacific Northwest (PNW). *I would thus anticipate that TransAlta would operate Centralia at high capacity factors to provide the power needed to meet its delivery obligations under the Coal Transition PPA.*[19]

Moreover, Public Counsel recognizes that key provisions of the Coal Transition PPA reflect the importance of the Centralia Transition Coal Facility to TransAlta Centralia's performance under the contract:

> Further, key provisions of the PPA suggest that TransAlta views Centralia as important to its continued performance under the PPA. The PPA allows TransAlta to claim events of *force majeure* that limit its obligation to perform under the PPA or even lead to termination of the PPA. … These contract terms suggest to me

[18] Woodruff, Exh. No. ___(KDW-1HCT), at page 9, lines 3-5.
[19] *Id.*, at page 9, lines 9-15 (emphasis added).

> that TransAlta views Centralia's continued operation is important to its ability to meet their obligations under the PPA.[20]

Thus, Public Counsel's observations support a conclusion that the Centralia Transition Coal Facility will be the primary source of supply for the Coal Transition PPA.

Q. Is Public Counsel correct that it would be impossible for TransAlta Centralia to meet its delivery obligations under the Coal Transition PPA entirely with generation from the Centralia Transition Coal Facility?

A. Yes. Public Counsel is correct that TransAlta Centralia cannot meet its delivery obligations under the Coal Transition PPA entirely with generation from the Centralia Transition Coal Facility.[21] The Centralia Transition Coal Facility will invariably experience planned and unplanned outages during the term of the Coal Transition PPA, and TransAlta Centralia will need to use other sources to meet its delivery obligations under the agreement. The resupply rights under the Coal Transition PPA allow TransAlta Centralia to meet its delivery obligations in the event of planned or unplanned outages. The resupply rights are broad because neither PSE nor TransAlta Centralia could anticipate every planned or unplanned outage that may occur at the Centralia Transition Coal Facility during the term of the Centralia Transition Coal Facility.

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[20] Woodruff, Exh. No. ___(KDW-1HCT), at page 9, line 16, through page 10, line 3.
[21] *Id.*, at page 9, line 16, through page 10, line 3.

b. PSE Rejected a Unit Contingent and Dispatchable Proposal from TransAlta Centralia in Favor of the Firm, Fixed Price Coal Transition PPA as a Hedge Against Higher Market Prices

Q. Please describe Public Counsel's arguments in support of the incorporation of dispatch rights in the Coal Transition PPA.

A. Public Counsel argues that the Coal Transition PPA would benefit from the incorporation of dispatch rights into the agreement:

> A contract for coal transition power would likely be better for PSE customers if PSE were granted the rights to commit and dispatch Centralia, that is, the rights to decide whether Centralia is actually running and if so, at what level of output. If PSE were granted such rights, PSE could better adapt the operation of Centralia to PSE's specific load, resource and cost conditions than would happen if TransAlta were generally operating Centralia in response to market prices.[22]

Public Counsel further asserts that "[a] dispatchable contract would enable [PSE] to accommodate [a] current seasonal purchase pattern in the new contract, presumably better matching PSE's needs."[23]

Q. Did PSE consider proposals from TransAlta Centralia that would have allowed for the incorporation of dispatch rights in the Coal Transition PPA?

A. Yes. Contrary to assertions of Public Counsel otherwise, PSE considered proposals from TransAlta Centralia that would have allowed for the incorporation of dispatch rights in the Coal Transition PPA. Public Counsel erroneously

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[22] Woodruff, Exh. No. ___(KWD-1HCT), at page 24, lines 6-11.
[23] *Id.*, at page 15, lines 4-6.

suggests that PSE failed to consider a unit contingent, dispatchable proposal for the output from the Centralia Transition Coal Facility. Indeed, Public Counsel's own exhibit provides unit contingent, dispatchable proposals considered by PSE that TransAlta Centralia provided in response to requests for such proposals by PSE.[24]

Q. Is there evidence in this proceeding of the unit contingent and dispatchable proposals from TransAlta Centralia that PSE considered?

A. Yes. Exhibit No. ___(KDW-7HC) lists the unit contingent and dispatchable proposals offered by TransAlta Centralia. TransAlta Centralia provided these alternative proposals in December 2011 after receiving data requests and engaging in discussions with PSE staff.

Q. Were the TransAlta Centralia proposals dispatchable?

A. Not really. Although TransAlta Centralia states that it was willing to explore the economic dispatch of the units, it proposed that the facility would be dispatched at TranAlta Centralia's option. Given that TransAlta Centralia could unilaterally decide when to deliver power, it was questionable whether the unit contingent proposals would meet PSE's winter capacity requirement.

[24] *See* Woodruff, Exh. No. ___(KWD-7HC).

Q. Did the unit contingent and seasonal structures proposed by TransAlta Centralia improve the economics of their offer?

A. No. TransAlta Centralia structured the prices in such a way that it appeared to PSE that the fixed component of costs would more than cover TransAlta Centralia's annual fixed costs, regardless of whether the product was year-round or seasonal. Each unit contingent and seasonal offer proposed by TransAlta Centralia was less economically favorable than the original firm, fixed price offer. Please see Exhibit No. ___(RG-11HC) for a copy of PSE's Response to Public Counsel Data Request No. 056, which shows the prices of the alternate proposals. As Public Counsel notes, this is typical for unit contingent power purchase agreements:

> Capacity payments typically cover the fixed costs of operating and maintaining a plant plus the moneys needed to provide a return of and return on invested capital.[25]

Q. Would the pricing of the Coal Transition PPA likely change if PSE and TransAlta Centralia attempted to restructure the agreement to be unit contingent and include dispatch rights?

A. Yes. As evidenced by the proposals that TransAlta Centralia provided in December 2011 to address the request by PSE for a unit contingent and dispatchable agreement, the Coal Transition PPA prices would likely be renegotiated and reevaluated.

[25] Woodruff, Exh. No. ___(KWD-1HCT), at page 23, lines 14-16.

Q. Does PSE believe that there would be a benefit for PSE's customers to restructure the Coal Transition PPA?

A. No. PSE concluded that the Ferndale Cogeneration Station ownership offer and the Coal Transition PPA offer are least cost and least risk resources after considering the quantitative and qualitative analyses performed in the 2011 RFP. The 2011 RFP analysis shows that the Coal Transition PPA provides PSE customers a hedge against higher prices that no other resource has been able to offer for the duration and at the price offered by TransAlta Centralia. Additionally, the December 2011 commercial analysis of the proposed alternative structures did not show savings for PSE's customers.

Q. What did the commercial analysis of the alternative TransAlta Centralia proposals in December 2011 show?

A. Please see Exhibit No. ___(RG-12HC) for the full summary of results of PSE's analysis from December 2011. Scenario 1 represents the original offer with a resupply option and Scenario's 2 through 4 represents the TransAlta Centralia's unit contingent proposals. The analysis indicated that TransAlta Centralia's resupply option was the only proposal that had a positive portfolio benefit for PSE. In short, TransAlta Centralia's unit contingent and seasonal proposals were not competitive with the resupply option, and PSE elected not to consider these alternatives further in the 2011 RFP analyses.

C. The Coal Transition PPA Meets PSE's Need in a Cost-Effective Manner

Q. Does any party affirm that the Coal Transition PPA meets PSE's need in a cost-effective manner?

A. Yes. Commission Staff stated that not only is the "[Coal Transition] PPA needed by PSE to serve its ratepayers over the term of the contract," but also that the "[Coal Transition] PPA meets this need in a cost-effective manner."[26] Furthermore, Commission Staff states the following:

> **Q: When included as part of PSE's resource portfolio, does the total cost of the [Coal Transition] PPA (contract price and equity component) represent the "lowest reasonable cost," meaning the lowest cost mix of generating, conservation and efficiency resources, as defined in RCW 19.280.020?**
>
> A: Yes.[27]

Q. Do Commission Staff and Public Counsel express concerns about the fixed price nature of the Coal Transition PPA?

A. Yes. Commission Staff asserts that the firm and fixed nature of the Coal Transition PPA is simplistic and fails to hedge risk associated with lower market power prices:

> As worded in the PPA, power prices are to remain firm and fixed throughout the term with a pre-determined escalation. This rather simplistic approach fails to take advantage of any index or

[26] Gomez, Exh. No. ___(DCG-1HCT), at page 3, lines 16-17.
[27] *Id.*, at page 8, line 21, through page 9, line 3.

> benchmark of market prices for coal and market power that can be used to hedge ratepayers' risk of paying too much for power.[28]

Commission Staff suggests that "the firm/fixed pricing terms in Article 3, Energy Obligations, Section 3 should be periodically reviewed against market conditions."[29]

Public Counsel similarly argues that the firm, fixed price nature of the Coal Transition PPA exposes PSE and its customers to risks:

> The Coal Transition PPA would require PSE customers to purchase energy in fixed quantities at fixed prices in every hour from the first hour of December 1, 2014, to the last hour of December 31, 2025, except in cases of *force majeure*. I believe these contract provisions expose PSE customers to substantial risks, both with respect to price, and in terms of lack of flexibility to respond to short term variations in loads and resources, and to seasonal needs.[30]

Q. Does PSE agree that the firm, fixed price nature of the Coal Transition PPA could expose PSE and its customers to substantial risks?

A. No. Commission Staff and Public Counsel express concerns that the firm, fixed price nature of the Coal Transition PPA could expose PSE and its customers to risks of decreasing market prices for power. There are risks inherent in any power purchase agreement, whether it is indexed, fixed price, or unit contingent. PSE's portfolio is already exposed to the variability of the market and includes many differing contracting structures.

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28 Gomez, Exh. No. ___(DCG-1HCT), at page 7, lines 14-16.
29 *Id*., at page 8, lines 1-3.
30 Woodruff, Exh. No. ___(KDW-1HCT), at page 19, lines 4-9.

PSE analyzed the Coal Transition PPA in the Optimization Model under different pricing scenarios, and PSE models selected the Coal Transition PPA in four out of five scenarios.[31] The Coal Transition PPA was not selected in a low market price scenario; however, PSE has recently acquired the Ferndale Cogeneration Station, which performs well in the low market price scenario.[32] In short, the Coal Transition PPA protects PSE and its customers against high market price environments, and the Ferndale Cogeneration Station enhances PSE's and its customers' ability to take advantage of low market price environments.

Given the current, low market power price environment, however, PSE perceives the likelihood of increasing market power prices to be a more substantial risk. Indeed, PSE's direct testimony in this proceeding expressly recognized that the Coal Transition PPA "is a least-cost resource that provides PSE customers a hedge against higher prices that no other resource has been able to offer for the duration and at the price offered by TransAlta [Centralia]."[33] PSE's direct testimony also recognized that the Coal Transition PPA's"[f]ixed price structure provides a hedge against rising power costs and stability compared to variability and uncertainty of natural gas tolling resource alternatives."[34]

[31] Bevil, Exh. No. ___(CB-4HC), at page 7.
[32] *Id.*, at page 13.
[33] Bevil, Exh. No. ___(CB-1HCT), at page 36, lines 9-11.
[34] *Id.*, at page 38, lines 3-5.

Q. Does either Commission Staff or Public Counsel recognize that the fixed, firm nature of the Coal Transition PPA protects against an environment of increasing market power prices?

A. Yes. Although Public Counsel uses the pejorative word "bet" rather than the more neutral, industry-standard term, "hedge," Public Counsel recognizes the fact that the Coal Transition PPA represents a hedge for PSE and its customers against increasing market power prices:

> There is another way to look at the Coal Transition PPA from the customers' perspective: in taking on a long-term contract with such rigid terms, PSE is making a big bet on the future of market prices. The bet may pay off nicely for PSE customers – or it may instead prove to be quite expensive. The risks of such a bet rise with the PPA's duration and size.[35]

PSE recognizes the risk that potential declines in market power prices may erode some of the substantial economic benefits associated with the Coal Transition PPA. The Coal Transition PPA, like any other hedge, is not without risk. Nonetheless, PSE believes that it is more likely that market power prices will increase over the term of the agreement, and the fixed, firm nature of the agreement will protect against an environment of increasing market power prices.

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[35] Woodruff, Exh. No. ___(KDW-1HCT), at page 19, lines 18-22.

III. THE COMMISSION SHOULD ADOPT PSE'S METHODOLOGY OF CALCULATING THE EQUITY COMPONENT FOR THE COAL TRANSITION PPA

Q. Commission Staff and Public Counsel disagree with PSE's methodology of calculating the equity component for the Coal Transition PPA. Before addressing their specific concerns, please explain the equity component and why PSE believes it was included in the law.

A. RCW 80.04.570(6) allows an electric company that enters into a power purchase agreement for the acquisition of coal transition power "to earn the equity component of its authorized rate of return in the same manner as if it had purchased or built an equivalent plant," in addition to recovering the cost of the power purchased under the agreement. The Legislature allowed electric companies to earn their equity component on a coal transition power purchase agreement because the purchase of power from coal transition plants is a critical piece in the policy endorsed by the State of Washington to effect an orderly transition from coal to cleaner fuels.[36] The Legislature found that this transition will require a reasonable period of time to ensure grid stability, maintain affordable electricity resources, ensure appropriate cleanup and site restoration upon decommissioning of facilities, and provide assistance to host communities planning for new economic development and mitigate the economic impacts of the closure of these facilities.[37]

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[36] *See* RCW 80.04.560.
[37] RCW 80.80.010 (Findings—Purpose—2011).

The equity component is intended to encourage electrical companies to support the orderly transition from coal by entering into a coal transition power purchase agreement, which ultimately helps fund the transition effort. Thus, rather than building a plant or purchasing an available plant for which an electrical company may earn a return and have a long-term source of power, an electrical company can enter into a power purchase agreement for acquisition of coal transition power and earn a return in the same manner as if it had purchased or built an equivalent plant.[38]

A. <u>Least Cost Purchased or Self-Built Electric Generation Plant with Equivalent Capacity</u>

Q. Please respond to testimony from Public Counsel and Commission Staff that PSE did not use an equivalent plant when calculating the equity component for the Coal Transition PPA.

A. As discussed in more detail below, PSE's approach to determining an equivalent plant is consistent with the statute and PSE's policy and practice in analyzing resource acquisitions.

Q. How is the cost of an equivalent plant to be determined?

A. The statute sets forth what constitutes an equivalent plant:

> For purposes of determining the equity value, the cost of an equivalent plant is the least cost purchased or self-built electric generation plant with

[38] RCW 80.80.010; RCW 80.04.570(6)(a).

> equivalent capacity. In determining the least cost plant, the commission may rely on the electrical company's most recent filed integrated resource plan. The cost of an equivalent plant, in dollars per kilowatt, must be determined in the original process of commission approval for each power purchase agreement for coal transition power.

Q. Did PSE follow the approach set forth in the statute for determining an equivalent plant to use in calculating the equity component for the Coal Transition PPA?

A. Yes. As discussed in Public Counsel's testimony, PSE calculated that an equivalent plant would be 346 MW in size, based on the average volume of power to be delivered during the term of the Coal Transition PPA. PSE then calculated the projected cost of an equivalent plant as approximately $215 million by multiplying 346 MW by $[redacted]/kW, PSE's estimate of the cost of the [redacted] (#11103) proposal, which is the lowest capital cost electric generation plant available for purchase or self-built electric generation plant among the proposals offered in response to the 2011RFP. The use of the [redacted] (#11103) proposal as the equivalent plant yielded PSE's proposed equity component of $2.92 MWh.

Q. Does PSE agree with the recommendation of Commission Staff and Public Counsel that the cost of equivalent plant should be based on the Ferndale Cogeneration Station for purposes of computing PSE's equity component pursuant to RCW 80.04.570(6)?

A. No. PSE disagrees with the recommendation of Commission Staff and Public Counsel that the cost of equivalent plant should be based on the Ferndale Cogeneration Station for purposes of computing PSE's equity component pursuant to RCW 80.04.570(6). The Ferndale Cogeneration Station is no longer available to fill PSE's remaining need. Indeed, the transaction for the Ferndale Cogeneration Station closed on November 15, 2012, and PSE is now the owner of the facility. Even with the acquisition of the Ferndale Cogeneration Station, PSE has a continuing need to acquire capacity, and the lowest capital cost proposal remaining to fill that need is the [redacted] (#11103) proposal.

Q. Commission Staff and Public Counsel claim that PSE is improperly using the next lowest capital cost resource after the Ferndale Cogeneration Station in calculating the equity component of a self-build plant. Does PSE agree with this analysis?

A. No. A least cost resource, when used in the context of the integrated resource planning process, necessarily requires that resource to be *available* to fill the energy or capacity need. PSE continues to have a resource need after the acquisition of the Ferndale Cogeneration Station, and the least cost resource necessarily must look beyond the previous acquisition to the options that remain for filling the resource need. Of the options that remain, the [redacted] (#11103) proposal has the lowest capital cost at $[redacted]/kW, as compared to PSE's self-build peaker plant at $[redacted]/kW.

Q. Does PSE agree with Commission Staff's assertion that PSE did not choose the Ferndale Cogeneration Station until after PSE selected the Coal Transition PPA?

A. No. PSE made the decision to acquire the Ferndale Cogeneration Station before it determined to enter into the Coal Transition PPA. The original power purchase agreement that TransAlta Centralia bid into the 2011 RFP did not survive reevaluation compared to Ferndale Cogeneration Station, and PSE notified TransAlta Centralia that it would not pursue the coal transition proposal. After PSE made a decision to pursue the Ferndale Cogeneration Station, TransAlta Centralia modified its proposal to fill a later need (beginning in 2014) and to limit the capacity of the PPA due to constraints on the transmission system.

Q. Could PSE rely upon the Ferndale Cogeneration Station to meet the need filled by the Coal Transition PPA?

A. No. PSE cannot rely upon the Ferndale Cogeneration Station to meet the need filled by the Coal Transition PPA because the Coal Transition PPA meets a need in excess of that filled by the Ferndale Cogeneration Station. Because the Ferndale Cogeneration Station is not available to fill this need, PSE must look to the remaining resources or self-build options in order to fill the remaining need after the Ferndale Cogeneration Station. PSE determined that the [redacted] (#11103) proposal or its self-build peaker is the alternative plant. PSE offered this lower capital cost plant for the determination of the equity return in lieu of its self-build peaker, although the overall net cost of the self-build peaker is lower than the [redacted] (#11103) proposal over the life of both projects.

B. The Commission Should Reject Commission Staff's Proposals That Would Exclude the Equity Return from Resupply Power and Narrow the Definition of Resupply Rights

Q. How does PSE respond to Commission Staff's testimony that the Commission should not apply the equity adder to "resupply" power delivered under the Coal Transition PPA?

A. Commission Staff's testimony is inconsistent with advice given on this very issue from the Office of the Attorney General. The Office of the Attorney General issued an informal opinion[39] addressing this issue and determined that the inclusion and exercise of resupply rights in a power purchase agreement for coal transition power does not affect the statutory right of the electrical company to recover its costs, including the equity component allowed under RCW 80.04.570(6)(a).[40] The opinion noted that to exclude resupply rights would thwart the prospective approval of the agreements contemplated by the statute,

[39] *See* Garratt, Exh. No. ___(RG-8HC), at pages 449-59.
[40] *Id.*, at page 452.

because the actual amounts of resupply power, and therefore the associated cost, cannot be known at the time the agreement is reviewed by the Commission. They can only be known after resupply rights under the agreement are actually exercised.[41]

The opinion further noted that it is the public policy of the state to encourage utilities to enter into power purchase agreements for coal transition power. To interpret the statute in a way that failed to allow for an equity return on resupply rights would contravene state policy:

> The measure specifically amends existing statutes to allow electrical companies to enter into long-term power purchase agreements with coal-fired facilities. The Legislature expressly found that an electrical company's purchase of coal transition power helps achieve greenhouse gas emission reduction goals and supports state public policy. RCW 80.04.560. In short, the Legislature wanted electrical companies to enter into these agreements. It logically follows that the Legislature intended to allow companies to recover the cost of purchasing power under an agreement in the same manner as would be allowed under any other agreement to purchase power. Disallowing the cost of resupply power under a power purchase agreement would discourage electrical companies from entering such agreements, in contravention of that legislative policy.[42]

The Office of the Attorney General also rejected the theory that resupply rights reduce equivalent capacity. Rather, the Office of the Attorney General found "equivalent capacity" to be the same as the quantity of power provided under the agreement, including resupply rights.[43]

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[41] Garratt, Exh. No. ___(RG-8HC), at page 454.
[42] *Id.*, at page 455.
[43] *Id.*, at page 456.

Commission Staff also stated that if the equity adder is applied in the manner PSE proposes, then that will conflict with the statutory intent "to maintain employment in local communities".[44] However, it is important to note that the statutory intent of the Coal Transition Act is clearly provided in RCW 80.80.005(3) as reducing greenhouse gas emissions. Therefore, allowing for an equity return on resupply rights would not conflict with the statutory intent of RCW 80.80.

Q. How does PSE respond to Commission Staff's testimony that the Commission revise the definition of "resupply" rights under the Coal Transition PPA?

A. Commission Staff argues that TransAlta Centralia should not be able to resupply power when the output of the Centralia Transition Coal Facility is reduced or curtailed "for any reason" and that the Coal Transition PPA should be revised to provide for resupply rights under limited circumstances.[45] This proposal is again inconsistent with the opinion of the Office of the Attorney General, offers no benefit to PSE or its customers, and is inconsistent with practice elsewhere.

The Attorney General's letter expressly recognized that the rights at issue involved resupply "'with power from an alternate source when the unit output from the coal-fired facility is reduced or curtailed for any reason.'"[46] Thus, the Governor and the Attorney General anticipated no restrictions on the reductions

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[44] Gomez, Exh. No. ___(DCG-1HCT) at page 15, lines 21-22.
[45] *Id.*, at page 6, lines 2-15, and at page 8, lines 5-14.
[46] Garratt, Exh. No. ___(RG-8HC) at pages 449-59 (emphasis added).

or curtailments in generation that would entitle the seller to exercise resupply rights.

Allowing resupply upon curtailment "for any reason" promotes the public interests that the Legislature sought to promote. The Legislature found that "an electrical company's acquisition of coal transition power helps to achieve the state's greenhouse gas emission reduction goals by effecting an orderly transition to cleaner fuels and supports the state's public policy."[47] Resupply can help reduce greenhouse gas emissions by replacing coal-fired generation with power from other sources, such as hydropower during high water periods. Resupply can also promote grid stability and reliability, and the integration of wind, solar and other variable renewable energy resources, by allowing TransAlta to reduce facility generation at times when there is excess generation present on the grid.

Staff's proposal to limit plant curtailment is inconsistent with practice elsewhere. For example, Public Counsel's witness described contracts for the output of PGE's coal-fired Boardman plant as allowing PGE to "not operate for economic reasons."[48]

[47] RCW 80.04.560.
[48] Woodruff, Exh. No. ___(KDW-1HCT), at page 17, line 2.

C. Commission Staff's Methodology for Calculating the Equity Return Fails to Consider the Time Value of Money or the Equivalent Capacity of the Plant

Q. Does PSE agree with Commission Staff's methodology for calculating the equity return on the Coal Transition PPA?

A. No. PSE disagrees with Commission Staff's methodology for calculating equity return, and PSE stands by its calculation. The "errors" cited by Commission Staff are not mathematical errors but differences in methodology.

Q. Please summarize the differences in methodology.

A. PSE reserves the right to submit supplemental testimony on Monday, November 19, 2012, regarding the differences in PSE's and Commission Staff's methodologies for calculating the equity return on the Coal Transition PPA.

On November 2, 2012, Commission Staff submitted testimony that asserted that PSE's calculation contained an "error" because it used 31 days for every month:

> [PSE]'s worksheet used 31 months for every month, which overstated the MWh delivered under the [Coal Transition] 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 [PSE] equity adder of $2.57 is $86.2 million ($11.8 million difference).[49]

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[49] Gomez, Exh. No. ___(DCG-1HCT) at page 11, footnote 23 (filed on November 2, 2012).

On the evening of November 15, 2012, Commission Staff submitted revised testimony that alleged that PSE's calculation contained an "error" in cell B15 and not because the worksheet used 31 days for every month:

> [PSE]'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 [Coal Transition] PPA, the resulting equity return over the life of the [Coal Transition] PPA is $98,099,386. The nominal return calculated by [PSE] 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 [PSE]'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).[50]

PSE has not yet had an opportunity to review the alleged "error" in cell B15.

PSE has conferred with counsel for Commission Staff, who has agreed that PSE could address Commission Staff's revised argument in a supplemental testimony to be filed on November 19, 2012.

D. PSE is Not Requesting an Equity Return if the Coal Transition PPA is Terminated Prior to the Expiration of Its Term

Q. Is PSE requesting an equity return even if the Coal Transition PPA is canceled or terminated?

A. No. Commission Staff asserts that "PSE is asking the Commission to allow it to earn the full equity return of almost $90 million even if the PPA is canceled or terminated prior to its full 133 month term . . . ."[51] Commission Staff must

[50] Gomez, Exh. No. ___(DCG-1HCT) at page 11, footnote 23 (filed on November 15, 2012).
[51] *Id.*, at page 12, line 22, through page 13, line 1.

misunderstand PSE's position in this proceeding. PSE is not requesting an equity return even if the Coal Transition PPA is canceled or terminated. PSE fully understands that it will not earn an equity return under the Coal Transition PPA if the agreement is canceled or terminated.

E. PSE Can Accept Commission Staff's Proposal With Respect to the Pre-Tax Weighted Average Cost of Equity Return

Q. Please describe Commission Staff's proposal with respect to the pre-tax weighted average cost of equity return for the Coal Transition PPA.

A. Commission Staff proposes that the pre-tax weighted average cost of equity return for the Coal Transition PPA reflect the then-current return on equity and equity ratio authorized by the Commission for PSE. This proposal differs from PSE's proposal, which would freeze the pre-tax weighted average cost of equity return at 7.24 percent for the term of the Coal Transition PPA.

Q. Why did PSE propose to freeze the pre-tax weighted average cost of equity return at 7.24 percent for the term of the Coal Transition PPA?

A. PSE proposed to freeze the pre-tax weighted average cost of equity return at 7.24 percent for the term of the Coal Transition PPA to simplify the calculation of such equity return under the agreement. Commission Staff's proposal will increase the complexity of the calculation of such return. Nonetheless, PSE can accept the proposal.

IV. PSE IS NOT REQUESTING THE RECOVERY OF TRANSMISSION COSTS IN THIS PROCEEDING

Q. Please summarize Commission Staff's stated position regarding transmission associated with the Coal Transition PPA?

A. Commission Staff states that it contests "the $35.5 million in PPA transmission costs proposed by [PSE]."[52] Commission Staff asserts that this $35.5 million consists of "contested fixed transmission" of $4.3 million and "contested variable transmission" of $31.2 million".[53]

Q. Is PSE proposing the recovery of any costs of transmission under the Coal Transition PPA in this proceeding?

A. No. PSE is not proposing the recovery of any costs of transmission under the Coal Transition PPA in this proceeding. The $35.5 million in transmission costs referred to in Commission Staff's testimony represents the costs of transmission on BPA's transmission system that PSE projected for purposes of modeling the projected total costs of the Coal Transition PPA. PSE's actual costs of transmission on BPA's transmission system associated with the Coal Transition PPA may be greater or lesser than $35.5 million and would be recovered in accordance with the terms of PSE's Power Cost Adjustment (PCA) mechanism. Please see the Prefiled Rebuttal Testimony of Ms. Katherine J. Barnard, Exhibit

[52] Gomez, Exh No. ___(DCG-1HCT) at page 14, lines 1-2.
[53] *Id.*, at page 14, footnote 25.

No. ___(KJB-3T), for a discussion of the recovery of transmission costs under the PCA mechanism.

Q. Why does PSE include projected costs of transmission in modeling resource alternatives?

A. PSE indicated in the 2011 RFP that it prefers proposals that include long-term delivery to PSE's system.[54] If a proposal neither involves interconnection to PSE's system nor includes costs of long-term delivery to PSE's system, then PSE must project the transmission costs associated with such proposal. This allows for comparable analyses among the myriad proposals received by PSE in response to the 2011 RFP.

Q. Does the Coal Transition PPA allocate transmission costs between the parties?

A. Yes. The Coal Transition PPA clearly specifies that TransAlta Centralia is responsible for any costs or charges associated with the delivery of power to a Delivery Point under the Coal Transition PPA and that PSE is responsible for any costs or charges associated with the delivery of power from a Delivery Point.[55]

As discussed in PSE's direct testimony, PSE has 280 MW of long-term firm transmission capacity between BPA's C.W. Paul substation and PSE's Tono facilities and contracts with BPA for 100 MW of long-term firm transmission

[54] Garratt, Exh. No. ___(RG-5) at page 11.
[55] Garratt, Exh. No. ___(RG-3C) at page 18 (section 3.4).

service from the Centralia Transition Coal Facility through October 1, 2016.[56] PSE therefore projected costs associated with maintaining the 100 MW of long-term firm transmission service from the Centralia Transition Coal Facility on BPA's system.

Q. Does Commission Staff object to all projected costs associated with maintaining the 100 MW of long-term firm transmission service from the Centralia Transition Coal Facility on BPA's system?

A. No. Commission Staff objects to the inclusion in the projection of "a $1.74 per MWh (variable portion) for spinning reserves that Staff believes are an unnecessary ancillary cost for the Centralia baseload resource."[57]

Q. Assuming PSE were requesting recovery of transmission costs in this proceeding, is the inclusion of costs for spinning reserves reasonable?

A. Yes. Spinning reserve service is an ancillary service necessary to serve load immediately in the event of a system contingency. Schedule 5 of BPA's Open Access Transmission Tariff ("OATT") requires transmission customers to either purchase this service from BPA or make alternative comparable arrangements to satisfy their spinning reserve service obligations.[58] Therefore, PSE does not have the option to avoid its spinning reserve service obligation, and the inclusion of

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[56] Garratt, Exh. No. ___(RG-1HCT) at page 12, lines 3-10.

[57] Gomez, Exh. No. ___(DCG-1HCT) at page 14, lines 3-5.

[58] BPA, Open Access Transmission Tariff, at Schedule 5 (available at http://transmission.bpa.gov/business/ts_tariff/documents/bpa_oatt_08052010.pdf).

costs for spinning reserves would be reasonable if PSE were requesting recovery of transmission costs in this proceeding.

Q. Does Commission Staff raise other issues with respect to PSE's projected costs of transmission for purposes of modeling?

A. Yes. Commission Staff suggests that PSE's escalation rate of 2.5 percent for the fixed cost component of transmission is too high and suggests a rate of two percent.[59] Commission Staff's proposal, however, fails to recognize that BPA's transmission costs are rapidly increasing and at a rate far in excess of the 2.5 percent used by PSE to escalate the projected transmission costs for modeling purposes. For example, BPA has recently proposed a rate increase of approximately 18.6% for long-term firm Point-to-Point Transmission Service on the BPA system (from $1.298 per kilowatt per month[60] to $1.540 per kilowatt per month[61]). In light of BPA's proposed rate increase, PSE's escalation factor appears to be modest.

Furthermore, Commission Staff questions the inclusion of "an opportunity cost for lost sales on the 280 MW of transmission and a one-time fixed transmission

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[59] Gomez, Exh. No. ___(DCG-1HCT) at page 14, lines 5-7.

[60] *See* BPA, 2012 Transmission and Ancillary Service Rate Schedules General Rate Schedule Provisions (FY 2012-2013), at page 19 (available at http://www.bpa.gov/power/psp/rates/FinalTransmissionRateSchedulesGRSPs.pdf).

[61] *See* BPA, BP-14 Initial Rate Proposal Transmission, Ancillary and Control Area Service Rate Schedules and General Rate Schedule Provisions, BP-14-E-BPA-10, at page 19 (available at http://www.bpa.gov/Finance/RateCases/BP-14RateAdjustmentProceeding/Documents/BP-14-E-BPA-10%20Transmission%20Rate%20Schedules%20%20GRSPs.pdf).

cost of $300,000 to cover its transaction costs related to the PPA."[62] Again, PSE included these costs solely for modeling the likely effect of the Coal Transition PPA on PSE's revenue requirement and is not requesting the recovery of these—or any—transmission costs in this proceeding.

V. PSE IS NOT A PARTY TO THE MEMORANDUM OF AGREEMENT BETWEEN TRANSALTA CENTRALIA AND THE STATE OF WASHINGTON

Q. Please describe PSE's understanding of the Memorandum of Agreement.

A. The Memorandum of Agreement is an agreement between TransAlta Centralia and the State of Washington, separate and apart from the Coal Transition PPA. Through the Memorandum of Agreement, TransAlta Centralia and the State of Washington confirmed the use of certain air pollution control technology and agreed upon certain financial commitments from TransAlta Centralia.

Q. Please describe the positions of other parties to this proceeding with respect to the Memorandum of Agreement.

A. The NW Energy Coalition recommends that the Commission recommend approval "contingent on TransAlta [Centralia] committing to invest in at least the proportional level of funding outlined in the [Memorandum of Agreement] that is represented by PSE's acquisition of 346 MW of output."[63] Commission Staff suggest that if the Memorandum of Agreement "between the State of Washington

[62] Gomez, Exh. No. ___(DCG-1HCT) at page 14, lines 10-12.
[63] Dixon, Exh. No. ___(DOD-1HCT) at page 15, lines 11-13.

and TransAlta [Centralia] is terminated then the [Coal Transition] PPA is terminated."[64]

Q. Is either PSE or the Commission a party to the Memorandum of Agreement?

A. No. Neither PSE nor the Commission is a party to the Memorandum of Agreement. PSE does not know what role, if any, the Commission should play with respect to a contract in which neither PSE nor the Commission is a party.

Q. Please describe the circumstances under which TransAlta Centralia may terminate the Memorandum of Agreement.

A. TransAlta Centralia has the right to terminate the Memorandum of Agreement for reasons that are unrelated to power sales under the Coal Transition PPA. For example, TransAlta Centralia may terminate the Coal Transition PPA if TransAlta Centralia loses its state tax exemptions or is not allowed to use the type of air pollution control equipment to which the State of Washington agreed.[65] The Memorandum of Agreement appears to recognize that, upon the occurrence of either of these events (which appear beyond TransAlta Centralia's control), TransAlta Centralia would lose the benefit of its bargain with the State or Washington and should not have to continue paying the $55 million for promotion of the state's policies.

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[64] Gomez, Exh. No. ___(DCG-1HCT) at page 16, lines 8-9.

[65] Garratt, Exh. No. ___(RG-8HC), at page 441 (section 8(a) and (b) of the Memorandum of Agreement).

Additionally, TransAlta Centralia has the right to terminate the Memorandum of Agreement if, as of December 15, 2012 (which date can be extended for a year), TransAlta Centralia has not been able to enter into long-term power purchase agreements for at least 500 megawatts of power.[66]

Q. Does TransAlta Centralia intend to terminate the Memorandum of Agreement in 2012?

A. No. TransAlta Centralia has informed Governor Gregoire that it will not terminate the Memorandum of Agreement in 2012. *See* Exhibit No. ___(RG-15), which is a letter dated October 24, 2012, from Paul Taylor to Governor Gregoire.

Q. What rights does PSE have if TransAlta Centralia elects to terminate the Memorandum of Agreement after 2012?

A. [redacted].[67] [redacted].[68] It is in the best interest of PSE's ratepayers that PSE have the right to decide whether to terminate under

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[66] Garratt, Exh. No. ___(RG-8HC), at pages 441-42 (section 8(c) of the Memorandum of Agreement).
[67] Garratt, Exh. No. ___(RG-3C), at pages 38-39 (section 17.3 of the Coal Transition PPA).
[68] *Id.*

these circumstances. If purchases under the Coal Transition PPA remain the most cost-effective resource available, PSE may well decide that, notwithstanding termination of the Memorandum of Agreement, it is in the best interest of ratepayers to continue to make purchases under the Coal Transition PPA.

VI. CONCLUSION

Q. Does this conclude your prefiled rebuttal testimony?

A. Yes.

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