

EXHIBIT NO. __ (RG-14)
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

**THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

NOVEMBER 16, 2012

**TransAlta**

724 Columbia Street NW,

Ste. 320

Olympia, WA 98501

(360) 742-3000

October 24, 2012

Governor Christine Gregoire
c/o Governor's Executive Policy Office
PO Box 43113
Olympia, WA 98501-3113

RE Coal Transition Power MOA

Dear Governor Gregoire:

I am writing regarding the December 23, 2011 Memorandum of Agreement, ("MOA"), by and between the State of Washington ("State"), and TransAlta Centralia Generation LLC ("TransAlta"). I want to confirm that it is TransAlta's intention to continue our efforts into 2013 to enter into Qualified Power Purchase Agreements (as defined in the MOA). We also remain committed to performing our obligations under the MOA while we pursue additional long term power contracts.

As you know, TransAlta may terminate the MOA by providing notice to the State pursuant to Section 8(c) of the MOA, if we have been unable to negotiate and enter into one or more Qualified Power Purchase Agreements totaling at least 500 megawatts with terms of at least eight years by December 15, 2012.

Since the execution of the MOA, TransAlta has diligently pursued Qualified Power Purchase Agreements that achieve the threshold contemplated in the MOA. To date, we have negotiated one agreement with Puget Sound Energy ("PSE"), which is subject to review and approval by the Washington Utilities and Transportation Commission. This power purchase agreement provides PSE's customers with low-cost reliable coal transition power while advancing TransAlta's goal of contracting the output of the Centralia facility. The Commission anticipates issuing a decision on the power purchase agreement by February 15, 2013.

I also wanted to update you on our progress regarding other commitments in the MOA. Pursuant to Section 3(b) of the Agreement, TransAlta has executed an account agreement with Security State Bank that will permit us to fund the Accounts on the timeline set forth in the MOA. TransAlta is also progressing with the installation of the selective non-catalytic reduction pollution control technology ("SNCR") in both boilers at the Centralia facility, as agreed under Section 6 of the MOA.



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While we have not yet achieved the contracting threshold contemplated in the MOA, I am writing to confirm that: (1) TransAlta does not intend to exercise our termination right pursuant to Section 8(c) on December 15, 2012; and (2) we do intend to fund the amounts required by Section 3(a) of the MOA for the calendar year 2012 on or before December 31, 2012.

TransAlta's intent to fund the Accounts and to refrain from terminating the MOA depend in part on our understanding that we may later terminate the MOA pursuant to Section 8(c) if we determine that the contracting threshold has not been achieved, and that upon such termination, all amounts in the Accounts that have not been disbursed shall be returned to us pursuant to Section 9(a) of the MOA.

We expect that our current intent not to terminate the MOA is welcome news to the State. We would like to take this opportunity to express our appreciation for the State's cooperation throughout this process and the State's ongoing and future efforts to assist us in effecting an orderly transition from coal to cleaner fuels as contemplated by E2SSB 5769. We look forward to continuing to work with the State.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Taylor", written over a horizontal line.

Paul Taylor
President

pc: Keith Phillips, Governor's Executive Policy Office
Laura J. Watson, Attorney General's Office, Ecology Division
Lori Schmitt, TransAlta Centralia Generation LLC
Liz Thomas, K&L Gates LLP