

**EXHIBIT NO. \_\_\_(RG-18HC)  
DOCKET NO. UE-07\_\_\_/UG-07\_\_\_  
2007 PSE GENERAL RATE CASE  
WITNESS: ROGER GARRATT**

**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  
ROGER GARRATT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED  
VERSION**

**DECEMBER 3, 2007**

Redacted



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Energy Management Committee Meeting  
Resource Acquisition



Seasonal Power Purchase Agreement (PPA)

Christine Philipps  
Manager, Resource Acquisition

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Per WAC 480-07-160

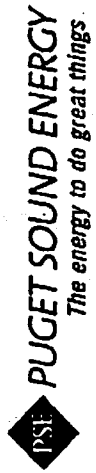
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# Recommendation

EMC approval to enter into a four year seasonal on peak power purchase agreement with [redacted], December through February 2008-2012 at a levelized price not to exceed [redacted]/MWh

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# Key Commercial Terms

Redacted

Term: December 1, 2008 – February 29, 2012

Delivery Rate: 150 MW for the months of Dec-February only

Schedule: On Peak Hours; 6am-10pm; Monday-Saturday

Delivery Point: [Redacted]

Contract Quantity: 727,200 MWhrs

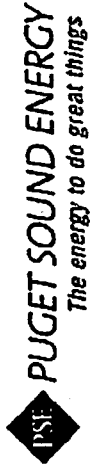
Levelized Price: [Redacted] MWh levelized; imputed debt component:  
(based on [Redacted] MWh flat price)

Counterparty: [Redacted]

Credit Support: \$35 million parent guarantee; [Redacted]

Approvals: [Redacted] approval received 4/16/07  
[Redacted] approval expected week of 4/23/07

Contract: WSPP Schedule C Firm Energy Delivery



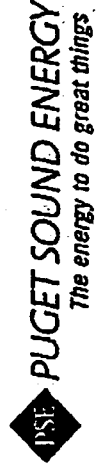
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# Key Commercial Terms (cont.)

## WSPP Contract Modifications:

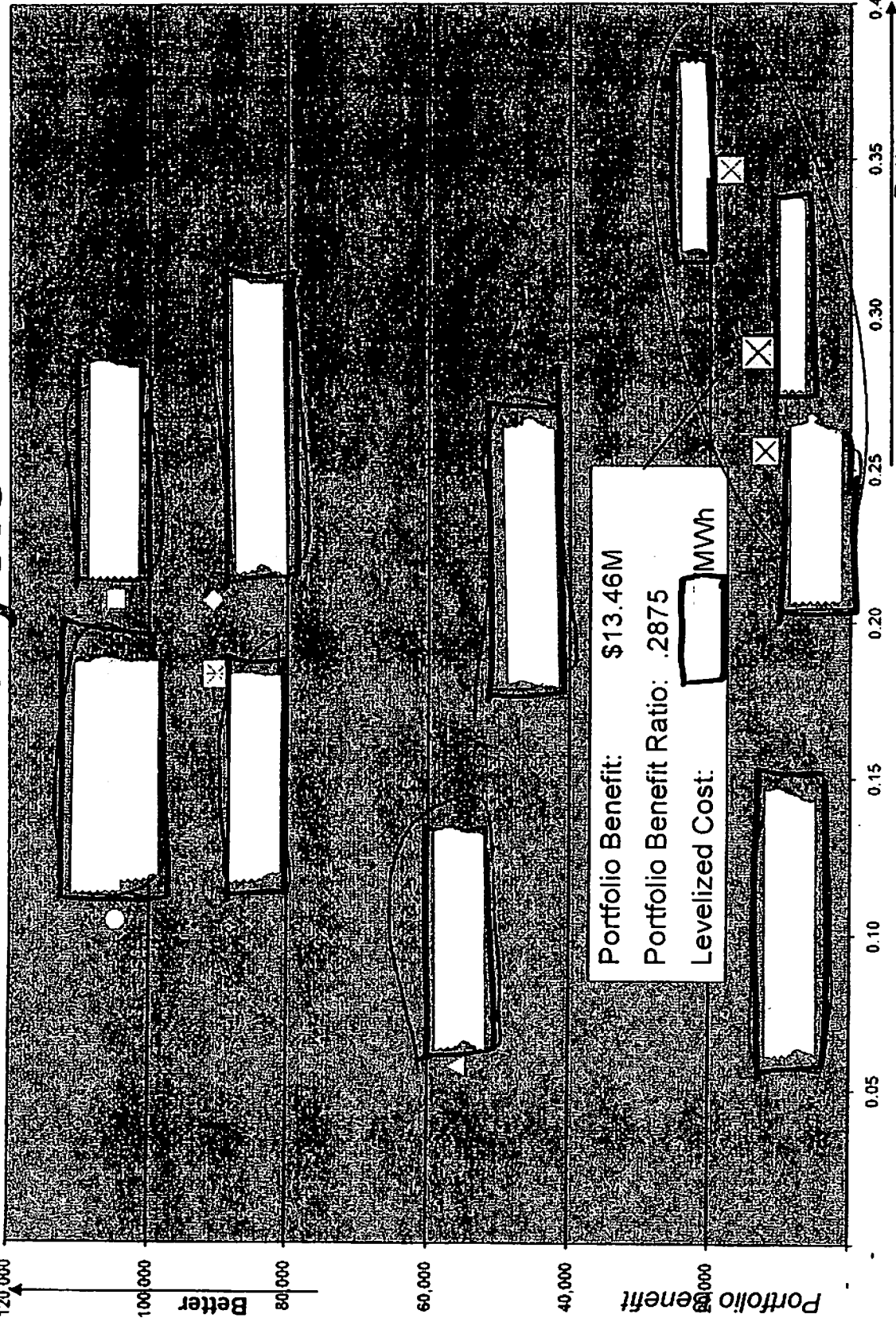
- 1) No PSE downgrade liquidity risk:  
Transaction confirmation removes standard WSPP adequate assurance language and ratings triggers, denying the parties the right to request collateral based on creditworthiness; protects PSE's downgrade liquidity ratios
- 2) Payment of Undisputed Amounts/Transaction Termination  
Non-payment of any amount disputed in good faith shall not constitute an Event of Default under this transaction
- 3) Interruption  
Schedule C, Section 3.8 is revised; substitute language addresses the firmness of a resource and its ability to be designated as a network resource by ensuring that interruption is allowable only for reliability of service to native load

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# Quantitative Analysis



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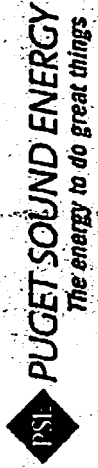
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# Indicative market offers are less attractive and do not consider contract, credit or accounting affects

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 Levelized Cost:  Text in Box is Confidential  
 Portfolio Benefit \$13.5 million  
 Benefit Ratio 0.2875
- ◆  Text in box is Highly Confidential  
 Levelized Cost:  Text in Box is Confidential  
 Portfolio Benefit \$12.9 million  
 Benefit Ratio 0.2720
- ◆ Lehman Brothers  
 Levelized Cost:  Text in Box is Confidential  
 Portfolio Benefit \$13.2 million  
 Benefit Ratio 0.2794

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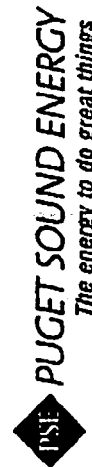
# Value Proposition

Redacted

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| PSE Criteria        | Compatibility with Criteria   |
|---------------------|---|
| Fit With Need       | <ul style="list-style-type: none"> <li>• Shaped to PSE greatest deficit months</li> <li>• No spring or summer energy surplus (does not increase exposure to the market)</li> </ul>  |
| Cost/ Benefit       | <ul style="list-style-type: none"> <li>• Provides bridge to long term/development resource opportunities</li> <li>• \$13.5 million benefit to the portfolio; highest benefit ratio (.2875) of short listed resources (current offer)</li> </ul> |
| Transmission        | <ul style="list-style-type: none"> <li>• Firm obligation to supply</li> <li>• <u>No new transmission required</u></li> <li>• [Redacted]</li> <li>• [Redacted]</li> </ul>  |
| Risk Management     | <ul style="list-style-type: none"> <li>• No new fuel procurement risk</li> <li>• No environmental or permitting risk</li> <li>• No operational risk</li> </ul>  |
| Strategic/Financial | <ul style="list-style-type: none"> <li>• No credit collateral posting required</li> <li>• Counterparty guarantor AA- credit rating</li> </ul>   |

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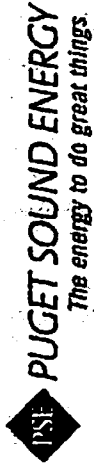


# Key Risk and Mitigation Measures

| Risk   | Mitigation   |
|--|--|
| Regulatory   | <ul style="list-style-type: none"> <li>• Transaction would start December 2008; prior to next rate change</li> </ul>   |
| Physical/Financial Performance of the Counterparty | <ul style="list-style-type: none"> <li>• [Redacted] liquidated damages for non-performance</li> <li>• \$9 billion in assets</li> <li>• AA- S&amp;P rating</li> <li>• Operates over 10,000 MW of resources</li> </ul> |

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# Accounting/Financial Reporting Affects

FAS 133/149



No mark-to-market accounting -

Classified as normal purchase/normal sale; supplier has generating assets, contract fits load requirements

EITF 01-08



Does not qualify as a lease -

No specific asset identified, system power purchase agreement

FIN 46/46R



Does not require consolidation -

“An enterprise is not required to consolidate a governmental organization and is not required to consolidate a financial entity established by a governmental organization”

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# Conclusion and Next Steps

## Conclusion:

- Value in shaped product, few entities are able to offer this product delivered to PSE's system
- \$13.5 million benefit to PSE's portfolio
- Price risk quantified
- Market environment of increasing gas and power prices makes fixed price [redacted] PPA attractive

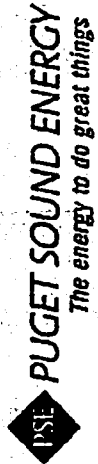
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## Next Steps:

- Approval from [redacted] expected early next week
- Refresh power prices with [redacted] and [redacted]
- Execute at a levelized price no greater than [redacted] MWh

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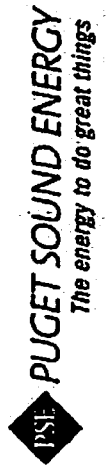
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# APPENDIX

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# Current Offer

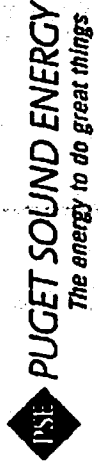
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- ◆ 4 Year Term: December 1, 2008 – February 29, 2012
- ◆ Seasonal Product: December – February only
- ◆ Quantity: 150 MW; on peak hours only  
(6am-10pm; Mon-Sat)
- ◆ Firm Energy Delivery: WSPP Schedule C
- ◆ Point of Delivery: [Redacted]
- ◆ Price: [Redacted] /MWh (April 16, 2007)
- ◆ Counterparty: [Redacted]
- ◆ Guarantor: [Redacted] (AA+, S&P credit rating; Aa1, Moody's)

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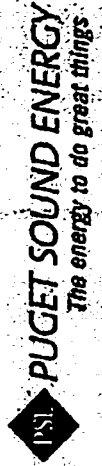


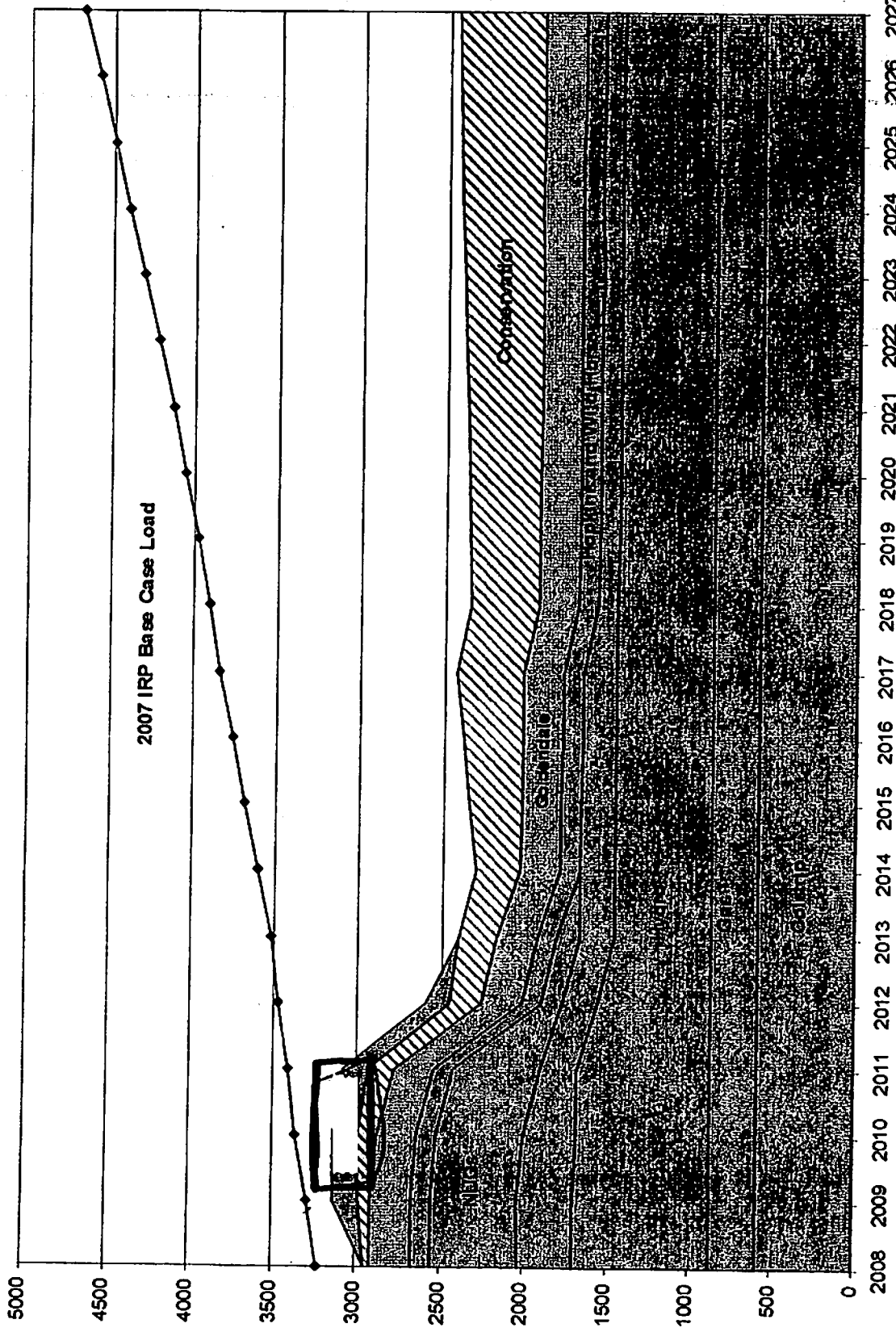
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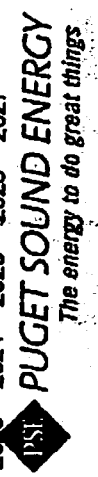
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# Meets Near Term Need



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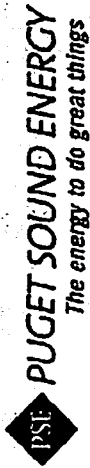
Seasonal Power Purchase Agreement (PPA)

4.30.07 Update

Christine Philipps  
Manager, Resource Acquisition

# [REDACTED] Transaction Status

- EMC approval on 4/20/07 to transact at a price cap of [REDACTED] MWh levelized cost subject to agreement on cross termination language and [REDACTED] MWh ( 4/16 offer)
- Agreement on cross termination language obtained on 4.23.07; [REDACTED] approval obtained 4.27.07
- Strong gas price movement on 4.27.07 exceeded price cap
  - ◆ Gas settlement close at [REDACTED] MMBtu on 4/17 for 2008
  - ◆ Gas settlement close at [REDACTED] MMBtu on 4/27 for 2008
  - ◆ Slight movement in heat rates
  - ◆ Estimated price movement - \$2.45 to \$3.00/MWh
- PSE to continue to monitor the market and bring transaction back as appropriate



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Energy Management Committee

Resource Acquisition

Seasonal Power Purchase Agreement (PPA)

05.01.07 Update



Christine Philipps  
Manager, Resource Acquisition

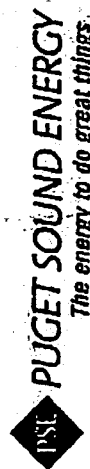
# Request for Approval to Transact

- EMC approval to enter into a four year seasonal on peak power purchase agreement with [redacted], December through February 2008-2012 at revised price cap of [redacted] MWh levelized.

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EMC Email//Powerex Update//May 1, 2007



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# Comparative Analysis of Key Commercial Considerations (price refresh 5/1/07)

| Company    | Levelized Price  | Delivered Price   | Proposed modifications accepted for long term transaction         | No mark to market; owns WECC generation, fits position                                 | \$35 million guarantee from | AA+ |
|------------|------------------|---|---|--|-----------------------------|-----|
| [Redacted] | MWh (executable) | Favorable delivery point                                    | Would require modification: no ratings triggers, no cross default | FAS 149 counterparty; does not own WECC generation; requires cash flow hedge treatment | Unlimited guarantee from    | AA- |
| [Redacted] | MWh (indicative) | Delivered to Mid-C requires PSE Cross Cascades transmission | Would require modification: no ratings triggers, no cross default | FAS 149 counterparty; does not own WECC generation; requires cash flow hedge treatment | Unlimited guarantee from    | A+  |

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# Executive Summary

- 04.20.07 EMC Meeting - approval to transact with [redacted] at a price cap of [redacted] MWh levelized for four year seasonal on peak product pursuant to finalizing contract terms and [redacted]
- 04.30.07 - EMC Meeting – update on status of execution
  - ◆ Contract terms agreed to on 4.23.07
  - ◆ BC Hydro approval received 4.30.07
  - ◆ Strong gas price movement on 4.30.07 of \$2.45-\$3.00/MWh exceeding the 4.20.07 approved price cap
- 05.01.07 – Price refresh with [redacted] and [redacted]

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