

**EXHIBIT NO. \_\_\_(MM-8T)  
DOCKET NO. UE-130617  
2013 PSE PCORC  
WITNESS: MICHAEL MULLALLY**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-130617**

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY  
(NONCONFIDENTIAL) OF MICHAEL MULLALLY  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**JULY 2, 2013**

**PUGET SOUND ENERGY, INC.**

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY  
(NONCONFIDENTIAL) OF MICHAEL MULLALLY**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED SUPPLEMENTAL DIRECT TESTIMONY**  
3 **(NONCONFIDENTIAL) OF MICHAEL MULLALLY**

4 **I. INTRODUCTION**

5 **Q. Are you the same Michael Mullally who provided prefiled direct testimony in**  
6 **this docket on behalf of Puget Sound Energy, Inc. (“PSE”)?**

7 A. Yes, I filed prefiled direct testimony, Exhibit No. \_\_\_\_ (MM-1HCT), and six  
8 supporting exhibits, Exhibit No. \_\_\_\_ (MM-2) through Exhibit No. \_\_\_\_ (MM-7).

9 **Q. What is the nature of your prefiled supplemental direct testimony in this**  
10 **proceeding?**

11 A. This prefiled supplemental direct testimony

12 (i) presents

13 (a) new information related to the sale of PSE’s  
14 interests in the development assets required for the  
15 construction and operation of Phase II of the Lower  
16 Snake River Wind Project (“LSR Phase 2”) to  
17 Portland General Electric Company (“Portland  
18 General”) and

19 (b) details in support of PSE’s request for a change in  
20 the rate base and amortization treatment for the  
21 regulatory asset for the transfer of Bonneville  
22 Power Administration (“BPA”) Large Generator  
23 Interconnection Agreement (“LGIA”) credits to  
24 Portland General, which is addressed in the Prefiled  
25 Supplemental Direct Testimony of Ms. Katherine J.  
26 Barnard, Exhibit No. \_\_\_\_ (KJB-8T); and

- 1 (ii) updates the Commission with respect to the negotiations  
2 between PSE and Electron Hydro LLC (“Electron Hydro”)  
3 for the proposed power purchase agreement for the entire  
4 output of the Electron Hydroelectric Project  
5 (the “Electron PPA”).

6 **II. SALE OF PSE’S INTERESTS IN THE DEVELOPMENT**  
7 **ASSETS REQUIRED FOR THE CONSTRUCTION AND**  
8 **OPERATION OF LSR PHASE 2 TO PORTLAND GENERAL**

9 **A. PSE’s Interests in the Development Assets Required for the**  
10 **Construction and Operation of Various Phases of the Lower Snake**  
11 **River Wind Project**

12 **Q. Please describe the Lower Snake River Wind Project.**

13 A. The Lower Snake River Wind Project is located in southeast Washington and  
14 encompasses over 124,000 acres of leased lands in Garfield and Columbia  
15 Counties. The Lower Snake River Wind Project comprises enough acreage and  
16 wind resources for at least a 1250 megawatt (MW) resource.

17 **Q. Please describe the four wind resource areas located within the Lower Snake**  
18 **River Wind Project.**

19 A. The four wind resource areas located within the Lower Snake River Wind Project  
20 are as follows:

- 21 1. Tucannon Wind Resource Area, which consists of  
22 approximately 41,500 acres in Columbia County;
- 23 2. Dutch Flats Wind Resource Area, which consists of  
24 approximately 10,000 acres in Garfield County;
- 25 3. Kuhl Ridge Wind Resource Area, which consists of  
26 approximately 39,900 acres in Garfield County; and

1                   4.     Oliphant Wind Resource Area, which consists of  
2                             approximately 32,700 acres in Garfield and Columbia  
3                             counties.

4     **Q.     Do these four wind resource areas delineate project areas or proposed**  
5             **construction phases associated with the Lower Snake River Wind Project?**

6     A.     No. The four wind resource areas neither delineate distinct project areas nor do  
7             they directly correlate with proposed construction phases. Rather, the four wind  
8             resource areas represent sections of the Lower Snake River Wind Project  
9             separated by natural and human-made features within which development  
10            activities such as wind resource evaluation, land lease negotiations, and  
11            environmental studies were initiated at different times.

12           Development and construction will occur in multiple phases with each phase  
13           encompassing areas in one or more of the wind resource areas. The phasing of  
14           the development and construction of the Lower Snake River Wind Project is not  
15           intended to coincide with the wind resource areas, and the size and geographic  
16           boundaries of each phase are being determined during the development process.

17     **Q.     How did PSE acquire interests in the development assets required for the**  
18             **construction and operation of the various phases of the Lower Snake River**  
19             **Wind Project?**

20     A.     PSE acquired interests in the development assets required for the construction and  
21             operation of the various phases of the Lower Snake River Wind Project via two  
22             separate transactions with RES America Developments, Inc.

1 (“RES Developments”). On November 26, 2008 PSE entered into a Joint  
2 Development Agreement with RES Developments to acquire a half interest in  
3 development-stage wind projects in Columbia and Garfield Counties.

4 **Q. What assets were acquired under the terms of the Joint Development**  
5 **Agreement?**

6 A. The assets that were acquired included real property contracts (wind energy  
7 ground leases, anemometer agreements), meteorological towers and equipment,  
8 wind and climatic data and reports, environmental studies and reports, and  
9 interconnection studies and agreements.

10 **Q. What happened after PSE entered into the Joint Development Agreement?**

11 A. Initially, PSE and RES Developments worked to co-develop the site. The parties  
12 worked on continued wind evaluation, land leases, permitting, and wind turbine  
13 generator technology evaluation. During the months following the collapse of  
14 several large financial institutions, economic conditions deteriorated further and  
15 RES Developments re-evaluated its financial position. RES Developments’  
16 management determined it was appropriate to attempt to sell its stake in the  
17 Lower Snake River Wind Project. On March 23, 2009, RES Developments  
18 issued marketing materials soliciting interest in the sale of its interests in the  
19 Lower Snake River Wind Project.

1 **Q. What options did PSE face in light of RES Developments plan to sell its**  
2 **interests in the Lower Snake River Wind Project?**

3 A. PSE was faced with three possible scenarios in the sale of the RES  
4 Developments' interest in the Lower Snake River Wind Project:

- 5 1. 100% PSE ownership;
- 6 2. RES Developments sells its interest to a third party and  
7 PSE maintains 50% interest; and
- 8 3. RES Developments remains as a Joint Development  
9 Agreement co-owner and PSE maintains 50% interest.

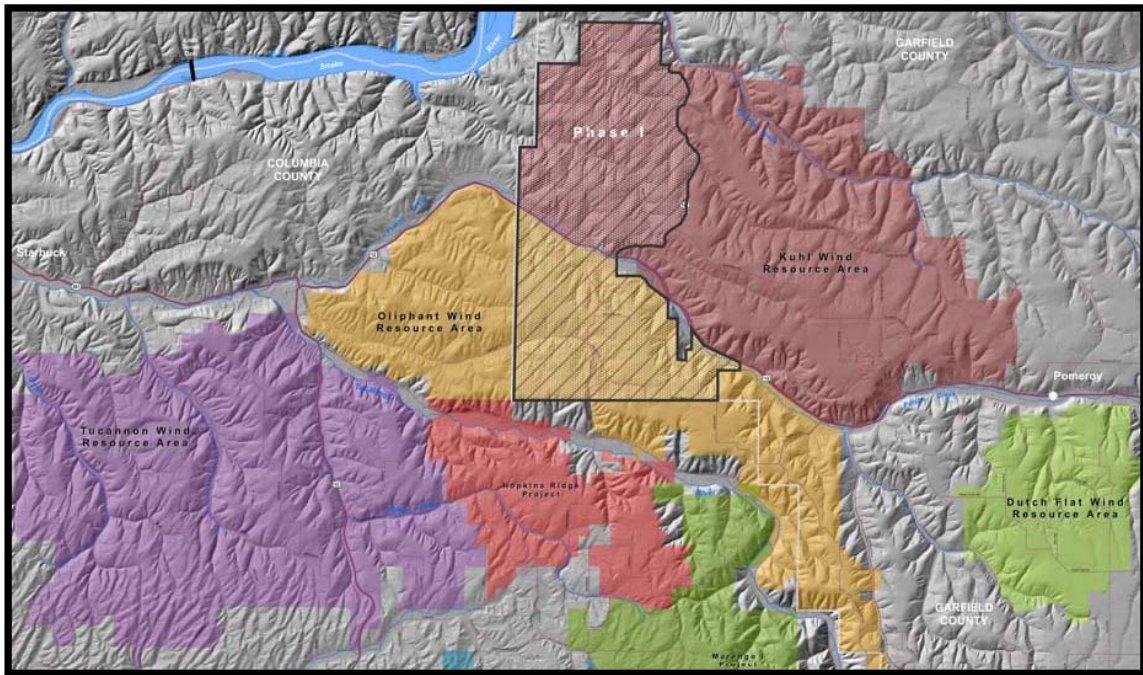
10 PSE decided to purchase RES Developments' interests in development rights for  
11 the Lower Snake River Wind Project. Shortly after RES Developments issued  
12 marketing materials, PSE initiated negotiations regarding the purchase of that  
13 interest which, due to further development work, was now considered to be "late  
14 stage pre-construction" development rights. The purchase of the RES  
15 Developments' interest in the Lower Snake River Wind Project provided PSE  
16 with an option for the future ownership of up to approximately 1,250 MW of  
17 wind resources. Under the arrangement, RES Developments holds right to  
18 construct subsequent phases of Lower Snake River Wind Project through  
19 November 25, 2016.

20 **Q. Has PSE developed any phase of the Lower Snake River Wind Project?**

21 A. Yes. PSE developed Phase I of the Lower Snake River Wind Project ("LSR  
22 Phase 1"), which encompasses portions of the Kuhl Ridge and Oliphant Ridge  
23 Wind Resource Areas as depicted Figure 1 below.

1  
2  
3  
4  
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**Figure 1. LSR Phase 1**



LSR Phase 1 is a 342.7 MW wind power generation facility located on an approximately 21,610 acre site in western Garfield County, Washington and bordering Columbia County. In Docket UE-111048, the Commission found that PSE's investments in LSR Phase 1 were prudent and the costs of LSR Phase 1 to be reasonable for recovery in rates.<sup>1</sup> PSE placed LSR Phase 1 into service on February 29, 2012.

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<sup>1</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 at ¶ 515 (May 7, 2012).

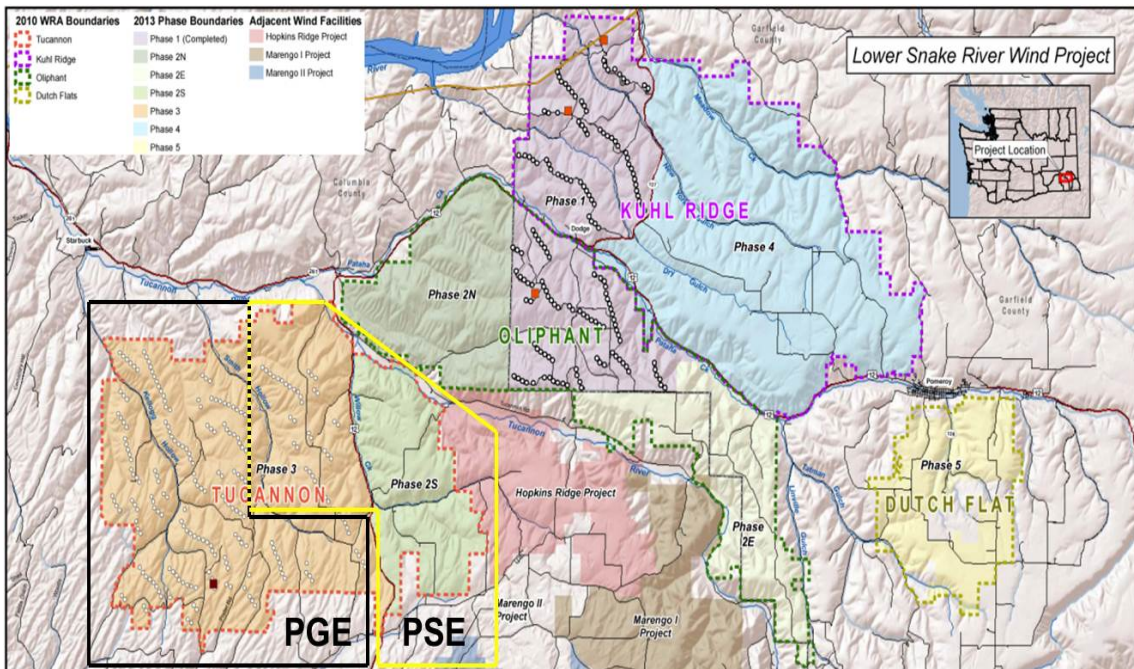


1 **B. Sale of PSE’s Interests in the Development Assets Required for the**  
2 **Construction and Operation of LSR Phase 2 to Portland General**

3 **Q. Please describe LSR Phase 2.**

4 A. LSR Phase 2 is a fully permitted, shovel-ready utility-scale wind project located  
5 in Columbia County, Washington in the immediate vicinity of over 700 MW of  
6 operational wind projects separately owned by PSE and PacifiCorp. LSR Phase 2  
7 encompasses the western and southern portions of the Tucannon Wind Resource  
8 Area as depicted in Figure 2 below.

9 **Figure 2. LSR Phase 2**



10  
11 Please note that the black, “L”-shaped box in Figure 2 above depicts the area in  
12 which Portland General will construct LSR Phase 2.

1 Once constructed, LSR Phase 2 will have a nameplate capacity of 266.8 MW and  
2 an annual average capacity of 101 average megawatts (aMW). It is anticipated  
3 that LSR Phase 2 will consist of the following components:

- 4 (i) 116 Siemens SWT-2.3-108 turbines erected on 80 meter  
5 towers;
- 6 (ii) approximately 280 miles of 34.5 kilovolt (kV) conductor to  
7 deliver the output of the turbines to one 34.5/230 kV  
8 substations for LSR Phase 2;
- 9 (iii) approximately 18 miles of 230 kV overhead line to connect  
10 the LSR Phase 2 substation to LSR Phase 2's point of  
11 interconnection at the Central Ferry substation, which  
12 includes an existing and operational 1250 megavolt  
13 amperes (MVA) 230/500 kV transformer;
- 14 (iv) approximately 28 miles of new roads; and
- 15 (v) other ancillary facilities including, for example, turbine  
16 foundations and other civil works, a supervisory control  
17 and data acquisition (SCADA) system and operations and  
18 maintenance facilities, communication facilities, permanent  
19 meteorological towers, and spare parts.

20 **Q. Why did PSE decide to seek to sell its interests in the development assets**  
21 **required for the construction and operation of LSR Phase 2?**

22 A. With LSR Phase 1 now in service, PSE projects that it has acquired enough  
23 eligible renewable resources and renewable energy credits ("RECs") to meet the  
24 requirements of the state's renewable energy targets for the foreseeable future.  
25 Indeed, PSE's 2013 Integrated Resource Plan (the "2013 IRP") does not project a  
26 need for PSE to acquire renewable resources until, at earliest, 2022. For example,  
27 the Base Scenario of the 2013 IRP projects a need for PSE of (i) 300 MW of  
28 renewable resources by 2022 and (ii) another 300 MW of renewable resources by

1 2033. Thus, PSE has rights in development assets for the Lower Snake River  
2 Wind Project that are surplus to what PSE needs to meet its renewable resource  
3 needs over the next two decades, and PSE sought opportunities to sell surplus  
4 rights.

5 **Q. Please describe the process by which PSE submitted proposals for the sale of**  
6 **PSE's interests in the development assets required for the construction and**  
7 **operation of LSR Phase 2.**

8 A. On October 1, 2012, Portland General issued a request for proposals seeking  
9 power generating resources to help Portland General comply with Oregon's  
10 renewable energy standard (the "Renewable RFP"). The Renewable RFP sought  
11 approximately 100 aMW of renewable power from renewable generation  
12 resources that met a minimum size of at least 10 MW from a variety of  
13 technologies, including wind, geothermal, biomass, biogas, solar, and  
14 hydroelectric power. Bids into the Renewable RFP were due November 13, 2012.  
15  
16 On October 24, 2012, PSE and RES Developments executed a Joint Marketing  
17 Agreement that outlines terms and conditions for co-submitting bids into the  
18 Renewable RFP. Pursuant to such arrangement, PSE would sell its interests in  
19 the development assets required for the construction and operation of  
20 LSR Phase 2, and RES Developments would construct LSR Phase 2 for Portland  
21 General. On November 13, 2012, PSE and RES Developments jointly submitted  
bids to the Renewable RFP.

1 **Q. Did Portland General select a joint bid of PSE and RES Developments as a**  
2 **finalist in the Renewable RFP?**

3 A. Yes. On January 22, 2013, Portland General selected the joint PSE and RES  
4 Developments proposals for the initial short list for the Renewable RFP. On  
5 February 19, 2013, Portland General further selected the joint PSE and RES  
6 Developments proposals for the final short list for the Renewable RFP. On  
7 March 11, 2013, Portland General commenced its due diligence process and  
8 entered into exclusive negotiations with PSE and RES Developments for (i) the  
9 purchase of PSE's interests in the development assets required for the  
10 construction and operation of LSR Phase 2 and (ii) an agreement with RES  
11 Developments to construct LSR Phase 2.

12 **Q. Were PSE and Portland General able to reach final agreement?**

13 A. Yes. PSE and PGE entered into an Asset Purchase and Sale Agreement, dated as  
14 of June 3, 2013, pursuant to which PSE will sell its interests in the development  
15 assets required for the construction and operation of LSR Phase 2 (the "LSR  
16 Phase 2 Asset Purchase and Sale Agreement"). Please see Exhibit No. \_\_\_(MM-  
17 9CT), for a copy of the LSR Phase 2 Asset Purchase and Sale Agreement.

1           **1. The Purchased Assets**

2           **Q. Please describe PSE’s interests in the development assets required for the**  
3           **construction and operation of LSR Phase 2 to be transferred to Portland**  
4           **General pursuant to the LSR Phase 2 Asset Purchase Agreement.**

5           A. Subject to and upon the terms and conditions of the LSR Phase 2 Asset Purchase  
6           Agreement, PSE has agreed to sell, assign, transfer, convey, and deliver to  
7           Portland General the following interests:

- 8                   (i) all of PSE’s right, title and interests in and to the Real  
9                   Property, all as more particularly listed and described in  
10                   Part II of Schedule 6.10.1 to the LSR Phase 2 Asset  
11                   Purchase and Sale Agreement;
- 12                   (ii) all of PSE’s right, title and interests in and to the Assumed  
13                   Contracts, all as more particularly listed and described in  
14                   Parts I, II and III of Schedule 6.10.1 to the LSR Phase 2  
15                   Asset Purchase and Sale Agreement;
- 16                   (iii) the Conditional Use Permits, as partially assigned pursuant  
17                   to the Assignment of Interest in CUP Agreement, for the  
18                   development of not less than 266.8 MW of installed  
19                   nameplate capacity and associated LSR Phase 2 and  
20                   transmission, and all other Permits for development of LSR  
21                   Phase 2 held by PSE at Closing, including those listed or  
22                   described in Part I of Schedule 6.11 to the LSR Phase 2  
23                   Asset Purchase and Sale Agreement;
- 24                   (iv) all applications for Permits listed or described in Part II of  
25                   Schedule 6.11 of the LSR Phase 2 Asset Purchase and Sale  
26                   Agreement;
- 27                   (v) at least 267 MW of firm transmission rights, and related  
28                   rights to interim conditional firm transmission service, to  
29                   be exclusively owned by and in the name of Portland  
30                   General for transmission of the electrical output generated  
31                   by LSR Phase 2 via the Bonneville Power Administration

1 BPA transmission system from the Point of Interconnection  
2 to the Point of Delivery, which Transmission Rights shall  
3 be transferred through a combination of partial and full  
4 assignments of the PSE Precedent Agreements, as further  
5 specified in Schedule 4.2.14 of the LSR Phase 2 Asset  
6 Purchase and Sale Agreement;

7 (vi) true and complete copies of all books, records, files,  
8 drawings, plans, specifications, consents, the Wind Data  
9 and any and all other wind analyses, solely for LSR  
10 Phase 2 and in the possession or under the control of PSE,  
11 including any of the foregoing that have not been finalized  
12 but are still in process, and other printed or written  
13 materials, in each case relating solely to LSR Phase 2;

14 (vii) the permanent and temporary meteorological towers and  
15 wind monitoring instrumentation located on the Real  
16 Property and set forth on Schedule 1.2 of the Asset  
17 Purchase and Sale Agreement; and

18 (viii) all warranties, guarantees, licenses and indemnification  
19 rights with respect to any of the Purchased Assets.

20 The LSR Phase 2 Asset Purchase Agreement refers to the interests described  
21 above as the "Purchased Assets."

22 **2. The BPA Transferred Transmission Credits**

23 **Q. Please describe PSE's interests in the BPA transmission credits to be**  
24 **transferred to Portland General pursuant to the LSR Phase 2 Asset Purchase**  
25 **Agreement.**

26 A. PSE has agreed to assign certain BPA Transferred Transmission Credits in an  
27 amount equal to \$20,500,000 to Portland General. PSE has made prepayments of  
28 \$102.2 million to BPA to construct the Central Ferry Substation and certain  
29 transmission Network Upgrades to interconnect the output of the various phases

1 of the Lower Snake River Wind Project, including LSR Phase 1 and LSR Phase 2.  
2 PSE's total prepayment of \$102.2 million to BPA consisted of a \$2.5 million  
3 prepayment for Interconnection Facilities and a \$99.7 million prepayment for  
4 Network Upgrades. BPA will continue to refund to PSE the prepayment related  
5 to the Network Upgrade facilities, plus interest, through transmission credits to  
6 PSE's point-to-point transmission tariff expenses in the future, but BPA's refund  
7 obligation will be reduced by the \$20.5 million of transmission credits transferred  
8 to Portland General. Please see the Prefiled Supplemental Direct Testimony of  
9 Ms. Katherine J. Barnard, Exhibit No. \_\_\_\_ (KJB-8T), for a discussion of PSE's  
10 requested ratemaking treatment with respect to the BPA Transferred Transmission  
11 Credits.

12 **3. Payments to PSE**

13 **Q. Please describe the payments to be made by Portland General to PSE**  
14 **pursuant to the LSR Phase 2 Asset Purchase Agreement.**

15 A. At the Closing, Portland General will pay a Closing Payment to PSE in an amount  
16 equal to \$16,008,000, as such amount may be adjusted to reflect any prepayments  
17 or payments made in arrears by PSE under any of the Assumed Contracts and any  
18 payments made by PSE in respect of property taxes relating to the Real Property,  
19 in any case on a pro-rata basis up to and including the Closing Date.

20 In addition to this Closing Payment, Portland General will, after Closing and  
21 within two Business Days after BPA's notice to Portland General that BPA has

1 completed its processing of PSE's assignment to Portland General of the BPA  
2 Transferred Transmission Credits, pay PSE an amount equal to \$20,500,000 in  
3 consideration of such assignment.

4 **4. Closing Date**

5 **Q. Please describe the proposed closing date for the LSR Phase 2 Asset**  
6 **Purchase Agreement.**

7 A. The proposed closing date is at 10:00 a.m. local time on August 1, 2013 or on  
8 such other date to be agreed in writing by PSE and Portland General, which shall  
9 be no later than two business days after satisfaction (or waiver as provided herein)  
10 of the conditions set forth in Article 4 of the Asset Purchase Agreement, or at  
11 such other time or date as PSE and Portland General mutually agree upon in  
12 writing.

13 **III. UPDATE REGARDING NEGOTIATIONS BETWEEN PSE**  
14 **AND ELECTRON HYDRO FOR THE ELECTRON PPA**

15 **Q. Have PSE and Electron Hydro finalized a proposed agreement for PSE's**  
16 **purchase of the entire output of the Electron Project?**

17 A. Yes. PSE and Electron Hydro finalized a form Electron PPA, which is Exhibit I  
18 to the Asset Purchase Agreement, dated as of May 30, 2013, for the sale of the  
19 Electron Project by PSE to Electron Hydro (the "Electron Asset Purchase  
20 Agreement"). Please see the First Exhibit to the Prefiled Supplemental Direct  
21 Testimony of Paul K. Wetherbee, Exhibit No. \_\_\_\_ (PKW-15C), for a copy of the



1 Electron Asset Purchase Agreement. Please see pages 83-118 of Exhibit  
2 No. \_\_\_\_ (PKW-15C) for a copy of the form Electron PPA.

3 **Q. Are the commercial terms of the Electron PPA consistent with the**  
4 **commercial terms discussed in your prefiled direct testimony, Exhibit**  
5 **No. \_\_\_\_ (MM-1HCT)?**

6 A. Yes. The commercial terms of the Electron PPA are consistent with the  
7 commercial terms discussed in my prefiled direct testimony, Exhibit  
8 No. \_\_\_\_ (MM-1HCT).

9 **IV. CONCLUSION**

10 **Q. Does this conclude your supplemental direct testimony?**

11 A. Yes, it does.