

**EXHIBIT NO. ___(WJE-18HC)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
WITNESS: W. JAMES ELSEA**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-07___
Docket No. UG-07___**

**SEVENTEENTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
W. JAMES ELSEA
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

DECEMBER 3, 2007

Whitehorn 2&3 Acquisition Recommendation

Energy Management Committee

Roger Garratt

September 8, 2006



Agenda

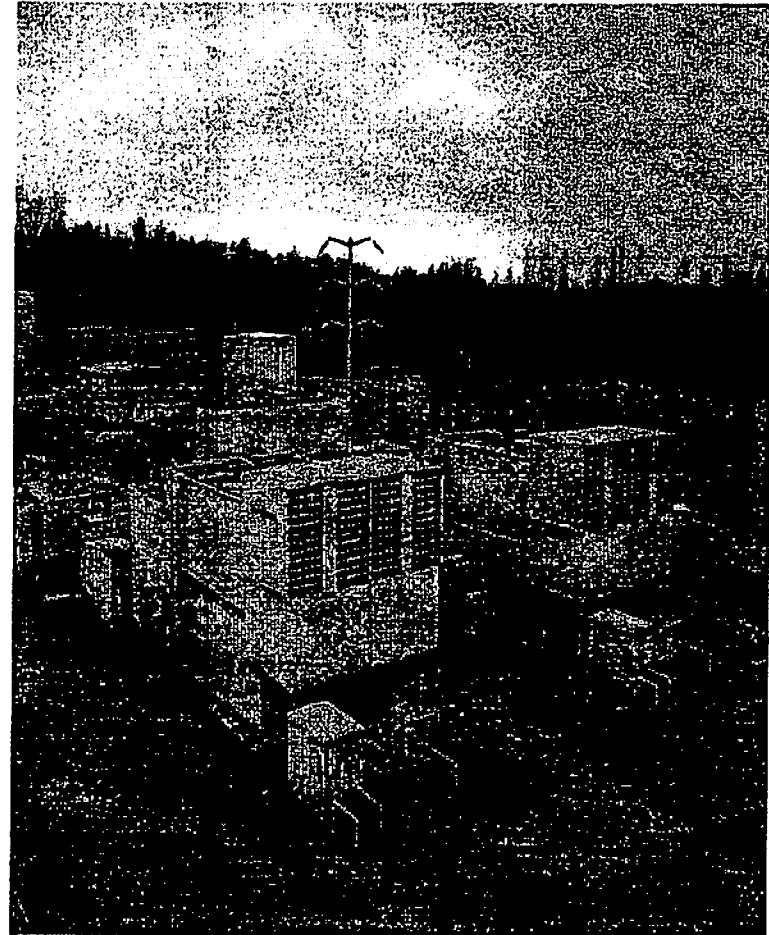
- Question
- Acquisition Overview
- Acquisition Timeline
- Analysis Overview
- Next Steps
- Recommendation
- Appendix
 - ◆ Regulatory Strategy
 - ◆ Accounting Review
 - ◆ Prudency Analysis

EMC Question

- Whether or not to recommend to the President and CEO that the Company enter into definitive purchase agreements with Public Service Resource Corporation to acquire the Whitehorn 2&3 units at the end of their lease, upon achievement of commercial terms satisfactory to the Senior Vice President of Energy Resources.

Overview – Whitehorn






- Location
 - ◆ Adjacent to the BP Cherry Point Refinery
 - ◆ Northwest corner of Whatcom County, 2 miles from Birch Bay
 - ◆ 10 miles south of Canadian border
- Currently Leased from Public Service Resources Corporation (PSRC)
 - ◆ Annual lease payments of \$1,605,055; payments made every 6 months in arrears
 - ◆ Units are GE MS7001Es peakers, rated at 75 MW each and installed in early 1980s
 - ◆ Unit #2 recently experienced force outage requiring an overhaul, at PSE cost
 - ◆ Lease terminates on February 2, 2009



Proposed Purchase – Whitehorn

- PSE has agreed, in principle, to purchase units from PSRC at end of lease

- ◆ **Capitalized Cost \$000**

Contract price		
PSRC legal fees & transaction costs		(capped)
PSE legal fees & transaction		(estimate)
Real estate excise tax @ 1.78%		
Total		

- Conditions precedent to closing
 - ◆ PSE Approval/PSRC Board of Director Approval
 - ◆ FERC Approval by 12/22/06
- Purchase agreement will provide PSE with a general release under the lease that would significantly restrict PSRC's ability to claim defaults against PSE for the remainder of the lease term.

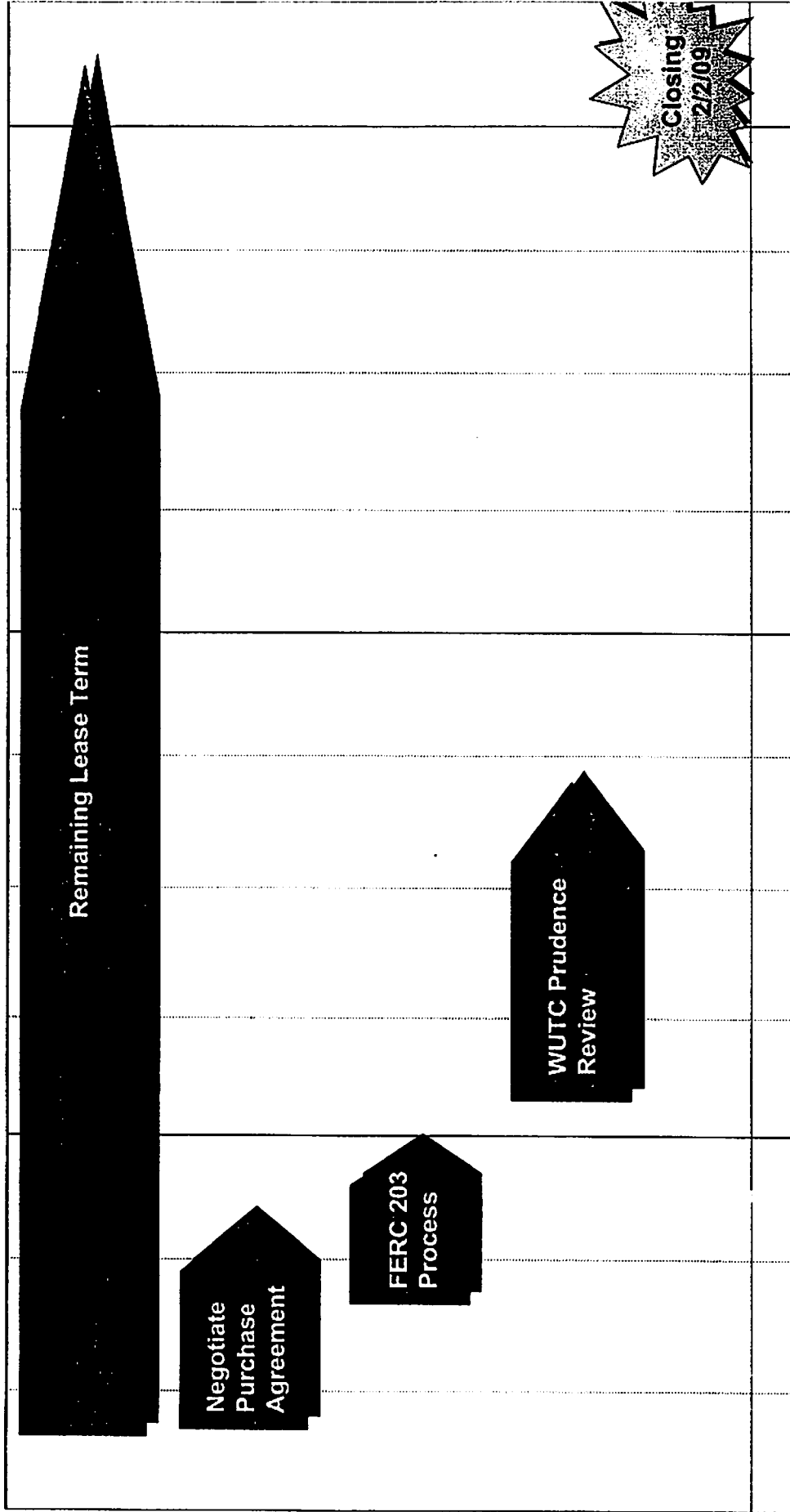


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Whitehorn Transaction Timing



2007

2008

2009



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Whitehorn Purchase

20-yr portfolio benefit is favorable compared with RFP capacity offers

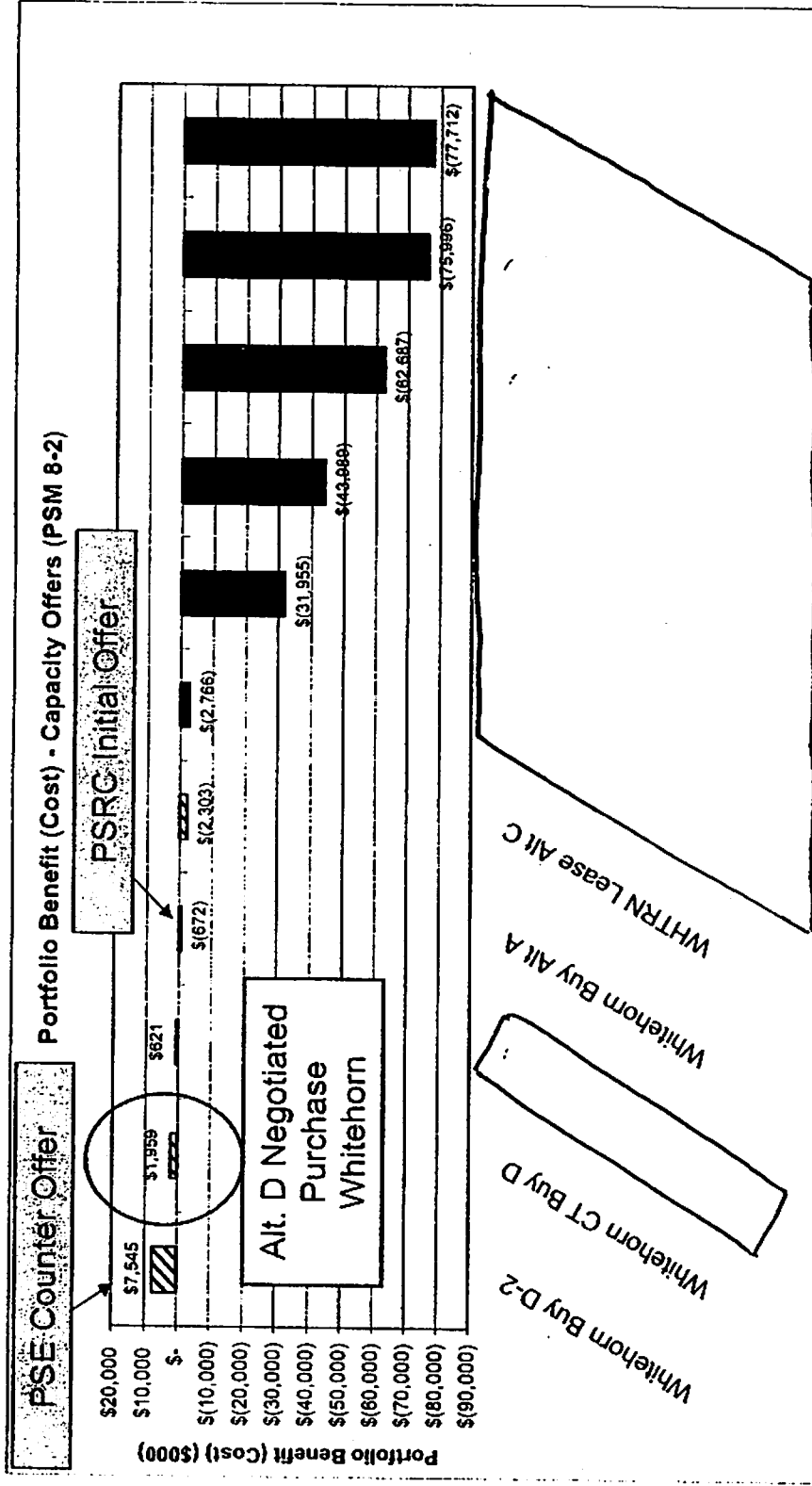


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Next Steps – Whitehorn

- File FERC 203 application
- Obtain appropriate internal approvals
 - ◆ EMC recommendation
 - ◆ President & CEO approval
- Finalize and execute definitive purchase agreements



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Staff Recommendation to EMC

- EMC should recommend to the President and CEO that the Company enter into definitive purchase agreements with Public Service Resource Corporation to acquire the Whitehorn 2&3 units at the end of their lease, upon achievement of commercial terms satisfactory to the Senior Vice President of Energy Resources.

Appendix



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PSE

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Regulatory Strategy – Whitehorn

- Sale would be conditioned on FERC 203 approval, which would be sought later this year
 - ◆ Application would be filed prospectively, late this week or early next.
 - ◆ Since units are currently leased and serving PSE load, FERC approval is expected to be easily obtained.
- WUTC prudence determination would be sought in next rate filing, which may be PCORC filed in early 2007, depending on acquisition of other resources.
- Will need to seek Acquisition Adjustment accounting treatment with FERC, which may increase risk of regulatory disallowance
 - ◆ Strategy to address acquisition adjustment issues will focus on demonstrating value to customers from purchase alternative.

Accounting Treatment

Acc't No.	Account Name (Description)	Debit	Credit
186	Miscellaneous Deferred Debits (PSRC legal fees & transactions)	\$300,000.00	
186	Miscellaneous Deferred Debits (PSE legal fees & transactions)	\$450,000.00	
131	Cash		(\$750,000.00)
	Miscellaneous purchase cost that will be paid in 2006		
102	Elec Plant Purchased or Sold (offer price)		
102	Elec Plant Purchased or Sold (real estate tax & miscell legal fees & transac)	\$653,000.00	
131	Cash		
	Purchase cost payable in 2009		
102	Elec Plant Purchased or Sold (Legal fees & transactions incurred in 2006)	\$750,000.00	
186	Miscellaneous Deferred Debits (Legal fees & transactions incurred in 2006)		(\$750,000.00)
	Closing 186 account to Elec Plant Purchased or Sold		
101	Elec Plant in Service	\$28,235,175.00	
108	Accum. Depreciation		(\$25,408,128.10)
102	Elec Plant Purchased or Sold		(\$2,827,046.90)
	Closing of 102 account to Elec Plant in Service and Accum Depr		
114	Elec Plant Acquis. Adjust.	\$21,225,953.10	
102	Elec Plant Purchased or Sold		(\$21,225,953.10)
	Closing of 102 account to Acquisition Adjustment		
	Note: estimated purchase cost consists of the following:		
	Offer price		
	PSRC legal fees & transactions		
	PSE legal fees & transactions		
	RE tax		
	Total		

Note: Purchase obligation will be disclosed in Company 10K & 10Q filings.



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Prudency Analysis



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