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BEFORE THE WASHINGTON STATE

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UTILITIES AND TRANSPORTATION COMMISSION

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4 In the Matter of the Petition of) Docket UE-121373
5 PUGET SOUND ENERGY, INC.,)
6 For Approval of a Power Purchase)
7 Agreement for Acquisition of Coal)
8 Transition Power, as Defined in)
RCW 80.80.010, and the Recovery)
of Related Acquisition Costs)

9

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EVIDENTIARY HEARING, VOLUME II

11

Pages 29 - 206

12

ADMINISTRATIVE LAW JUDGE DENNIS MOSS

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9:33 A.M.

15

DECEMBER 12, 2012

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1 A P P E A R A N C E S (Continued)

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COMMISSIONER PATRICK OSHIE
COMMISSIONER PHILIP JONES

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Dated 12/11/2012

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B-2 51 PSE Response to Bench
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KJB-1T 51 Prefiled Direct Testimony re
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KJB-2 51 Witness Qualifications

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KJB-3T 51 Rebuttal Testimony
(filed 11/16/2012) Addressing
Staff Proposal to Reject
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CB-1HCT 51 Prefiled Direct Testimony re
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CB-2 51 Witness Qualifications

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CB-3HC 51 2011 RFP Evaluation Document
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RG-8HC at pages 54 through
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CB-4HC 51 July 2012 Memorandum
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RG-3C 51 Coal Transition PPA

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RG-6HC 51 Compilation of pertinent presentations made to the EMC

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RG-7HC 51 Presentation to, and minutes of, the EMC meeting dated July 20,2012

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RG-8HC 51 Presentation to, and minutes of, the Board of Directors meeting dated July 24,2012

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RG-9 51 Calculation of the proposed equity component for the Coal Transition PPA

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RG-10HCT 51 Rebuttal Testimony (filed 11/16/2012) Addressing Response Cases by Staff, Public Counsel and NWECC

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RG-13 51 Staff Response to PSE DR 16

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RG-14 51 Correspondence Dated 10/24/2012: Paul Taylor, President, TransAlta to Governor Gregoire

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RG-15HCT 51 Supplemental Testimony (filed 11/19/2012) Addressing Staff Assertion of Error by PSE in Equity Return Calculation

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RG-16 51 Equity Return
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RG-17CX 51 PSE's Response to Public
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RG-18CCX 51 PSE's Response to Public
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No. 058 (Attachment A
CONFIDENTIAL, not
including B and C)

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RG-19CCX 51 PSE's Response to Public
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No. 059 (CONFIDENTIAL)

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RG-20CX 51 PSE's Response to Public
Counsel Data Request
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RG-21CX 51 PSE's Response to Public
Counsel Data Request
No. 073

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RG-28CCX 51 PSE's Response to Public
Counsel Data Request
No. 067 (Including
CONFIDENTIAL Attachment A
through U) (Attachment L
is only an excerpt)

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RG-32HCCX 141 Excerpt from (HC) Summary
TransAlta Scenarios.xls
(HIGHLY CONFIDENTIAL)

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RG-33HCCX 51 PSE Response to Staff
Data Request No. 2
(4 pages)
HIGHLY CONFIDENTIAL

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A to PSE Response to
Staff Data Request 6
(3 pages) CONFIDENTIAL

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RG-35CCX 51 PSE Response to NWECC Data
Request 8 (1 page)
CONFIDENTIAL

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RG-36CX 51 PSE Response to NWECC Data
Request 10 (1 page)

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RG-37CX 51 PSE Response to Public
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RG-38HCCX 51 PSE Response to Public
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Attachment A (8 pages)
CONFIDENTIAL and
HIGHLY CONFIDENTIAL

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RG-39HCCX 51 PSE Response to Public
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AS-1T 51 Prefiled Direct Testimony

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AS-2 51 Witness Qualifications

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AS-4 51 Annual Average Mid-C
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AS-11HC 51 Comparison of historical
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7	AS-16		51	Generic resource assumptions for Phase 1 of the 2011 RFP
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9	AS-17		51	Generic resource assumptions for Phase II of the 2011 RFP
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11	AS-18C		51	CO2 cost risk included in the Base + CO2 scenario
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13	DCG-1HCT		51	Response Testimony (filed 11/2/2012; corrected 11/15/2012)
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15	DCG-2HC		51	TransAlta PPA Power and Equity Costs vs. Nominal Market Prices (Mid-C)
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17	DCG-3HC		51	Comparison of 2012 Updated Avoided Cost (Levelized Mid-C Price) with TransAlta PPA and Equity Adder Levelized Costs (2015-2025)
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KDW-4 51 PSE Response to Public
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KDW-5 51 PSE Response to Public
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KDW-6HC 51 PSE Response to Public
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KDW-7HC 51 PSE Response to Public
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KDW-8C 51 PSE Purchases of
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Public Counsel DR 52)

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KDW-9 51 Portland General Electric
IRP, August 23, 2010:
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Workshop

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KDW-10 51 Electricity Resource
Planning Form S-5
Bilateral Contracts and
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(SDG&E PPA with Boardman
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KDW-11 51 Electricity Resource
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KDW-14HC 51 PSE Response to Staff
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DOD-1HCT 51 Response Testimony
(Filed 11/2/2012)

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1 OLYMPIA, WASHINGTON; DECEMBER 12, 2012

2 9:33 A.M.

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5 P R O C E E D I N G S

6

7 JUDGE MOSS: Let's be on the record.

8 Good morning, everyone. My name is Dennis
9 Moss, I'm an administrative law judge with the
10 Washington Utilities and Transportation Commission. I
11 am here today to assist the commissioners, who are
12 sitting at the bench, in presiding over this hearing
13 In the Matter of the Petition of Puget Sound Energy,
14 Inc., For Approval of a Power Purchase Agreement for
15 Acquisition of Coal Transition Power, as Defined in
16 RCW 80.80.010, and the Recovery of Related Acquisition
17 Costs. This is Docket No. UE-121373.

18 We have a few housekeeping matters to take up
19 this morning, and we will do that first, after we take
20 appearances, and then we will have our first witness.

21 Let's begin with the appearances, and we will
22 start with the Company.

23 MR. KUZMA: Good morning, Your Honor.
24 This is Jason Kuzma on behalf of Puget Sound Energy.

25 JUDGE MOSS: Thank you.

0044

1 first time here.

2 MR. WEBER: First time by myself.

3 JUDGE MOSS: Okay, great. Thank you.

4 Ms. Davison has thrown you to the lions. No, I think
5 not.

6 All right. Now, we have our appearances in.
7 And you received, or you should have received
8 yesterday a notice. We had some discussions
9 internally and decided that it was a far better thing
10 for us to hear oral argument close in time to the
11 conclusion of our evidentiary proceedings, than to
12 await briefs for a month. So that's what we're going
13 to do, and we did set a time for that, 3:30 in the
14 afternoon on next Tuesday.

15 I will alert you now that one reason we set
16 that late hour in the day is that that happens to be
17 the day of the Commission's employee recognition
18 event, an annual event that I already had to have
19 rescheduled because of this hearing, and I just didn't
20 think that I could get away with it twice. So that's
21 what we will be doing in that regard.

22 That's set for an hour and a half, and so we
23 can talk at the end of today. My preliminary thinking
24 is probably about 20 minutes for the Company and maybe
25 15 minutes for others. We'll see. We'll talk about

0045

1 that at the end of the day. And of course we can run
2 past five o'clock, that's not a big issue.

3 Another matter we need to take up this morning
4 is the subject of the potential confidential session
5 that we may have to have in the course of this
6 hearing. Most of you are familiar with that process,
7 whereby we close the hearing room and turn off the
8 conference bridge line, or mute it, and conduct
9 ourselves in a confidential fashion, with only those
10 present who have signed the appropriate
11 confidentiality documents under the protective order
12 in this proceeding.

13 I think this is likely that we will do this.
14 Public Counsel has raised to my attention that it is
15 likely we will need to do this. And given the volume
16 of confidential and highly confidential evidence
17 prefiled in this proceeding, I think we can count on
18 that. So those of you on the bridge line, those of
19 you in the room who are not signatories to the
20 appropriate confidentiality agreements under the
21 protective order, you will have to -- you on the phone
22 will be cut off and those in the room will be asked to
23 leave.

24 So I also indicated earlier off the record, we
25 are digitally recording this proceeding. And again,

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1 that will be available only to those who have signed
2 the appropriate confidentiality documents.

3 I predistributed the exhibit list, updated as
4 of yesterday, with Public Counsel's withdrawal of
5 certain exhibits is the only change from what I
6 previously distributed to you.

7 And the final matter that I want to take up
8 before we call our first witness is, I predistributed
9 this morning a letter that I received this morning
10 from the Office of the Governor, it's signed by Keith
11 Philips, the Governor's Executive Policy Office. The
12 letter is offered as a public comment in this
13 proceeding, and of course we do receive public
14 comments.

15 I just want to -- I wanted to distribute that,
16 given its source, and emphasize that there's
17 nothing -- I have read the letter. I don't know if
18 the commissioners have or not, but I have read the
19 letter. I find nothing in it that is not in the
20 category of what I would called common knowledge. It
21 certainly doesn't go beyond the testimony that the
22 governor's office gave at the senate committee
23 hearings, which I have watched, and at which I know
24 Chairman Goltz participated in, so he's heard it all
25 before.

0047

1 I want to stress, too, that the governor's
2 office I'm sure is fully aware and sensitive to the
3 fact, as we are, that this is an independent agency,
4 and it will exercise its judgment and makes its
5 decision with that in mind.

6 I will then ask if there is any objection to
7 the admission of this letter as a public comment
8 exhibit.

9 Hearing none, it will be marked as a bench
10 exhibit. I will mark it as Bench 1 and we will have
11 it in the record.

12 I did check with the records center this
13 morning, and we don't have any other public comment
14 letters down there. If Public Counsel has received
15 any, or any other party is aware of public comments
16 that are floating around out there, we will be happy
17 to admit those into the record as well.

18 All right. With that dispensed with, unless
19 there are preliminary matters -- I did -- I guess we
20 talked about stipulating the exhibits. Ms. Brown, you
21 indicated you may have an objection.

22 MS. BROWN: Yes, Your Honor. This is
23 Sally Brown. I do have an objection on behalf of
24 Staff to proposed cross-examination for Mr. Gomez.
25 It's marked as 16CCX. It is described as a summary of

0048

1 PSE and WUTC Staff Equity Return Proposals.

2 JUDGE MOSS: 16CCX, Summary of PSE and
3 WUTC Staff Equity Return Proposal. Okay. What's your
4 objection?

5 MS. BROWN: My objection -- I have an
6 objection as to pages 1 and 8. These were not
7 prepared by Mr. Gomez, or either at his direction or
8 supervision. And he's never seen them before. Of
9 course, Staff hasn't had an opportunity to discover
10 them. And any cross-examination of Mr. Gomez on these
11 particular sheets would necessarily result in rank
12 speculation. So for those reasons, I object.

13 JUDGE MOSS: The worst sort of
14 speculation. All right.

15 Is this a PSE cross exhibit, I suppose?

16 MR. KUZMA: Yes, it is, Your Honor.

17 JUDGE MOSS: It would be, I suppose,
18 yes. Okay.

19 Do you have any response?

20 MR. KUZMA: Yes. We did provide
21 Mr. Gomez with the worksheets that underlie all of
22 these calculations and graphing. Pages 2 through 7 in
23 particular are nothing more than RG-16. No. 8 is a --
24 when you graph out the calculations in columns C, L
25 and N in RG-16, that's what the graphs look like. So

0049

1 it's just a graphical form of RG-16.

2 First page is a treatment of what the equity
3 returns would be over time, as compared to changes in
4 the volumes and prices under the PPA. So these are
5 not anything that's unusual. And they were not
6 prepared by Mr. Gomez, but he has had them for almost
7 a week now and has had time to review them.

8 JUDGE MOSS: Are you representing to me
9 that Pages 1 and 8 are derived from the other pages?

10 MR. KUZMA: 8 is. 1 is separately.
11 That's from the Staff's proposal, and it has the --
12 there's notes on the bottom that has the source for
13 all of the information on that chart.

14 JUDGE MOSS: I see. All right.

15 Well, I see nothing inherently objectionable
16 about it. If Mr. Gomez hasn't familiarized himself
17 with it and can't in any way confirm the information
18 there, that will certainly go to the weight it might
19 be given. And I would suppose it will stop PSE dead
20 in its tracks on asking any questions about those
21 pages.

22 But in terms of the material itself, it is
23 derived from other material in the record. We have
24 other cross-exhibits that are similarly derived and
25 based on evidence prefiled in this case.

0050

1 I think you had something more to say,
2 Ms. Brown, before I rule?

3 MS. BROWN: Yes. Yes, I do, Your Honor.
4 Thank you. I just would like to make my record.

5 As I said, I have no objection to Pages 2
6 through 6, as Mr. Kuzma stated. I would like to point
7 out for the record, though -- and it may well be that
8 Mr. Gomez will say I have no idea, in response to
9 questions. But Columns L, M and N, for example, are
10 new to Staff and Mr. Gomez. And I just would like to
11 restate also that Staff has not seen this, that
12 graphic depiction, equity return methodologies. And
13 as Mr. Kuzma is well aware, he will have an
14 opportunity to conduct redirect examination of PSE's
15 witnesses.

16 I do not think these are exhibits -- these
17 exhibits are appropriate for cross-examination of
18 Staff's witness.

19 JUDGE MOSS: Okay. Again, I think
20 Mr. Gomez will be able to handle that on the stand.
21 And if other parties wish to refer to these exhibits
22 for other purposes -- I think they do -- I have looked
23 at all of these exhibits and I found them not
24 startling in any way. They seem to depict what I have
25 seen in other fashions throughout the evidence.

0051

1 But your objection is noted for the record and
2 overruled. Thank you very much.

3 Alrighty then, with that done, are the other
4 exhibits going to be stipulated in? Are there other
5 objections?

6 MS. BROWN: No objections.

7 MR. TRAUTMAN: No objections.

8 JUDGE MOSS: Okay. There being no other
9 objections, all of the exhibits, except those that are
10 indicated as having been withdrawn by Public Counsel
11 prior to their offer, will be admitted as marked on
12 the predistributed exhibit list that I will hand to
13 the court reporter. And we can have some conversation
14 later, if necessary, to get that incorporated into the
15 record or transcript.

16 All right, very good. Now, somewhere here I
17 have an order of presentation of witnesses.

18 Is there anything else preliminary we need to
19 take up before we call our first witness?

20 And I believe our first witness will be
21 Mr. Garratt.

22 MR. FFITCH: Excuse me, Your Honor,
23 while Mr. Garratt is coming up. Just for the record,
24 I would like to note that we have provided an errata
25 sheet for Mr. Woodruff and distributed one copy to the

0052

1 bench and courtesy copies to counsel. These are
2 nonsubstantive typographical-type corrections to his
3 testimony. We are prepared to file that
4 electronically and in paper with the records center
5 today.

6 JUDGE MOSS: Thank you, Mr. ffitch, for
7 reminding me that I neglected that point that you had
8 raised to my attention earlier.

9 I have reviewed it and I do find that the
10 errata sheet reflects only minor changes, largely
11 typographical-type errors, or corrections. So that
12 will be fine. And if other parties similarly have
13 errata to their testimony, I'm sure they will submit
14 them in due course.

15 MR. FFITCH: Thank you, Your Honor.

16 JUDGE MOSS: All right.

17 Mr. Garratt, would you please rise and raise
18 your right hand?

19

20 ROGER GARRATT, witness herein, having been
21 first duly sworn on oath,
22 was examined and testified
23 as follows:

24

25 JUDGE MOSS: Be seated.

0053

1 THE WITNESS: (Complies.)

2 JUDGE MOSS: You can go ahead and put
3 your witness on while I bring the several volumes of
4 Mr. Garratt's testimony to my desk.

5

6 D I R E C T E X A M I N A T I O N

7 BY MR. KUZMA:

8 Q Good morning, Mr. Garratt.

9 A Good morning.

10 Q Could you please state your name and title and
11 spell your name for the reporter, please?

12 A Roger Garratt, G-A-R-R-A-T-T. I'm the
13 director of financial planning and strategic
14 initiatives for Puget Sound Energy.

15 Q Do you have before you what have been marked
16 for identification as Exhibit Nos. RG-1 HCT through
17 RG-9, RG-10HCT through RG-14 and RG-15HCT through
18 RG-16?

19 A I do.

20 Q Do these exhibits constitute your prefiled
21 direct, rebuttal and supplemental testimony and
22 related exhibits in this proceeding?

23 A They do.

24 Q Were these exhibits prepared under your
25 supervision and direction?

0054

1 A Yes.

2 Q Do you have any corrections to any of your
3 exhibits at this time?

4 A I do have one correction to the -- to RG-10,
5 which is my rebuttal testimony. And the correction is
6 on Page 39, in the -- about halfway down the page the
7 question, Please describe the circumstances under
8 which TransAlta Centralia may terminate the memorandum
9 of agreement. And in the second sentence there that
10 starts out, For example, TransAlta Centralia may
11 terminate the coal transition PPA, it should say, may
12 terminate the memorandum of agreement. And then the
13 rest of the sentence is correct.

14 Q Thank you, Mr. Garratt.

15 With that correction, are your prefiled
16 direct, rebuttal and supplemental testimony and
17 accompanying exhibits true and correct to the best of
18 your information and belief?

19 A They are.

20 Q Thank you.

21 MR. KUZMA: Your Honor, PSE offers
22 Exhibits RG-1HCT through RG-16 into evidence and
23 offers Mr. Garratt for cross-examination.

24 JUDGE MOSS: Okay. And I appreciate you
25 taking that formal step. But I will just mention now,

0055

1 again, that we have admitted all exhibits previously,
2 so we don't need to go through that step as we go
3 through the day.

4 I do have one remark, however, for you,
5 Mr. Kuzma. I noticed, when I first got through this
6 testimony, that Mr. Garratt's prefiled rebuttal does
7 not have line numbers. That is a requirement, and I
8 am going to ask you to resubmit the exhibit at the
9 conclusion of the hearing with the appropriate line
10 numbers so that we may refer to it in our order.

11 MR. KUZMA: Yes, Your Honor.

12 JUDGE MOSS: Thank you very much. It is
13 shocking to my system to not have line numbers.

14 All right. Mr. Garratt is available for
15 cross-examination. And I have an indication that
16 Staff, Public Counsel and NWECC all have some cross.

17 Have you all discussed any order that you
18 prefer to go in?

19 MR. TRAUTMAN: Staff will go first.

20 JUDGE MOSS: All right.

21 MR. TRAUTMAN: And as I believe I
22 indicated to Your Honor, we will likely -- we will not
23 go 30 minutes.

24 JUDGE MOSS: Okay. That's just great.
25 So you go ahead and proceed, Mr. Trautman.

0056

1 C R O S S - E X A M I N A T I O N

2 BY MR. TRAUTMAN:

3 Q Good morning, Mr. Garratt.

4 A Good morning, Mr. Trautman.

5 Q If you could turn to your rebuttal testimony,
6 which is RG-10HCT, and turn to Page 26 of 41.

7 JUDGE MOSS: And I just note that there
8 are certain numbers and other information highlighted
9 on that page that are indicated to be highly
10 confidential, so parties should avoid -- Mr. Garratt
11 and Counsel will avoid stating those right out loud.

12 MR. TRAUTMAN: And I will do that.

13 JUDGE MOSS: Thank you.

14 A I am on Page 26.

15 Q And on the answer to the first full question,
16 you state, "PSE made the decision to acquire the
17 Ferndale Cogeneration Station before it determined to
18 enter into the Coal Transition PPA."

19 Do you see that?

20 A Yes.

21 Q Now, isn't it correct that, as indicated also
22 by your exhibit RG-3C at Page 5 -- and that's the coal
23 transition power purchase and sale agreement. Isn't
24 it correct that that exhibit states that the coal
25 transition power purchase and sale agreement is made

0057

1 and entered into as of July 24th, 2012?

2 A The --

3 Q It's RG-3C, Page --

4 A So you want me to confirm --

5 Q Confirm that date.

6 A -- that particular date?

7 That's July 24th, 2012.

8 Q And turning back now to your rebuttal
9 testimony, on Page 25 of 41, and roughly the middle of
10 the page. Do you see the sentence that says, "Indeed,
11 the transaction for the Ferndale Cogeneration Station
12 closed on November 15, 2012, and PSE is now the owner
13 of the facility"?

14 A I do.

15 Q All right. Now, is it PSE's position that PSE
16 should be allowed to earn the equity return, even if
17 the memorandum of agreement between TransAlta and the
18 State is terminated for any reason?

19 A The -- so the way the contract -- the way the
20 coal transition power purchase agreement is written,
21 we have the right, but not the obligation, to
22 terminate if the MOA is terminated for specific
23 reasons.

24 Q So are you saying that if the MOA were
25 terminated, that PSE should still be allowed to earn

0058

1 the equity return?

2 A If -- if the MOA is terminated and the PPA is
3 not subsequently terminated, yes, I believe that we
4 should be entitled to continue earning the equity
5 return. I believe the law is pretty clear about the
6 conditions under which we earn the equity return.

7 Q All right. If you could then -- with that in
8 mind, if you could turn to Page 22 of your rebuttal
9 testimony, still in 10HCT.

10 A Okay.

11 Q And in your answer on that page, in the second
12 sentence you state that "The Legislature allowed
13 electric companies to earn their equity component on a
14 coal transition power purchase agreement because the
15 purchase of power from coal transition plants is a
16 critical piece in the policy endorsed by the State of
17 Washington to effect an orderly transition from coal
18 to cleaner fuels."

19 Do you see that?

20 A I do you.

21 Q And then further state that "The Legislature
22 found that this transition will require a reasonable
23 period of time to" -- among other things, skipping
24 down a line, you say to "provide assistance to host
25 communities planning for new economic development and

0059

1 mitigate the economic impacts of the closure of these
2 facilities."

3 Is that correct?

4 A Yes.

5 Q Now, if you could turn now to your Exhibit
6 RG-14, which is a letter dated October 24th, 2012,
7 from TransAlta to Governor Gregoire.

8 A Okay, I have that exhibit.

9 Q And this letter confirms TransAlta's intention
10 to extend the memorandum of agreement, or MOA, through
11 2013, and it says it wishes to allow more time for
12 TransAlta to enter into qualified power purchase
13 agreements totalling at least 500 megawatts with terms
14 of at least eight years by December 15, 2012. And
15 that's the second paragraph.

16 Do you see that?

17 A I do.

18 Q And the letter further says that at the end of
19 the extension period, if the contracting threshold has
20 not been achieved, that the MOA may be terminated.
21 And that is found on the second to the last paragraph
22 of the letter on Page 2, right?

23 A Yes.

24 Q Does the memorandum of agreement, the MOA --
25 and for reference, you attached it at Page 34 to 4 --

0060

1 pardon me. In your exhibit RG-8HC, Pages 434 through
2 459, has that MOA, but you are probably familiar
3 enough that I can ask the question.

4 Does that require TransAlta to contribute
5 annual amounts into accounts to fund energy efficiency
6 and weatherization for the residents, businesses,
7 nonprofits and local governments within Lewis County
8 and South Thurston County?

9 A I believe that's the case.

10 Q And does it also require TransAlta to
11 contribute annual amounts into accounts to fund
12 education, retraining, economic development and
13 community enhancement?

14 A The -- again, I believe that's the case. This
15 is an MOA between TransAlta and the State.

16 Q Correct.

17 A And so -- so I am not as familiar with it as I
18 would expect the parties to this agreement to be.

19 Q Would you agree that these financial
20 assistance payments are also required by RCW
21 80.80.100, and that's the statute that governs the
22 memorandum of agreement? Would you agree that that
23 statute requires these payments?

24 MR. KUZMA: Do you have a place in the
25 record that you could refer the witness, so he could

0061

1 refresh his memory?

2 MR. TRAUTMAN: So is he not familiar? I
3 will -- is he not familiar with the amounts that have
4 to be contributed?

5 Would he -- let me ask this. Would he accept,
6 subject to check of RCW 80.80.100, that TransAlta must
7 invest a total of \$55 million in these financial
8 assistant accounts?

9 MR. KUZMA: Well, I think the statute
10 would speak for itself. If it's in the statute, then
11 the statute -- there's no reason for the witness to
12 confirm.

13 Q So you are saying you are not familiar with
14 that?

15 A Could you --

16 Q I'm just asking, are you not familiar with the
17 requirements of the MOA?

18 A Could you repeat the question? I think, based
19 on the conversation, I've lost the train of the --

20 Q The question --

21 A -- question, so I apologize.

22 Q I referred you -- I referred you to the
23 memorandum of agreement, which you attached as an
24 exhibit to your testimony, therefore, I had assumed
25 you were familiar with the memorandum of agreement.

0062

1 And you also attached the memorandum of agreement.

2 And the question was, the series of
3 questions --

4 JUDGE MOSS: What's your statutory
5 reference again, Mr. Trautman?

6 MR. TRAUTMAN: The statutory reference
7 is 80.80.100.

8 Q And that is, in fact, also attached as part of
9 your RG HHC on Page 430 to 431 of 459, in which you
10 have attached a number of statutes, including that
11 one.

12 JUDGE MOSS: Let's give the witness an
13 opportunity to find that, as well me.

14 What pages?

15 MR. TRAUTMAN: Pages 430 through 431.

16 A I have the statute.

17 Q You have -- the statute is 80.80.100, the one
18 that goes between pages 430 and 431?

19 A I do.

20 Q And my statutory reference was, is it true
21 that looking at Section 3B of that statute, that it
22 requires that financial assistance, to the accounts
23 that I previously mentioned, of \$30 million and
24 \$25 million, totalling \$55 million be made, that that
25 amount be placed into those accounts?

0063

1 MR. KUZMA: Your Honor, I'm going to
2 object. This is asking our witness for a legal
3 conclusion. The statute speaks for itself. There are
4 requirements in the statute that allow for the
5 financial assistance to be terminated under certain
6 events. There are situations that allow for the
7 memorandum of agreement to be terminated under certain
8 events under this statute. And I think he's -- the
9 statute speaks for itself and the witness need not
10 confirm what's already in the record.

11 JUDGE MOSS: Mr. Trautman?

12 MR. TRAUTMAN: Well, that's fine. I can
13 agree, we can look to the statute. I assumed that if
14 he took the time to attach these statutes to back up
15 his testimony, that he was familiar with them.

16 JUDGE MOSS: Why don't you ask him that
17 as a foundation question.

18 Q Are you not familiar with the statute you
19 attach to your testimony?

20 A I'm generally familiar with the statutes.
21 The -- if you are asking me the relationship between
22 the statutes and the MOA, then I think that's getting
23 outside of my area of expertise. I think that strikes
24 me as being more of a legal question that I don't feel
25 like I'm qualified to answer.

0064

1 Q All right. Turning -- let me, then, just turn
2 back to RG-14, which is the letter from TransAlta to
3 the governor, that you attached as an exhibit to your
4 testimony.

5 Is it correct that in the second to the
6 last -- on Page 2, the second to the last paragraph,
7 it says that TransAlta's understanding is they may
8 later terminate the MOA, and if they do so terminate
9 it, that all the amounts in the accounts that have not
10 been disbursed will be returned to TransAlta pursuant
11 to Section 9 of the MOA?

12 A The letter does say that.

13 Q All right. And so therefore, those -- those
14 amounts of money that were otherwise intended to be
15 deposited to these accounts that you previously
16 referenced, none of that money would be disbursed, it
17 would be put into the accounts for economic
18 assistance, weatherization, all the other causes that
19 you referenced earlier?

20 A That is my understanding of the MOA.

21 Q All right.

22 MR. TRAUTMAN: That's all I have.

23 Thank you.

24 JUDGE MOSS: Thank you, Mr. Trautman.

25 Was Public Counsel intending to go next, then?

0065

1 Do you want to discuss this?

2 MR. FFITCH: I believe so. Yes, Your
3 Honor.

4 JUDGE MOSS: Go ahead, then.

5 MR. FFITCH: We are examining about a
6 confidential exhibit. As I have taken a look at this,
7 I have decided to try to do it without a confidential
8 session.

9 JUDGE MOSS: Thank you.

10 MR. FFITCH: So I apologize, this may be
11 a little bit stop-and-go as we try to do that.

12

13 C R O S S - E X A M I N A T I O N

14 BY MR. FFITCH:

15 Q Good morning, Mr. Garratt.

16 A Good morning, Mr. ffitch.

17 Q Could I ask you to please turn to Exhibit
18 RG-28, cross-exhibit RG-28. That is the response to
19 Public Counsel Data Request No. 67.

20 Do you have that?

21 A I have that.

22 Q Could you turn to Page 2 of the exhibit,
23 please?

24 A Yes.

25 Q And just to set the stage here, this is the

0066

1 Company's response to our data request which asked --
2 well, we were following up on your statement, the
3 Company's statement, that TransAlta initiated
4 discussions with PSE for potential power purchase
5 agreements in November of 2010. And we then asked you
6 to provide any related documents or communications
7 shared between Puget and TransAlta since those
8 discussions began, correct?

9 A Yes.

10 Q And this response provides us with those
11 documents and communications, correct?

12 A Yes.

13 Q And can I ask you, please, to turn to Page 7
14 of the exhibit.

15 A (Complies.)

16 MR. FFITCH: And at this point, I will
17 pause and ask -- Your Honor, ask Company counsel, a
18 number of the documents in the exhibit have shaded --
19 have shading, obviously indicating that that would be
20 designated confidential. There are other parts of the
21 documents that are not shaded, headings, things of
22 that nature, the e-mail addresses and subject lines
23 and so on. So my question for counsel is: Are those
24 in fact not confidential and can I refer to those?

25 MR. KUZMA: Yes. For example, on Page 7

0067

1 you can refer to the recipient and sender of the
2 letter.

3 MR. FFITCH: All right.

4 JUDGE MOSS: What about the text itself?
5 I have just read it. I don't see anything in there
6 that seems particularly confidential.

7 MR. KUZMA: Well, there are discussions
8 of other projects. For example --

9 MS. BROWN: Is your microphone on?

10 MR. KUZMA: There are discussions of
11 other projects in the last sentence of the first
12 paragraph, for example. This was intended on
13 brainstorming between the parties about possible
14 business arrangements.

15 JUDGE MOSS: That's a well-known
16 project. If I'm asked to rule on this, I know what
17 I'm going to do. Now, do you want to --

18 MR. KUZMA: It is a well-known project,
19 but the parties at the case here may not be -- noticed
20 that TransAlta may have been or may not have been
21 interested as well in that project.

22 MR. FFITCH: Your Honor, if it would
23 help, I'm only intending to inquire about
24 Centralia-related matters.

25 JUDGE MOSS: Okay.

0068

1 Q So, Mr. Garratt, this letter on Page 7 is a
2 letter from Eric Markell of Puget to Dawn at
3 TransAlta, correct? Dawn Farrell, I believe her name
4 is.

5 A Yes, that's correct.

6 Q And this, as I think we just heard in the
7 colloquy, this is a letter that sort of opens up some
8 discussions about various issues with the -- between
9 the two companies?

10 A That's correct.

11 Q And if we turn the page to Page 8 of the
12 exhibit, we can see under a heading -- at the bottom
13 of the page there's the beginning of a list of
14 projects that the companies might be interested in on
15 a mutual basis; is that right?

16 A There is a list of projects.

17 Q All right. Can you turn, please, to Page 16
18 of the exhibit?

19 A (Complies.)

20 Q And this is a copy of an e-mail, is it not,
21 from a gentleman at TransAlta to various Puget Sound
22 employees, including yourself, correct?

23 A Yes.

24 Q And the subject line is "TransAlta Action
25 Plan," correct?

0069

1 A Yes.

2 Q And if we look down at the bottom of the page,
3 these are the confidential elements of the action plan
4 that is being laid out here for the two companies to
5 pursue, correct?

6 A Yes.

7 Q And the date of this e-mail is November 22nd,
8 2010?

9 A That was a question?

10 Q Yes. Obviously, it's --

11 JUDGE MOSS: It's called a narrative
12 form of question, Mr. Garratt. We get it all the
13 time.

14 A Yes, it is November 22nd, 2010.

15 Q If you could look down at Item 2 on the action
16 plan. Obviously, this e-mail indicates that the
17 parties were beginning discussions of that item in
18 November 2010, correct?

19 A That's correct.

20 Q So that topic was being discussed, obviously
21 prior to any legislation with respect to coal
22 transition power, correct?

23 A It was -- it was being discussed at that time.
24 It's important to understand that these discussions
25 ended in December of 2010, so there were -- so even

0070

1 though there was a lot of paper going back and forth
2 in a short time period, the discussions stopped.
3 These discussions stopped in December 2010.

4 Q And no further transactions occurred as a
5 result of those discussions between Puget and
6 TransAlta on that topic?

7 A The -- in my mind, I would say no, because
8 the -- these discussions stopped. And then
9 discussions with TransAlta on the -- on what
10 eventually became the coal transition PPA did not
11 resume until after the legislation had passed. I
12 believe that was midyear 2011, when the discussions
13 resumed.

14 Q Can you please turn to Page 100 of this
15 exhibit?

16 A (Complies.)

17 Q Is not that document a -- as indicated in the
18 subject line, the document that's attached to this
19 e-mail, a term sheet for a coal power PPA between
20 TransAlta and Puget Sound Energy in December of 2010?

21 A Yes, so this is a term sheet that TransAlta
22 provided to us on December 8th, 2010. My recollection
23 of when the discussions ceased, was later that month.

24 Q Okay.

25 And if you could, please, turn now to Page 125

0071

1 of the exhibit.

2 A Okay.

3 Q Okay. That is --

4 MR. FFITCH: Excuse me, Your Honor. May
5 I have a moment? This is as a result of trying to get
6 around the confidential material here.

7 JUDGE MOSS: I appreciate your efforts,
8 Mr. ffitich. They probably save time in the long run.

9 Q One other question on the matter we were just
10 discussing, the term sheet, Mr. Garratt.

11 A Okay.

12 Q That was discussed between TransAlta and Puget
13 Sound Energy prior to the RFP process in 2011, was it
14 not?

15 A It was. And that's consistent with our
16 general acquisition practices, where we talk to
17 people, both as part of an RFP process, but also
18 outside of the process, and really continuously
19 whenever we have a need.

20 Q Okay.

21 Now I'm asking you to turn to Page 125. You
22 may already be there.

23 A Yes.

24 Q And that is an e-mail from Mr. Bevil of Puget
25 Sound Energy to Mr. Ronsky of -- and is it correct

0072

1 that Mr. Ronsky is a TransAlta employee?

2 A Well, he was at the time. I don't know if he
3 is still employed at TransAlta or not.

4 Q Okay. At that time he was a TransAlta
5 employee?

6 A Yes.

7 Q And the subject line indicates that this is
8 regarding an equity return calculation, correct? At
9 the top of the page.

10 A (Reviews document.)

11 Q This is in the e-mail subject line at the top
12 of Page 125.

13 A Yes.

14 Q And the -- obviously, we can read that
15 attached to this e-mail was an equity return
16 explanatory memo, correct?

17 A Yes.

18 Q And if we turn to Page 127, beginning at 127,
19 we see that memorandum and related documents, do we
20 not?

21 A Yes.

22 Q And if you can go -- we are staying on 127.
23 If you look at the paragraph after the quotation, do
24 you see that paragraph? And I'm directing your
25 attention to the last sentence.

0073

1 A (Reviews document.)

2 Q Do you see that? It begins with the word
3 "Should."

4 A Yes.

5 Q So that communication in that last sentence in
6 this memorandum, explanatory memorandum with the
7 equity calculation, was provided to TransAlta, and
8 that occurred prior to the conclusion of the 2011 RFP
9 process, correct?

10 A It did. Yes, I believe this memo is just
11 simply reminding TransAlta that -- that including the
12 equity calculation, that any PPA would need to be
13 least cost, which is also reinforced by the statute
14 itself.

15 Q All right. And it actually also provides
16 TransAlta with very specific information about how
17 that component of the contract cost would be
18 calculated, correct?

19 A We did share the methodology. Now, the
20 methodology that we are using is the same methodology
21 that we use to levelize costs as part of our
22 evaluation of proposals.

23 MR. FFITCH: Thank you, Mr. Garratt.
24 Those are all my questions.

25 JUDGE MOSS: Thank you, Mr. ffitich.

0074

1 Before we turn to Ms. Hirsh, I'm going to take
2 this opportunity to just make a comment, and that's
3 concerning the designation of material as
4 confidential. This has been a perennial issue at the
5 Commission. And I must say, in looking at some of
6 these documents, and I see some of the highlighted
7 material on these documents, thereby indicating it as
8 confidential. It is just beyond the pale.

9 To mark as confidential a sentence that says
10 "See you tomorrow," just doesn't cut it with me in
11 terms of a confidential statement. To mark as
12 confidential a quotation from a senate bill, just
13 doesn't strike me as something that is appropriately
14 marked as confidential.

15 I am just taking this opportunity to state
16 publicly, for whatever benefit it may have, that
17 parties before the Commission should be more careful
18 when they are going through this process. At the risk
19 of having parties bring to me, for example, motions
20 and arguments about the designation of material,
21 because I don't want to spend hours and hours doing
22 it. I can tell you that if I was going through this
23 exhibit on such a motion, a lot of this stuff in here
24 I would determine to not be confidential. That would
25 then go to court, or whatever happens, but I think

0075

1 it's creating a lot of unnecessary problems.

2 I just state that caution for what it's worth,

3 and let's move on with the cross-examination,

4 Ms. Hirsh. Thank you.

5 MS. HIRSH: Thank you.

6

7 C R O S S - E X A M I N A T I O N

8 BY MS. HIRSH:

9 Q Good morning, Mr. Garratt.

10 A Good morning.

11 Q I have just a few questions. I want to go

12 back to the line of questioning put forward by

13 Mr. Trautman first.

14 We have already established that RG-14, the

15 exhibit, the letter from TransAlta to the governor, is

16 in your filing; is that correct?

17 A Yes.

18 Q And do you have any evidence to suggest that

19 TransAlta's commitment to fund community and economic

20 development as provided in the law will extend beyond

21 calendar year 2012, if the company is unable to at

22 least acquire 500 average megawatts of long-term PPAs?

23 A The information that we've got is the same

24 information that's in the record, so the latter is the

25 information that we've got about their stated

0076

1 position.

2 Q And in your RG-10HCT, on Page 38, if the MOA
3 is terminated by TransAlta or the state of Washington,
4 the PPA provides Puget Sound Energy with the option of
5 terminating its contract; is that correct?

6 A Yeah, that's correct. And the reason for
7 putting that into the PPA was that -- was that --
8 sitting here today, or sitting here at the time that
9 we negotiated the PPA, not being able to know all of
10 the circumstances under which it might be terminated.
11 And so we wanted to find the -- we certainly wanted to
12 have the right to terminate, but one can certainly
13 imagine some scenarios where it may not be in the best
14 interest of customers to terminate the PPA.

15 Q And you also say -- thank you. You also say
16 on Page 40 and 41 of your rebuttal testimony that it
17 is in the best interest of PSE ratepayers for PSE to
18 have that right on whether to terminate, as you have
19 just discussed.

20 A Well, let me correct that. What my testimony
21 says on Page 41 is -- it says if the purchases under
22 the PPA remain the most cost effective resources
23 available, then we should continue it. So the clause
24 with the "if" is critical there.

25 Q Would you agree that it would also be in the

0077

1 interests of PSE ratepayers for the Commission to play
2 a role in any decision on termination of the PPA?

3 A Potentially it could be. I think where I'm
4 struggling with that question is that at this point,
5 we have entered into a contract with TransAlta that
6 has been the result of several months of negotiation
7 and the -- so to do what you are suggesting would
8 require an amendment to the contract. And sitting
9 here today, I don't know -- you know, I can't say as
10 to whether TransAlta would agree to that.

11 Q So it's Puget Sound Energy's position that the
12 proposed PPA should not be amended to address this
13 issue or others raised by parties in this case?

14 A Generally that is our position. And I think,
15 you know -- this power purchase agreement, like any
16 power purchase agreement, is the result of a long
17 period of time, of negotiations, you know,
18 give-and-take on both sides.

19 And so to suggest that this would be better if
20 you change one thing or change another thing, the --
21 you know, it's fairly easy to come in later and
22 second-guess those sorts of things. But -- but I
23 think that depending upon what is being proposed to be
24 changed, it could essentially set the process back to
25 the very beginning. And I think a practical effect in

0078

1 this particular case could be to set it back to a
2 point where it would simply make sense to -- for us to
3 evaluate it against proposals that we receive in the
4 next RFP process, which would be late -- or late 2013,
5 early 2014.

6 Q Okay. Thank you.

7 Now I want to turn to a slightly different
8 subject. In Exhibit RG-3C, Page 17. It says the
9 proposed PPA allows TransAlta to substitute any source
10 or sources of power to meet the contract delivery
11 obligations if output from the Centralia coal plant is
12 reduced or curtailed for any reason; is that correct?

13 That's Section --

14 A Could you give me the page reference again?

15 Q Pardon me?

16 A Could you give me that page reference again?

17 Q Yes, it's Page 17, RG-3C, section 3.2(b).

18 A I'm sorry.

19 JUDGE MOSS: That's the page number at
20 the top right. Page 17 of the exhibit.

21 THE WITNESS: Thank you.

22 JUDGE MOSS: You're welcome. It gets
23 confusing sometimes, two page numbers.

24 Q The section is about the substitution of power
25 if the Centralia coal plant is not operating.

0079

1 A Yes.

2 Q And RCW 19.29A requires Puget Sound Energy to
3 annually disclose its fuel mix to its customers. Are
4 you familiar with that obligation?

5 A Yes. Well, generally I'm familiar with it.

6 Q And how does Puget Sound Energy plan to
7 address coal transition power in its fuel mix labels,
8 and how would it -- how would it address the actual
9 sources of power used by TransAlta, if, under the
10 terms of this PPA, TransAlta supplies alternative
11 resources? How would those be accounted for in the
12 fuel mix?

13 A So this is an area outside of my area of
14 expertise. I believe that -- I believe that there
15 would be tags that would designate the source of the
16 power, and for the purposes of the fuel mix report
17 that you are referring to, that that would be taken
18 into account. But I'm not certain if that -- if
19 that's of that level of accounting.

20 Q Okay.

21 MS. HIRSH: Thank you. That concludes
22 my questions.

23 JUDGE MOSS: That's all you have? All
24 right, very good.

25 I'm thinking, Mr. Kuzma, we will just hold

0080

1 your redirect until after we hear questions from the
2 bench, and perhaps we can wrap it all up in one. But
3 this would be a good opportunity, then, to take a
4 break.

5 CHAIRMAN GOLTZ: My first question is
6 going to be why is Attachment Q the PSE's response to
7 Public Counsel Data Request 67, which starts at Page
8 124 of Exhibit 28, why is that confidential? So maybe
9 you can think about that.

10 MR. KUZMA: I can answer now. It's -- a
11 lot of that exhibit, it's a data request that asks for
12 lots of information and we had a tight time frame. I
13 think that just due to the press of time, we had to
14 declare a lot of it confidential.

15 Now, with respect to the page and reference,
16 we can try to identify during the break what, if
17 anything, on that page would -- specifically would
18 need to remain confidential.

19 JUDGE MOSS: All right, very good.
20 Well, let's take a ten-minute break and be back at 20
21 minutes before the hour by the wall clock.

22 (A brief recess.)

23 JUDGE MOSS: Let's proceed, then, to
24 questions from the bench, and then we will have our
25 redirect after that.

0081

1 Chairman Goltz, were you going to --

2 CHAIRMAN GOLTZ: I just have a few,

3 Mr. Garratt.

4

5 E X A M I N A T I O N

6 BY CHAIRMAN GOLTZ:

7 Q So I gather from the cross-examination of
8 Mr. ffitch or Mr. Trautman that PSE was involved in
9 contract discussions with TransAlta in late fall of
10 2010?

11 A Well, there were discussions that I believe
12 started in November of 2010, and then extended through
13 about the middle of December of 2010, before they were
14 stopped.

15 Q Right, and then you said they sort of
16 restarted back again in the summer of 2011?

17 A Correct.

18 Q You gave the dates, I just can't remember what
19 they were.

20 But in the middle of all of that was all the
21 legislative process. And even though there were no, I
22 guess, contract negotiations during that, you aren't
23 saying that Puget and TransAlta weren't in a lot of
24 discussions about the parameters of the legislation,
25 are you?

0082

1 A The -- we had some involvement in the -- in
2 the legislative process through our -- through our
3 lobbying effort. I know we were asked by the
4 governor's office. But I don't believe there were a
5 whole lot of meetings or discussions that took place
6 between us and TransAlta during that six-month period.

7 Q My point is, it's fair to say, though, that
8 during all that, the first six months of 2011, Puget
9 Sound Energy clearly contemplated a possible contract
10 with TransAlta for the purchase of what became -- to
11 what came to be known as coal transition power; isn't
12 that correct?

13 A Well, I think -- yeah, I guess it's generally
14 fair to say that. I think that the -- and obviously
15 once the legislation passed, it -- the possibility of
16 that became much more realistic.

17 And if you are asking sort of what our state
18 of mind was, so once it passed...

19 Q Okay. The rest of the questions, if you
20 aren't the right witness, just punt to the later
21 people, that's fine.

22 But were you involved in the contract
23 negotiations with TransAlta that resulted in the PPA
24 that's before us today?

25 A I was not involved in the face-to-face

0083

1 negotiations. I have a general familiarity with the
2 contract.

3 Q And am I correct that -- if you don't know
4 this just -- that's fine -- that the amount of the
5 equity adder was not part of the negotiations between
6 Puget and TransAlta; is that correct?

7 A That's correct.

8 Q And the amount of the equity adder, whatever
9 that may be under the agreement, doesn't impact the
10 payments that Puget would make to TransAlta under the
11 agreement?

12 A That's right.

13 Q And am I also correct that normally in a power
14 purchase agreement, or a PPA, that PSE would not get
15 an equity adder on such a -- on a typical PPA?

16 A That's correct.

17 Q And, in fact, this is unique?

18 A Yes.

19 Q Now, we have before us the PPA, and my
20 question is: If we were to -- not to -- basically to
21 turn it down, not approve it, what is PSE's plan to
22 find power in lieu of the PPA, or do you have one?

23 A The -- well, our plan to find power in lieu of
24 the PPA would be essentially the same plan we always
25 use to find capacity. And -- and it's probably

0084

1 important, you know, to point out again that under
2 this particular PPA, the deliveries begin in
3 December of 2014.

4 Q Right.

5 A And so sitting here today, my thinking would
6 be that we would -- one other point to just sort of
7 anchor that answer is, you know, we are also in the
8 middle of doing our 2013 integrated resource plan,
9 which would be published in May of next year, 2013.
10 So my thinking would be to wait until we have the
11 outcome of the 2013 integrated resource plan. And
12 then at that point, you know, that would give us a
13 refinement of the need, and then really look at how we
14 satisfy the need that exists in -- and compare it to
15 the alternatives that would exist at that time.

16 Q And then after the integrated resource plan,
17 you might then proceed to a request for proposal, or
18 an RFP; is that correct?

19 A Yes.

20 Q Because the power under the TransAlta PPA
21 would not start to be delivered until sometime in
22 2014, you have a little bit of time to -- you would
23 have time to figure that out?

24 A That's right.

25 Q Just one point of clarification. On your

0085

1 exhibits, the confidential information, or the
2 information that was marked confidential, is that
3 something you did or is that something someone else
4 did?

5 A That's not something that I did.

6 Q Okay.

7 CHAIRMAN GOLTZ: Thank you.

8

9 E X A M I N A T I O N

10 BY COMMISSIONER JONES:

11 Q Good morning, Mr. Garratt.

12 A Good morning, Commissioner.

13 Q Good to see you again.

14 I am going to start at a bit of a higher level
15 and talk about PPAs in general. You are quite
16 familiar with PPAs, the structure, terms and
17 conditions, are you not?

18 A Generally, yes.

19 Q Describe for me the normal risks that you
20 consider as you enter into a PPA. Fuel price risk,
21 counterparty risk. What are they?

22 A Well, I'm not sure I can give you a complete
23 laundry list of risks across the top of my head, but
24 there are certainly the things that you mentioned, and
25 counterparty probably being the first one that comes

0086

1 to mind. There can be -- there can certainly be a
2 price risk, depending on how the PPA is structured.
3 There can be volumetric risks, there can be
4 operational risks.

5 Q Sure.

6 A Again, depending on how it's structured.

7 Q Well, let's just -- let's just go through
8 those one by one and talk about this PPA specifically.
9 And I don't think I'm going to get into confidential
10 information here.

11 On the counterparty risk side, isn't it true
12 that the PPA provides for a substantial guarantee from
13 a credit-worthy guarantor?

14 A Yes, that is something that we negotiated in
15 this --

16 Q Okay.

17 A -- particular case.

18 Q Now, this agreement, as you say in your
19 testimony, RG-10T, in response to Public Counsel's
20 witness, you basically say this is a unique type of
21 PPA because it is not a tolling arrangement, but it's
22 fixed price, fixed term, correct?

23 A Yes.

24 Q Okay.

25 So is there any -- and you also go on to say

0087

1 in your testimony that one of the benefits of this
2 PPA, in the sensitivity analysis that your staff ran,
3 is that it hedges effectively against higher gas
4 prices, correct?

5 A Yes, higher gas prices or higher market
6 prices.

7 Q Or just higher mid-C wholesale market prices;
8 is that correct?

9 A Right.

10 Q And that would be over the term of the
11 contract, which is 12 years?

12 A I --

13 Q Okay.

14 Debt imputation, let's talk about that a
15 little bit. Debt imputation has always been an issue
16 for your company, and others, in the way that S & P
17 imputes for debt, correct --

18 A Yes.

19 Q -- for PPAs?

20 A That's correct.

21 Q And how does the statute deal with that issue?

22 A I may need to refresh myself with the statute,
23 but my general recollection is that it -- it says that
24 we can't ask for recovery of that in this particular
25 case.

0088

1 Q I think it says something like, debt
2 implementation shall not be included for this PPA for
3 the purpose of setting retail rates in the future. Is
4 that --

5 A That sounds right.

6 Q Okay.

7 So that effectively means that in Puget's next
8 rate case, which I would assume we will see in the
9 near future, that -- and if we approve this agreement,
10 that the -- no implementation of debt associated with
11 this PPA could be put into the capital structure,
12 correct?

13 A Yes, I think the -- I think the statute is
14 clear in that regard.

15 Q Okay.

16 A I do think that -- I guess one point of
17 clarification is, I do think that it's important to
18 understand that from the perspective of the rating
19 agencies, I don't believe having that in the statute
20 will stop them from imputing the debt when they look
21 at our financial ratios.

22 Q Well, on that point, have you or Mr. Doyle had
23 any -- I haven't looked at the complete record, but
24 have you had any -- this is really an issue for only
25 one ratings agency, I think, S & P. Have you had any

0089

1 meetings with S & P since this agreement was --

2 A No, we haven't. Our next meetings are
3 scheduled for early 2013.

4 Q And no informal conversations between
5 Mr. Doyle and S & P in terms of how this debt
6 implementation issue is going to be handled?

7 A Not that I'm aware of.

8 Q Okay.

9 So I guess my final question on general risk
10 is what are the risks, then, to PSE in this agreement?

11 A The --

12 Q Are there any left after --

13 A I would say that there -- there are -- there
14 still are risks here. The -- I mean, even though
15 there's a fairly substantial guarantee, there's still
16 counterparty risk. Because if you look at -- if you
17 look at any contract of this volume, in this term,
18 from a mark-to-market perspective, I guess
19 unfortunately, or fortunately, the numbers get -- tend
20 to get pretty large, or can get quite large over time.
21 So I would say there is counterparty risk. There's
22 risks around force majeure as well.

23 I would say --

24 Q So those two --

25 A -- those are certainly the first two that come

0090

1 to my mind.

2 Q Has an agreement been reached on the
3 counterparty, on the creditworthy guarantor for the --
4 for the counterparty risk already?

5 A Yes, so we have the --

6 Q Okay. My next few questions concern the
7 sensitivity analysis that Mr. Bevil did regarding that
8 issue of gas prices. I would just like to ask a few
9 questions on that.

10 So what -- what sort of analysis did you do?
11 Did you do any additional analysis in Phase 2 of the
12 RFP that went beyond the sensitivity analysis you did
13 in the 2011 IRP on the issue of volatility in the
14 nature of gas prices?

15 A So I think I need to defer that question to
16 Mr. Bevil --

17 Q Okay.

18 A -- if that's okay.

19 Q You want me to ask these questions of him?
20 Okay.

21 A I could try another question, if you would
22 like, but --

23 Q No.

24 A Okay.

25 Q My only question to you there would be,

0091

1 describe more specifically why you think this is a
2 good -- and it's in the public interest for the
3 Commission to approve this, why it hedges effectively
4 against higher gas prices.

5 A Well, I would say generally an answer to that
6 question is the fact that it is a contract that has
7 fixed quantities at known prices. And that when we --
8 and then when we do the analysis of this contract
9 within our portfolio screening model, it ends up being
10 selected in four of the five scenarios.

11 And one of the things that you see -- and if
12 it would be helpful, I can point out the particular
13 page reference to you. But there's a box chart that
14 actually shows kind of the range of risks associated
15 with this contract, and then it also shows for the
16 Ferndale, and it shows what happens in the portfolio
17 if we do the two of them together.

18 But what you see with this one is that this is
19 providing, from a portfolio protection, providing
20 protection to the customers if the prices go up. And
21 generally speaking, any contract that -- with fixed
22 pricing will do that.

23 Q My last questions regard the capacity need. I
24 think Chairman Goltz asked you a question on this, but
25 I want to fine-tune that a little bit.

0092

1 Your 2011 IRP was something that you submitted
2 to the Commission in 2011, correct?

3 A Yes.

4 Q And I think that's submitted in RG-4 of your
5 testimony. And you probably know this by heart, but
6 according to the cumulative capacity of resource
7 additions that the company needs by 2016, you list
8 five resources: Demand-side resources, 434 megawatts;
9 wind, zero; biomass, zero; transmission and market,
10 zero; peakers, 1,065. Is that generally --

11 A Those numbers sound familiar.

12 Q So I guess my question is: How does this
13 transaction fit in with this IRP? It doesn't seem to
14 fit in at all.

15 A The -- I think there's probably a couple ways
16 to respond to that question. So in terms of doing
17 a -- in terms of doing an integrated resource -- or
18 maybe first -- I think as you know, in terms of doing
19 the integrated resource plan and doing the RFP
20 evaluation, we are using the same quantitative tools,
21 so using the portfolio screening model.

22 When we are doing the integrated resource
23 plan, you really end up -- from a supply side resource
24 perspective, you really end up having to look at, you
25 know, what we've called generic resources. And so in

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1 terms of generic resources, we will look at what a
2 typical wind plant will cost, what a typical combined
3 cycle plant, what a typical simple cycle plant.

4 So in that -- in that 2011 IRP, the simple
5 cycle plants, again, from a -- in a planning
6 environment, evaluated most favorably. And then -- so
7 practically speaking, what that's saying is you are
8 going to purchase -- purchase or build simple cycle
9 peaking facilities and then largely rely upon the
10 market for the energy.

11 When we move ahead to the RFP process, then we
12 are comparing the real offers that come in the door
13 with the generics. And certainly what we have found
14 in our 2011/2012 RFP was that this particular contract
15 evaluated much more favorably than the peakers. And I
16 think in general that's -- that's not all that
17 surprising. And there's -- to the extent that there's
18 other surplus energy in the market, it's likely
19 that -- that things that weren't identified in the IRP
20 are going to be the things that are most cost
21 competitive.

22 Q And as you say -- and I agree with you, you
23 state correctly that the IRP is a generic look at
24 resources, while the RFP is very specific. But in a
25 generic look at resources, isn't it kind of very

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1 difficult to bring in legislative incentives, if you
2 will, that was contained in that bill, like a tax
3 incentive or exemption? You look at generic
4 resources, basically kind of head to head, right?

5 A In terms of -- now, certainly within the IRP
6 context we look at tax incentives, say, for wind --

7 Q Okay.

8 A -- projects or renewables.

9 Q Right.

10 A So to the extent that there is existing tax
11 policy, the -- I think -- I'm trying to get my
12 timeline straight here, but I think when we did the
13 2011 IRP, by the time, that thing was largely done.

14 Q Okay.

15 A I don't -- you know, the statute may have been
16 passed, but I think the IRP was largely done before
17 the -- before the statute was passed.

18 Q I think it was.

19 Finally, Mr. Garratt, could you turn to
20 Pages 2 and 3 of your rebuttal testimony. I'm going
21 to refer to those graphs that you have on capacity in
22 the PPA volumes.

23 A Okay.

24 Q Are you there?

25 My question specifically regard around 2012

0095

1 and '13 capacity needs. And as the graph states on
2 Page 2, you have a projected need of 138 megawatts in
3 2012 and 242 megawatts in 2013. So how are you going
4 to be -- based on the IRP numbers I just read you, the
5 demand-side resources or peakers, how are you -- and
6 the fact that this PPA doesn't kick in until
7 December 1, 2014, how are you meeting your resource
8 capacity needs for this year and next year?

9 A The -- so the primary way that we are meeting
10 it is through the Ferndale acquisition that -- that I
11 think came up in earlier testimony, closed on November
12 the 15th, and so that is now available to meet the
13 need beginning in 2012.

14 Q And that's about 80 megawatts?

15 A No, Ferndale is over 200 megawatts.

16 Q Over 200, okay. So is that going to be the
17 biggest chunk?

18 A Yes.

19 Q Are you going to rely on market purchases to
20 any significant extent before this PPA kicks in?

21 A We shouldn't from a capacity need per se.
22 From a -- the -- you know, it gets a little bit
23 complicated in the sense that -- you know, if you
24 think about the IRP and how we show our need and
25 our -- and how we show our resources, part of the way

0096

1 that we are meeting the capacity need is with the
2 transmission resources that we have, which I believe
3 is in the -- in terms of transmission resources to the
4 mid-C, from the mid-C, and to the PSE service
5 territories, in the neighborhood of 1400 megawatts.
6 And so -- so one could say that we're -- to the extent
7 that we are relying upon those transmission resources,
8 or transmission rights, then, yes, we are relying upon
9 the market. Now, we -- you know, we deal with that
10 through our programatic hedging program, locking it in
11 for -- you know, for various terms and so forth, that
12 you are probably familiar with.

13 Q Sure. Okay.

14 COMMISSIONER JONES: Thank you. Those
15 are all my questions.

16 COMMISSIONER OSHIE: I have a couple
17 follow-up questions, Mr. Garratt.

18

19 C R O S S - E X A M I N A T I O N

20 BY COMMISSIONER OSHIE:

21 Q So you were in a conversation with
22 Commissioner Jones about counterparty risks and force
23 majeure risks. I believe those were the primary focus
24 of your testimony.

25 So do you consider TransAlta to be a

0097

1 particularly risky counterparty in this deal?

2 A The -- well, I guess I would answer your
3 question as -- maybe almost with a question, compared
4 to who?

5 Q That's fair.

6 A I --

7 Q So --

8 A I will elaborate, if you would like.

9 Q Because I can ask another question, so maybe
10 you should elaborate.

11 A The -- you know, I guess from my perspective,
12 having sat on the opposite side of the table from
13 independent power providers over the last 9 to 10
14 years, I would say there's a range of people that -- a
15 range of counterparties, and within that range, I
16 would consider TransAlta to be one of the less risky
17 counterparties.

18 I do think that an unfortunate aspect of PPAs,
19 though, is that there is counterparty risks that --
20 and certainly Puget has experienced that as recently
21 as with the Sumas plant.

22 Q So how did you assess the risk that would
23 accompany the -- this agreement and before you made
24 the deal? Just give me some examples of how you
25 reviewed this counterparty and made a determination of

0098

1 the counterparty risk that -- although, I do
2 understand your testimony, that it's -- you believe
3 this to -- this company to be on the -- I don't
4 quite -- with regard to risk, perhaps less risky.
5 I'll use that term. Anyway, let's go back to my
6 question.

7 So how did you make the assessment of risk
8 with regard to this counterparty? I understand from
9 your testimony, part of it is judgment. So -- but
10 what else did you do to examine the counterparty risks
11 associated with this agreement?

12 A Well, if we are talking about counterparty
13 risk -- because, you know, as part of the evaluation
14 process, we are really trying to evaluate a whole host
15 of different risks. But if we are talking
16 specifically on counterparty risks, then we have a
17 process of doing that, and we have a credit manager
18 that -- that we request financial information from the
19 counterparty, and review that financial information.
20 We look at potential mark-to-market exposure and
21 the --

22 But again, I would say that, you know, when
23 you get a contract like this, ultimately the -- you
24 know, the number that you arrive at for a guarantee
25 is -- ends up being a result of a negotiation. You

0099

1 never get everything that you would ideally like.

2 Q Well, when you say "guarantee," can you
3 describe that in more detail for me?

4 A So in this particular case, what -- we have a
5 contract with the -- with the entity that owns the
6 Centralia coal transition facility, but -- but we have
7 a guarantee from a parent -- a higher up entity within
8 TransAlta. So they would step in if -- if the -- if
9 our contractual counterparty does not satisfy their
10 obligation.

11 Q And by "step in," I assume you mean that there
12 would be a monetary payment that would be a substitute
13 for the power that was not transferred to the utility?

14 A Yeah, that would be the most likely
15 circumstances under which you would end up in this
16 situation, where -- say, hypothetically, TransAlta was
17 supposed to provide a certain amount of power, they
18 didn't provide it, and the damages would be that --
19 the price differential between the power that we had
20 to go out and buy in the marketplace versus the
21 contractual price.

22 Q Does it work both ways?

23 A It does.

24 Q Okay. So let's say as an example, just to put
25 some context around it, that, you know, for some

0100

1 reason power prices go negative in the Northwest in
2 June, and so Puget then has to make a decision whether
3 it's going to take power under the agreement or
4 perhaps be paid to take power from some wind
5 generator. So let's take that as an example. So
6 let's say Puget doesn't take the power and -- can you
7 pay off the agreement and yet be paid from the wind
8 generator and pocket a little bit of difference?

9 A The -- I think I might need to defer that
10 question to Mr. Bevil. I'm not quite certain on that
11 mechanic of the contract. I can tell you that from an
12 evaluation perspective, we evaluated -- the way that
13 we evaluated this contract was under the assumption
14 that we were taking the power and paying the contract
15 price. So from an evaluation perspective, it
16 evaluates favorably, but I can't answer your question
17 in terms of how it would work in that situation.

18 Q Well, I'm kind of assuming that if Puget were
19 on the other side of it, that what you would expect to
20 do from -- or you would expect your counterparty to do
21 is to pay you the difference between what -- what
22 power is being sold in the market at the time of
23 default and -- wouldn't that be the prevailing factor?

24 In other words, if your contract price is X
25 and the power -- the market that you have to -- the

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1 power on the market that you have to buy to substitute
2 for it is higher by 20 percent, that you would expect
3 the 20 percent differential from your counterparty?
4 Is that how it would work?

5 A Well, I think in one case, you are asking
6 about a default under the contract. But if I
7 understand your question correctly, in the other case,
8 you are asking about something that would be mutually
9 negotiated between PSE and TransAlta.

10 If you are asking --

11 Q I didn't mean that, Mr. Garratt.

12 A Okay. Maybe I missed --

13 Q I really meant that, you know, there's a
14 default on either side.

15 A So certainly if we -- if we were to default
16 and not -- so if I understand your hypothetical, if we
17 were to refuse to take the power when prices went
18 negative, the -- yeah, then we would be -- under the
19 contract we would be liable for damages. It's
20 certainly not our intent to default under this
21 contract, so -- so -- and we -- and again, we
22 evaluated it under the assumption that we would be
23 taking the power.

24 Q So does -- counterparty risk, does that affect
25 the price you paid for the power, your assessment of

0102

1 it?

2 A I would say sort of yes and no. The -- so
3 generally when we are doing our quantitative
4 evaluations, we -- we are going to run the proposals
5 precisely as they have been submitted to us, and we
6 are going to see how the various proposal alternatives
7 rack up.

8 The -- we've certainly had experience where --
9 where a proposal is looking -- so generally speaking,
10 a proposal looks attractive, you have concerns about
11 counterparty credit, and when you begin to have
12 discussions about the -- the sort of credit that would
13 be necessary to have, the price goes up. We've
14 certainly had experiences like that generally
15 speaking.

16 Q So are you saying that there is -- I mean,
17 you're just trying to get down to a number here. I
18 know it's -- maybe it's not possible, but I'll just
19 ask it in a general way.

20 So does the price of power contemplated under
21 this agreement include a risk adder that you have
22 assessed as -- and determined as a result of your
23 analysis of your counterparty?

24 A Are you asking if the -- I'm not sure I follow
25 that question. Are you asking if we put a risk adder

0103

1 on the price?

2 Q I think what I'm getting -- yes. In other
3 words, you had a price in mind, you looked at the risk
4 of your counterparty, and to compensate you for that
5 risk, you added something to what you believe would be
6 the fair price of the power, or lowered it. It either
7 went up or down. I guess let me ask in a more general
8 way.

9 Does risk of the counter -- I think you have
10 already answered this question. Your assessment of
11 risk of the counterparty will affect the price you pay
12 for the power one way or the other, either in your
13 willingness to deal with them or their requirement to
14 put up a letter of credit or some other -- or monetary
15 support for their promise to deliver to you power, or
16 to pay you for it?

17 A So at times it does. We don't -- we don't
18 make any adjustment to the price based on counterparty
19 risk. You know, we tend to look at -- to a large
20 extent, we tend to look at counterparty risk as sort
21 of a pass-fail criteria. If somebody doesn't pass the
22 test, then we are not going to enter into a contract
23 with them.

24 Q Well, there's -- go ahead, Mr. Garratt. I'm
25 sorry.

0104

1 A Well, I was just going to say, you know, there
2 may be times that -- that somebody is -- you know, you
3 would be willing -- we would be willing to enter into
4 a contract with them if they provided, say, some
5 letter of credit or some other sort of credit
6 mechanism, and there may be times that -- that that
7 then results in a change in the price. In that
8 particular instance, we are going to go back and do
9 our evaluation based on the then-current price.

10 In this particular case, I don't believe there
11 was any price change as a result of the guarantees
12 that we asked for and eventually received.

13 Q So said another way, then, the -- any risk
14 that you contemplated as a result of entering into
15 this agreement not only didn't affect the price, but
16 was perhaps reflected in the terms of the agreement;
17 in other words the default provisions, the guarantor,
18 if you will, from the parent.

19 What other provisions did -- were included in
20 the agreement that protected the company? From risk
21 of default, let's be clear.

22 A Well, that may be a better question for
23 Mr. Bevil, who is more familiar with the contract. I
24 would say generally speaking, it is things like -- you
25 know, I mean, generally speaking, it's what -- you are

0105

1 looking at what constitutes a default and what are the
2 remedies in the event of a default and what are the
3 guarantees to back up those remedies at a high level.

4 Q Are you saying that the remedies that are in
5 the contract are just standard provisions or that they
6 actually reflect the amount of risk that you believe
7 was inherent in this agreement?

8 A They reflect what we were able to negotiate in
9 this agreement, which is a difference. This power
10 purchase agreement, like any power purchase
11 agreement -- you never get everything you would like.
12 And I would say when it comes to limitation of
13 liability, you know, which is setting what the maximum
14 remedy is in the event of a default, when it comes to
15 what sort of guarantee you are getting as a backstop
16 to that limitation of liability.

17 You know, I've been negotiating contracts for
18 a long time. I've never gotten everything I wanted in
19 that regard, so it's -- you are trying to get
20 something that you feel like you can live with, but
21 that's the best that you can do.

22 Q So what about force majeure risks,
23 Mr. Garratt? Same story as counterparty?

24 A Yeah, I would say in -- you know, general,
25 that's -- force majeure clauses tend to be highly

0106

1 negotiated and you get what you can negotiate. You
2 don't get everything that you would like.

3 Q But apparently in this instance, you believe
4 you got what you needed --

5 A I think --

6 Q -- to make an agreement?

7 A I think we've gotten a reasonable deal in this
8 particular instance.

9 Q Okay.

10 COMMISSIONER OSHIE: Thank you.

11

12 FURTHER EXAMINATION

13 BY CHAIRMAN GOLTZ:

14 Q I just had one other question, Mr. Garratt. I
15 don't -- you probably can't answer this, but I'm going
16 to ask it. It normally would probably go to
17 Ms. Dixon, but she's not here. And if you can't, then
18 maybe someone else can or maybe we can get it by a
19 bench request.

20 I'm wondering if you know, or, you know, where
21 it might be in the record, the -- how many workers are
22 employed at the TransAlta plant when it is running,
23 and what would be the impact on that workforce in
24 times when the plant is shut down and TransAlta would
25 fulfill its contract obligations by exercising

0107

1 resupply rates? Do you know that?

2 A I don't know the number of employees there.

3 In general, I would expect that shutdowns would be on
4 a temporary basis, and so that -- that largely the
5 employees wouldn't be too significantly impacted.

6 I certainly know with our Colstrip facility
7 that we -- we shut it down in the -- during certain
8 times of the year, and, you know, the labor practices,
9 management practices, are such that people work on
10 other projects during those time periods.

11 CHAIRMAN GOLTZ: So maybe, Mr. Kuzma, if
12 one of your other witnesses can answer that, great.
13 If not, maybe we can just ask -- maybe you can discuss
14 it at break, and if that information is in the record,
15 which it might be, or if it's accessible, that would
16 be good to know.

17 MR. KUZMA: Okay.

18 CHAIRMAN GOLTZ: I have nothing further.

19 COMMISSIONER OSHIE: Judge, I have one
20 follow-up question.

21 JUDGE MOSS: Sure.

22

23 E X A M I N A T I O N

24 BY COMMISSIONER OSHIE:

25 Q Mr. Garratt, how many other take-or-pay

0108

1 contracts does PSE have in its power portfolio?

2 A I don't know the answer to that. I would -- I
3 would suspect that it's a fairly large number, because
4 I think basically that the WSPP Schedule C contract is
5 a take-or-pay structure, and that's commonly used.

6 Q Is that a long-term agreement?

7 A That is a --

8 Q Let me -- maybe I can ask the question
9 differently.

10 How many, and I'll say contracts over five
11 years does Puget have in its portfolio that's
12 take-or-pay?

13 A The -- I can certainly think of -- we probably
14 have several.

15 Q Maybe this helps. Let's exclude the slice
16 agreements, when you buy a slice of a project, if you
17 have any of those, whether you bought a slice of
18 Bonneville, a slice of Rocky Reach, a slice of
19 whatever.

20 A So I believe we actually have several. And I
21 believe they should be -- a list should be within the
22 integrated resource plan that's part of the -- you
23 know, that's part of the record here. And if you
24 want, I could find a specific page reference.
25 But things like --

0109

1 Q I don't think that's necessary, Mr. Garratt.

2 A Things like Klamath PPA would be a take-or-pay
3 contract.

4 Q Is that a tolling agreement?

5 A No.

6 Q Okay.

7 So one last question on this issue. In the
8 terms of the other take-or-pay agreements, are there
9 provisions that would allow the company to avoid
10 taking power based on market price?

11 A Not under a take-or-pay contract.

12 Q Okay. Thank you.

13 A Uh-huh.

14 JUDGE MOSS: All right. So I think that
15 brings the Commissioners' questions to a close, for
16 now at least, for Mr. Garratt. I do just want to note
17 for the record that we will treat Chairman Goltz's
18 request as Bench Request 1, Mr. Kuzma, asking, as I
19 understand it, how many workers are typically employed
20 at the TransAlta plant and what happens to them during
21 down periods, I guess for maintenance or whatever.

22 MR. KUZMA: Okay.

23 JUDGE MOSS: If you could get some
24 information to us on that, it would be appreciated.

25 CHAIRMAN GOLTZ: And it's not -- it

0110

1 wasn't meant to be just for maintenance. I mean, the
2 contract provides for resupply rights for any reason,
3 and so I -- so it would be for any reason.

4 JUDGE MOSS: Okay. Thank you for that.

5 All right. Now, let me ask first if parties
6 other than PSE, if the Commissioners' questions
7 prompted any need to follow up on anything?

8 Mr. Ffitch?

9 MR. FFITCH: Your Honor, I had just one
10 prompted by the last question by Commissioner Oshie,
11 with regard to the types of contracts that Puget had.

12

13 R E C R O S S - E X A M I N A T I O N

14 BY MR. FFITCH:

15 Q If I could ask the witness to turn to Public
16 Counsel cross-exhibit RG-20.

17 A (Complies.)

18 Q And, Mr. Garratt, in this data request, Public
19 Counsel asked whether Puget has entered into any other
20 power purchase agreements containing a provision the
21 same or substantially similar to Section 3.2(b), which
22 gives us all the right to provide power from any
23 source. And the Company answered that Puget is
24 unaware of any Puget power purchase agreement
25 currently in effect that has a provision the same or

0111

1 substantially similar, correct?

2 A Yes, so that was getting at the resupply
3 versus -- I think the Commissioner's question was
4 getting at take-or-pay.

5 Q All right. And this --

6 A That was the distinction.

7 Q And this is a must-take contract?

8 A This one, yes.

9 MR. FFITCH: Thank you.

10 No further questions, Your Honor.

11 JUDGE MOSS: Okay.

12 If nothing further, then we will turn to you,
13 Mr. Kuzma, for any redirect that you may have.

14

15 R E D I R E C T E X A M I N A T I O N

16 BY MR. KUZMA:

17 Q Mr. Garratt, if you recall earlier, we were
18 discussing the -- I think from questions from
19 Mr. Trautman, the timing of the Ferndale transaction
20 with respect to the Centralia transaction.

21 A Yes.

22 Q And could you describe the timing of PSE's --
23 let me go back to my notes here. I believe it's on
24 Page 26 of your RG-1HCT.

25 A Okay.

0112

1 Q Are you there?

2 A Okay, I am.

3 Q I am at Page 26. It says that -- excuse me,
4 it may have been RG-10.

5 A Yes.

6 Q Okay. There it says that PSE made the
7 decision to acquire the Ferndale Cogeneration Station
8 before it determined to enter into the coal transition
9 PPA?

10 A Yes.

11 Q Do you know what date that PSE decided to
12 acquire the Ferndale Cogeneration Station?

13 A The -- let me give you a --

14 Q If it would help, if you would turn to Exhibit
15 No. CB-4, and I believe it's on Page 2. Does that
16 give a time line?

17 A Well, this is giving a general time line.
18 Maybe to be slightly more specific, is that in late
19 June of 2012 the -- Tenaska sent in an e-mail offer
20 for us to purchase -- offering to sell us the Ferndale
21 facility for \$84 million. And that -- the receipt of
22 that e-mail prompted several days of reevaluation, and
23 we literally -- we had to plan to -- to recommend to
24 the EMC to enter into the Centralia PPA, starting
25 earlier with larger volumes.

0113

1 We pulled that recommendation from the EMC, we
2 pulled it from the board meeting, and refocused the
3 attention, evaluating the Ferndale offer that came in.
4 And confirmed within a week or so that -- I think
5 by -- yes, it was probably within a week. So by the
6 end of June, early July, that Ferndale was evaluating
7 more attractively. And so it was at that point that
8 our strategy for acquiring the resources changed.

9 And then it -- and then it wasn't until later
10 in July that TransAlta came back with -- with volumes
11 that were appropriate to meet the incremental need
12 over and above the need that Ferndale was meeting.

13 Q If I could turn you to Page 1 of that exhibit,
14 CB-4. It said that on or about June 13th, you
15 notified bidders.

16 A Yes, that's correct.

17 Q And at that time, did you notify TransAlta
18 that it was likely to proceed with an offer?

19 A We did.

20 Q And then it said that -- a little bit later
21 that -- if you turn the page to Page 2, did you tell
22 TransAlta that it was no longer going to be proceeding
23 with an offer?

24 A Yes, we did, on June 27th.

25 Q And was that in response to the decision to

0114

1 move forward with the Tenaska project?

2 A Yes, and that's when we pulled it off of the
3 Energy Management Committee agenda for approval and
4 when we pulled it off of the telephonic board meeting.

5 Q And earlier, we were discussing the effect of
6 the possible termination of the memorandum of
7 agreement. Is it PSE's understanding that the
8 termination of the agreement would otherwise affect
9 any of the other statutes relating to coal transition
10 power, other than the financial benefits to be
11 provided pursuant to that agreement?

12 A That's our understanding, yes.

13 Q So TransAlta would still be obligated to shut
14 down early, and PSE would still be able to earn --
15 purchase the power and earn on that -- those purchases
16 provided that doesn't terminate the PPA?

17 A Yeah, that's our understanding.

18 MR. KUZMA: Thank you. That's all.

19 JUDGE MOSS: Anything further?

20 All right. With that, then, I believe we
21 have, for the moment at least, concluded our
22 examination of you, Mr. Garratt. I will release you
23 from the witness stand for now, but subject to recall,
24 in the event Mr. Bevil should defer questions to you.

25 And with that said, Mr. Bevil is indicated as

0115

1 our next witness. I will just note that a number of
2 questions have been deferred to him from the bench.
3 The parties have indicated to me at various points in
4 time this morning that they no longer have any cross
5 for Mr. Bevil.

6 But let's have him at the stand so that he can
7 respond to Commissioner Jones, and perhaps to
8 Commissioner Oshie, if he wishes to follow up on the
9 questions deferred. We ought to be able to hopefully
10 finish that before the lunch break.

11 Mr. Bevil, I'm going to make you jump right
12 back up, please, and raise your right hand.

13 THE WITNESS: (Complies.)

14

15 CHRIS BEVIL, witness herein, having been
16 first duly sworn on oath,
17 was examined and testified
18 as follows:

19

20 JUDGE MOSS: Thank you very much. I
21 like your tie, by the way.

22 THE WITNESS: Oh, thank you. Good
23 taste.

24 JUDGE MOSS: All right, Commissioner
25 Jones or Commissioner Oshie, either one, can go.

0116

1 COMMISSIONER OSHIE: I might as well ask
2 the question while I still remember it. And don't
3 worry, Mr. Bevil, Judge Moss is just softening you up
4 with his compliment about your tie.

5

6 E X A M I N A T I O N

7 BY COMMISSIONER OSHIE:

8 Q Is this your first time as a witness here on
9 the stand at the Commission?

10 A Yes, it is.

11 Q Welcome.

12 A Thank you.

13 Q I don't think you will find it too
14 uncomfortable, especially when you know the questions
15 that are going to be asked.

16 A That's always helpful.

17 Q But, yeah. Well, truly welcome. It is -- you
18 know, it's -- I know it's not a comfortable position
19 to be in.

20 My question is simply the one that I asked
21 Mr. Garratt, which is: Does the contract -- I will
22 just restate it a different -- ask it a different way.
23 So does the contract -- would the contract allow Puget
24 to -- let me restate that.

25 Under the default provisions, could Puget

0117

1 refuse to take delivery of power from Centralia in
2 conditions where there is a negative market price, pay
3 Centralia the value called for under the contract for
4 the power not delivered, and then accept the benefit
5 of the negative market prices for the equivalent
6 amount of power?

7 A So just a caveat. My answer, first of all, is
8 that I'm not a lawyer and I can't really say what the
9 legal interpretation of that contract would be.

10 The contract is a clear obligation between the
11 two parties, the obligation for TransAlta to deliver
12 power to PSE and for PSE to pay for those deliveries.
13 So for any deliveries that are delivered to PSE, where
14 PSE does not take, or rather does not pay for those
15 deliveries, PSE would then be in default. And so
16 then, through the default mechanisms, there's a
17 formulaic way to calculate damages associated with
18 that default. But because of the default, the more
19 than likely outcome would be that the contract would
20 terminate.

21 So again, just kind of restating what
22 Mr. Garratt said, is we have no intention of
23 defaulting on any contract that we have. And we did
24 evaluate and analyze the contract, assuming that we
25 would take all deliveries at all times through the

0118

1 term of the contract.

2 Q Well, wouldn't the contract -- why doesn't --
3 why isn't the contract written, then, to cover the
4 risk on both sides, wherein Puget -- you know, in
5 other words, TransAlta cannot deliver power to you,
6 have the power delivered to them under negative
7 marketplace prices, and then, you know, you have to
8 give them the value, even though it's -- you know,
9 there is no real -- there is no real power -- there's
10 no positive value to power at the time.

11 You're saying you can't do that, but the
12 agreement that you've signed allows them to do it.

13 A Well, again, just maybe to be clear, the
14 contract we entered into with TransAlta, they are
15 always obligated to supply power to us. That's the --
16 you know, kind of the terms and the structure that we
17 eventually came agreement to, and that was the deal or
18 the bargain we decided was in the best interest for
19 our customers and for PSE.

20 I think what you are maybe getting at is
21 there's a couple other structures that you may be able
22 to do. There's such things as kind of, you know,
23 financial hedges or financial exchanges, which usually
24 are not done during a long-term contract, more in the
25 short-term. And there's also things such as a

0119

1 contract where maybe it's more like a call option or a
2 tolling agreement or something where you can dispatch
3 a plant.

4 And again, just the nature and the structure
5 of Centralia as a coal facility doesn't quite lend
6 itself to be a -- kind of a dispatchable type of
7 plant. And just given where the terms and the pricing
8 and structure that TransAlta was offering, it seemed
9 to -- at the end of the day, the firm fixed-price
10 supply was the best contract that we could get for the
11 price.

12 Q Well, maybe I'm mistaken, but I thought under
13 the general terms of the agreement, reading them, the
14 parties' testimony in rebuttal, is that TransAlta can
15 essentially not operate for a period of time. And I
16 think that -- you know, some of those periods are
17 contemplated when there's maintenance required. But
18 if they are not operating, you still have an
19 obligation to take, and TransAlta will be in the
20 market to provide, replacement power. So I'm just
21 trying -- that's -- do I not understand how this
22 contract works, because you said they had an
23 obligation to run the plant?

24 A I'm sorry.

25 Q And I'm -- you know, that seems inconsistent

0120

1 with the testimony provided by the opposing parties to
2 this agreement. So what is the -- what is the
3 understanding of -- the meeting of the minds here that
4 is feeding into the contract provision?

5 A Yeah, I'm sorry, maybe I can clarify it. They
6 have an obligation to supply delivery, not necessarily
7 an obligation to supply the delivery from the plant.
8 The contract again is structured where it's a firm
9 physical supply. The intention is that it would come
10 from the Centralia plant, it's an asset-backed
11 contract, but it doesn't necessarily need to come from
12 Centralia plant. So when I spoke about the obligation
13 to supply, I simply meant, you know, the obligation to
14 deliver energy to the designated points of delivery on
15 PSE's system.

16 Q So when there's a -- if there is not, to use a
17 term, economic dispatch, that doesn't really affect
18 your obligation -- their obligation to provide power
19 from the plant?

20 A And again, you know, just going back through
21 some of the -- maybe the testimony itself. You know,
22 we did try to enhance a contract with TransAlta,
23 knowing that typically during the spring that power
24 prices are low, and we even offered opportunities
25 where we would try to take out the second quarter of

0121

1 each year from any deliveries or any obligations on
2 PSE's behalf, or TransAlta's behalf. Ultimately, all
3 of those different structures or options that were
4 negotiated or discussed never proved to be the most
5 economical offer or option.

6 So eventually, that led to pretty much the
7 contract we have today, where it was -- again, it was
8 months of negotiation that led to what we considered
9 was the best interest from PSE's point of view and
10 from the customer point of view.

11 Q Well, when you negotiated the agreement and --
12 well, let me ask this question. I suppose it's a good
13 foundation question. Did you participate in the
14 negotiations with TransAlta?

15 A Yes, I did.

16 Q Okay. So when you negotiated the agreement,
17 and "you" meaning Puget, how did it factor in the
18 periods of expected noneconomic -- noneconomic
19 dispatch periods, to use a term? I think you know
20 what I'm getting at.

21 A So again --

22 Q So let's look at it in terms of how many days
23 or weeks or months of the year did you actually expect
24 the plant to be operating, knowing the market
25 conditions in the Northwest?

0122

1 A Well, for this particular structure of the
2 contract we ended with, the way we evaluated an RFP,
3 we didn't make any assumptions or expectations of how
4 much the plant would be running or not. Again, it's a
5 firm energy contract, so we know we are obligated to
6 take deliveries 24/7. We evaluated it in the RFP
7 against all other proposals that were given to us in
8 the RFP as a firm 24/7 contract.

9 So, you know, in a sense, it didn't affect the
10 valuation of whether the power was coming from
11 Centralia or not. We know we were getting a certain
12 amount of volume, a certain amount of contract
13 quantities for a certain price, and that's -- that's
14 the way the valuation was done within the RFP. And
15 again, given that -- given that it is a 24/7 contract,
16 it still was the least cost, least risk contract that
17 was selected through this process.

18 Q Okay. I guess without really putting words in
19 your mouth, but it would have been even lost cost and
20 present less risks if you could have negotiated in the
21 second quarter avoidance of the requirement to be --
22 for power delivery?

23 A Yes, if we could have stayed with the same
24 price that we are paying today and taken out Q2, this
25 would have been a much better contract, I'm assuming.

0123

1 However, we did try to negotiate such terms. Every
2 time we negotiated taking out Q2, and at one point we
3 even asked for Q2 and Q3, the price went up
4 substantially, to the point where it was uneconomical.
5 So again, the most economical offer was the one we
6 ended up with.

7 Q Well, let me ask this, then. I sense that
8 there is, at least the way I think about a decision to
9 buy power, and then understanding that there's going
10 to be points in time when the plant may not be
11 operating because of either economic conditions or
12 maintenance. I mean what you just said at least meant
13 to me that you contemplated some down period. Now,
14 you contemplated what market prices were going to be,
15 but when you assessed the annual picture, it was still
16 a better deal. So do I kind of have a gist of what
17 your -- your analysis?

18 A I mean, yes.

19 Q Well, let me -- okay. So let me ask another
20 way, Mr. Bevil. I'm probably not explaining it in
21 terms in which, given your expertise with the utility,
22 that is making it clear what I'm driving at. So
23 you'll have to forgive me for that.

24 So does the company, or did the company assume
25 that the plant would either be -- would either be

0124

1 uneconomic -- well, let me say it this way. Do you
2 expect TransAlta to run the plant when market
3 conditions make it uneconomic to operate it?

4 A I can't speak for TransAlta, but I think if --
5 you would think that they would make economic rational
6 decisions. So if their variable operating cost of the
7 plant is higher than what they can get from the
8 marketplace, you would think they would shut down.

9 But again, just thinking about the nature of
10 the plant itself, you know, they have to be very
11 careful about how they -- they can't truly
12 economically dispatch it. They can't turn it on and
13 off and on and off, right? So they would have to make
14 sure that it's a time period that -- because of the
15 economics of startup and shutdown, and also the
16 employees that may be standing around for a few weeks,
17 just not doing anything. They have to take that all
18 into consideration. And we are also only taking about
19 25 percent, I think, of the total output. So they
20 have other obligations and other contracts off of this
21 facility, too, that they would need to consider and
22 manage.

23 So it's hard for me to say exactly what they
24 are going to do, but -- and we know from a historical
25 perspective, both from our coal facility, but also

0125

1 from TransAlta's, that, you know, during Q2, because
2 power prices are low, that's typically when you want
3 to do planned maintenance, so they will shut down for
4 a planned maintenance period.

5 Q And I suspect that that was driving your
6 interest in negotiating Quarter 2 out of the
7 agreement?

8 A That's correct.

9 Q Okay. Thank you.

10 A Yes.

11 COMMISSIONER JONES: Thank you, Judge
12 Moss.

13

14 E X A M I N A T I O N

15 BY COMMISSIONER JONES:

16 Q I think you heard my questions. They are on
17 page -- start with Page 23 of your testimony, CB-1T.
18 If you could turn to that section.

19 A (Complies.)

20 Q My questions are really going to revolve
21 around the modeling that you did and the sensitivity
22 analysis in Phase 2 of the RFP, and then when the
23 three other projects came in, in June of 2012, okay?

24 A Just to be -- page?

25 Q 23.

0126

1 A 23, okay.

2 Q So just -- it sounds like you were pretty busy
3 that summer modeling.

4 A Well, besides my vacation, that's correct.

5 Q So the way I understand the structure and
6 response to a previous question, you were ready to go
7 to the Energy and Management Committee and the board
8 with a certain recommendation and then something
9 happened. TransAlta was informed Ferndale came into
10 play and other resources came into play, correct, and
11 three other projects? So you initially modeled three
12 with sensitivity analysis, correct, and you were
13 prepared to go with that recommendation to the
14 committee right around June of 2012?

15 A Right. Well, just to be clear, after Phase 1,
16 we selected I think 12 different proposals --

17 Q Okay.

18 A -- for Phase 2. And Phase 2 led to
19 qualitative reasons to eliminate a few of those
20 proposals. I think at the end -- I don't know the
21 exact number, I can find it in testimony, but we wound
22 up with either six or seven proposals that we actually
23 ran.

24 I'm not sure exactly what you mean by
25 "sensitivity," but we definitely ran scenario analysis

0127

1 against --

2 Q That's what I mean.

3 A -- all of those proposals --

4 Q Yeah.

5 A -- and through five different scenarios --

6 Q Okay.

7 A -- or five different kind of potential

8 future --

9 Q Just for the record, what are those scenarios
10 again, Mr. Bevil? I think Green World is one of them,
11 with carbon prices and GHG emissions, correct?

12 A I mean generally, without looking specifically
13 at the testimony, there is a base case --

14 Q Right.

15 A -- which is kind of the base case that came
16 out of the IRP from 2011. Then there's a case with
17 expected future carbon emissions or more environmental
18 costs. Then there's kind of a high price environment,
19 a very low price environment. And then the fifth one,
20 there was one we updated in April, during the RFT
21 process, before we made any decisions, where we
22 received new gas prices.

23 Q Okay.

24 A So we reran and looked at the new forward
25 power price market based on those gas prices. So then

0128

1 there was what we called base with new gas, which
2 meant a new base case using the new gas prices, which
3 showed to be a little bit lower --

4 Q Okay.

5 A -- than the base case.

6 Q Because my questions, at least Mr. Garratt
7 chose not to answer, revolved around gas prices. And
8 I think gas prices are important to this discussion,
9 because you basically conclude that this PPA is an
10 effective, quote, hedge against higher gas prices,
11 right?

12 A Well, higher energy prices. Power prices
13 specifically, but it's --

14 Q Excuse me.

15 A -- directly relative to gas prices.

16 Q Isn't it true, though, that natural gas in
17 most parts of the country -- maybe not so much in the
18 Northwest, but natural gas combined-cycle is kind of
19 the fuel of the margin, determines marginal cost?

20 A I think that's generally true.

21 Q So give me a sense of -- you know, without
22 seeing the forecast I can't comment on them, but I
23 think that you probably received the natural gas price
24 forecast from a consultancy firm that provides a range
25 of forecasts over -- just describe generally, over

0129

1 five years, ten years, twenty years? What kind of
2 forecast was it?

3 A It was a forecast from our consultant. I
4 believe it's a long-term forecast.

5 Q Okay.

6 A But I do not know the specifics or the details
7 of how that consultant provides those numbers.

8 Q Did that forecast provide for a range of both
9 low and high, let's say beyond the forward spot curve
10 today, which is about 3 -- well, at that time I don't
11 know, let's say 350 per million BTU, but did it go
12 down to lower prices, as well as up for higher prices?

13 A I can't say for sure exactly how
14 those power --

15 Q Okay.

16 A -- from the consultant's point of view, what
17 those -- how those power prices applied and what
18 format, if there is just kind of an expected value or
19 they actually gave us all the different ranges and
20 scenarios.

21 Q Okay.

22 A I don't know, sorry.

23 Q But I think in some part of your testimony, or
24 Mr. Garratt's testimony, you talk about the results of
25 what came out of this scenario analysis.

0130

1 A Right.

2 Q And you said that the sensitivities are quite
3 small. Well, the sensitivities are very sensitive to
4 change, for example --

5 A Yeah --

6 Q -- in prices?

7 A -- that's correct. One of the conclusions out
8 of the RFP is that a lot of the proposals we wound up
9 looking at, kind of the candidate short list, really,
10 when you looked at them, they were very -- the models
11 were very sensitive to small changes in price, volume,
12 you know, things like that, to that nature. So, you
13 know, given the size, I guess, of our portfolio, when
14 you add in certain proposals that are in some way
15 small --

16 Q Okay.

17 A -- it can have different effects.

18 Q I understand. I'm going to try to finish up
19 before 12 noon for lunch.

20 A Okay.

21 Q Turn to Page 36, please, of your testimony, if
22 you could. I've just got a question or two there.

23 A Okay.

24 Q And I'm going to -- on Lines 9 through 11, you
25 basically state -- and I don't think this is

0131

1 confidential, but this PPA is, quote, a least-cost
2 resource that provides PSE customers a hedge against
3 higher prices -- so you used the word "hedge" against
4 higher prices -- that no other resource has been able
5 to offer for the duration and at the price offered by
6 TransAlta, correct?

7 A Yes, that's correct.

8 Q And then you describe the other two offers
9 below. In that description, there's no -- no
10 description of the benefit of this contract for load
11 management or wind integration. Did you look at wind
12 integration in using this plant for load management as
13 well?

14 A Well, typically load management and wind
15 integration are -- at this point, through our RFP
16 evaluation, is more of a qualitative assessment.
17 Right now we don't have the refinement of the tools
18 that we use to exactly measure inter-hour flexibility
19 that a proposal or plants may have. So it's -- it's
20 more using experts that are working on those models in
21 a different part of the company, that we bring in to
22 help assess whether these projects may help or may not
23 help PSE manage load or manage wind variability.

24 So we did look at it from a qualitative
25 perspective, but from a pure analytical perspective,

0132

1 we haven't modeled that.

2 Q And you said you did run five scenarios for
3 the combined Ferndale TransAlta Centralia purchase,
4 correct? You ran all five of those scenarios against
5 that combined look at the capacity purchases?

6 A Right. I mean just -- maybe just to clarify,
7 we put in the proposals into the optimization model --

8 Q Yeah.

9 A -- all five different scenarios --

10 Q Yes.

11 A -- and then the model will select what
12 combination. Five out of five scenarios it selected,
13 Ferndale is the least cost, and in four out of five it
14 selected --

15 Q Okay.

16 A -- TransAlta.

17 Q And just a final question on environmental
18 risks and the running of the Green World scenario. So
19 usually, when I think of when you run a scenario like
20 Green World, with GHG emissions at a federal level,
21 carbon price, whatever, that would be reflected in the
22 price, the levelized cost of the resource that you
23 purchase from the bidder, correct, or would it not?
24 Or is it just such a generic look at the future it
25 just kind of models how generic resource types look in

0133

1 the future?

2 A Yes, my understanding is that the -- kind of
3 the imputed cost of carbon or anything in the Green
4 World is reflected in the power prices. I'm not sure
5 if they were reflected into the --

6 Q Okay.

7 A -- generic resources themselves.

8 Q Final question. But isn't it true in this
9 agreement that all of the environmental risk and
10 possible GHG adder or carbon tax in the future is
11 assumed by TransAlta?

12 A Future carbon risk, I would say per the
13 contract terms, is not assumed by TransAlta --

14 Q It's not?

15 A -- because of -- I think it's Section, or
16 Article 10 maybe in the PPA, where this is a direct
17 provision that's pulled out of the statute, that says
18 that in the future, if there is a greenhouse gas
19 imposed, that the parties would come together and try
20 to agree to a new price per the contract.

21 Q Oh, that's right. Yeah, right.

22 A And so if that price can be agreed upon, in
23 other words, if PSE still feels like the PPA structure
24 and the price is still least cost to its customers, we
25 would probably want to pursue that, but then the

0134

1 mechanism would still be, we would have to come back
2 to the Commission and ask for approval of that, an
3 increase in price.

4 Q Right. I'm looking at that now, Mr. Bevil.
5 It's Section 10.1.

6 A Right.

7 Q So if there's any new greenhouse gas standards
8 in the future, which is -- I think the federal EPA has
9 a regulation on the table for new sources, and I don't
10 think this would be a new source. But if it were to
11 be included in any federal compliance mechanism for
12 greenhouse gases, then the parties would convene,
13 negotiate new price terms and come back to the
14 Commission for approval?

15 A That's right.

16 Q Okay. Thank you.

17 JUDGE MOSS: All right. Are counsel
18 going to have any questions as follow-up to the
19 questions from the bench?

20 All right.

21 MR. FFITCH: I have one question, Your
22 Honor. One short line.

23 JUDGE MOSS: Very quick.

24 MR. FFITCH: Thank you.

25

0135

1 C R O S S - E X A M I N A T I O N

2 BY MR. FFITCH:

3 Q I didn't want to miss the chance, once I heard
4 it was your first time.

5 JUDGE MOSS: Careful, Mr. ffitch.

6 Q I just wanted to follow up on your testimony,
7 Mr. Bevil, regarding the option that the company
8 looked at for -- I guess I'm going to use the term a
9 seasonal alternative contract, where you would drop
10 out Q2 or Q3, for example. Do you recall that --

11 A Yes.

12 Q -- discussion?

13 And you indicated that you evaluated those
14 options and determined ultimately that they were not
15 economically advantageous to the company, correct?
16 Was that your testimony in general?

17 A Right. They did not compete against the --
18 kind of the firm offer supply that was offered. So
19 from a least cost perspective, or just a cost
20 perspective, they were going to be more costly to the
21 customer than the firm offer.

22 Q Thank you. That's what I meant to ask.

23 So here's my question: What was the last time
24 that you or Puget Sound Energy made that evaluation of
25 those options versus the firm PPA?

0136

1 A It was probably sometime in April or late
2 April that we finally decided that the firm option was
3 the best option, and kind of the -- I think also
4 commercially, where the two parties were going to wind
5 up going, just given former discussions of different
6 structures we had attempted to look at and different
7 negotiations we had attempted to have. So it had to
8 be kind of late April when we discontinued looking at
9 those different alternatives and kind of stayed with
10 the firm offer supply.

11 Q And that's late April 2012?

12 A 2012, that's right.

13 Q And so that is prior to the time --

14 A Yeah, that's right 2012.

15 Q All right. So that would be prior to the time
16 that you updated your scenarios to reflect lower gas
17 costs and to reflect updated load forecasts, would it
18 not?

19 A I believe we got the new gas prices sometime
20 in April and updated the new scenario based with new
21 gas right at the end of April.

22 Q Did you not testify earlier that those updates
23 occurred in July of 2012?

24 A I'm sorry, which updates?

25 Q The updates of the scenarios, the five

0137

1 scenarios you were discussing with Commissioner Jones,
2 occurred as a result of your new gas price information
3 in your new load forecasts?

4 A My recollection is that we got new gas prices
5 in -- sometime in mid to late April, and with those
6 new gas prices we updated a scenario, called base with
7 new gas. And then through the Phase 2 evaluation, we
8 used those different -- that new scenario to evaluate
9 the candidate short list.

10 Q All right. And those new scenarios with the
11 new information and the new updates were not used to
12 evaluate the seasonal alternatives versus the PPA; is
13 that right?

14 A That's correct. All of those alternatives
15 were addressed or looked at or evaluated in Phase 1.
16 Phase 1, we don't -- we don't -- we're not using the
17 optimization model at that point, we're using the
18 PSM1, which is a screening model, and that kind of
19 determines to us where the best options -- because
20 most proposals have several different options. So we
21 look at those options through the PSM1 analysis, and
22 then it decides kind of which are the best performing
23 proposals that will go forward to Phase 2, for the
24 deeper dive, where we then put them into the
25 optimization model.

0138

1 MR. FFITCH: May I have one moment, Your
2 Honor?

3 JUDGE MOSS: Sure.

4 (Pause in the proceedings.)

5 Q Can you, Mr. Bevil, point us in your exhibits,
6 either CB-3 or CB-4, to anywhere where you display or
7 discuss the evaluation of the seasonal alternatives?

8 A Without thumbing through the whole testimony,
9 I believe that wasn't originally submitted in the
10 original direct testimony, but was later supplemented
11 through a data request.

12 Q So that's not in your direct testimony?

13 A Not originally filed, right.

14 MR. FFITCH: I don't have any other
15 questions. Thank you, Your Honor.

16 JUDGE MOSS: All right.

17 Mr. Kuzma, anything from you?

18 MR. KUZMA: Yes, just a brief moment.

19

20 R E D I R E C T E X A M I N A T I O N

21 BY MR. KUZMA:

22 Q If I could draw your attention to what was
23 originally designated as RG-32HCCX, which I believe
24 that Public Counsel later withdrew. We would like to
25 actually use that for this purpose.

0139

1 On the bottom of that page, there is a list of
2 four different scenarios; is that true?

3 A That's correct.

4 Q And those are all TransAlta proposals. The
5 prices we'll stay away from for confidentiality. But
6 there's a firm resupply, which is the proposal that
7 ultimately was chosen?

8 A That's correct.

9 Q There's a unit contingent?

10 A Yes.

11 Q A unit contingent with no second quarter, and
12 then a unit contingent with no second or third
13 quarter?

14 A That's correct.

15 Q Now, that also lists portfolio benefits,
16 portfolio benefits, and a KW year basis, and levelized
17 price for each of those scenarios?

18 A That's correct.

19 Q And is this the initial indication that PSE --
20 initial analysis that PSE did to look at the different
21 seasonal options?

22 A Yes, this is correct. This is an analysis
23 that was done in the PSM1 model, the screening model,
24 and that was because the portfolio benefits were all
25 negative or less economical than the firm supply. We

0140

1 just decided to eliminate those and move the firm
2 price proposal forward to the Phase 2 analysis.

3 Q So of the four scenarios listed here, the base
4 firm resupply was the only one with a portfolio --
5 positive portfolio benefit?

6 A Yes, that's correct.

7 Q And it also had the lowest levelized cost?

8 A Yes, that's correct.

9 MR. KUZMA: Thank you. That's all.

10 JUDGE MOSS: All right.

11 Mr. Ffitch, I don't really want to give the
12 witness the full meal deal here. Do you have
13 something just really quick?

14 MR. FFITCH: I do, Your Honor.

15

16 R E C R O S S - E X A M I N A T I O N

17 BY MR. FFITCH:

18 Q You previously testified that you did an
19 analysis. These scenarios for the seasonal
20 alternatives came out looking less economical than the
21 firm PPA. Public Counsel is not disputing that. That
22 was your testimony earlier.

23 But what was the date of the analysis that
24 we've been asked to look at here by the counsel for
25 Puget Sound Energy? Can you look at that on

0141

1 Exhibit 32, please?

2 A Well, in Exhibit 32, at the top of the header,
3 it shows a date of December 2011.

4 MR. FFITCH: Thank you. I don't have
5 any other questions, Your Honor.

6 JUDGE MOSS: Thank you.

7 Well, I suppose we will just leave 32HCCX
8 marked as it is, and without objection I will admit
9 it.

10 MR. FFITCH: No objection, Your Honor.

11 JUDGE MOSS: We will need it for ease of
12 reference.

13 All right. So, Mr. Bevil, it appears that we
14 are going to spare you the agony of having to eat your
15 lunch while contemplating a return to the stand. With
16 that, I will release you from the stand, subject to
17 recall, if anyone else defers questions back to you.

18 THE WITNESS: Thank you.

19 JUDGE MOSS: Thank you very much.

20 With that, we will pause for lunch. And when
21 we come back, we will probably complete pretty quickly
22 the PSE witnesses and move on to Mr. Gomez. So let's
23 break until 1:30, and we will see everybody back here
24 at that time. We will be in recess until then.

25 (Lunch recess.)

0142

1 JUDGE MOSS: We have Ms. Barnard on the
2 stand. If you will rise and raise your right hand at
3 this time.

4 THE WITNESS: (Complies.)

5

6 KATHERINE BARNARD, witness herein, having been
7 first duly sworn on oath,
8 was examined and testified
9 as follows:

10

11 JUDGE MOSS: Thank you. Please be
12 seated.

13 THE WITNESS: (Complies.)

14 JUDGE MOSS: I guess you can at least
15 have your witness introduce herself. You don't have
16 to put on the exhibits, of course.

17

18 D I R E C T E X A M I N A T I O N

19 BY MR. KUZMA:

20 Q Good afternoon, Ms. Barnard. Could you please
21 state your name and title and spell your name for the
22 reporter?

23 A Yes, my name is Katherine Barnard, that's
24 K-A-T-H-E-R-I-N-E, Barnard, B-A-R-N-A-R-D, and I'm the
25 director of state regulatory affairs.

0143

1 JUDGE MOSS: Ms. Barnard, the exhibits
2 have previously been admitted by stipulation,
3 including any cross-exhibits. I don't think there
4 were any, but perhaps I'm mistaken about that.

5 In any event, Staff has indicated a few
6 minutes of cross-examination, and I will allow you to
7 proceed, Mr. Trautman.

8 MR. TRAUTMAN: Thank you, Your Honor.

9

10 C R O S S - E X A M I N A T I O N

11 BY MR. TRAUTMAN:

12 Q Good afternoon, Ms. Barnard.

13 A Good afternoon.

14 Q If you could turn to your prefiled direct
15 testimony, which is KJD-1T.

16 A Okay.

17 Q And turn to Page 4.

18 A I'm there.

19 Q And on Lines 5 through 8, you state that PSE
20 proposes to defer all incremental coal transition PPA
21 expenses until included in rates; is that correct?

22 A Yes.

23 Q Now, ignoring for a moment the equity return
24 component, does the cost of power from the PPA
25 increase each year on a scheduled escalation?

0144

1 A Yes.

2 Q And is there an increase in delivered megawatt
3 hours at certain points of time?

4 A Yes.

5 Q Is it the Company's intent that the deferrals
6 be ongoing; that is, with each price change and
7 quantity change, PSE will defer the resulting increase
8 in costs?

9 A The Company's proposal is that we will defer
10 the incremental change between what is in base rates
11 and the costs.

12 Q Now, on the same page of your testimony,
13 Page 4, at Lines 3 through 5, you state that "PSE
14 proposes to defer costs associated with the Coal
15 Transition PPA that are not included in rates in a
16 similar manner as PSE deferred the costs associated
17 with the Goldendale Generating Station in Docket
18 UE-070533"; is that correct?

19 A Yes.

20 Q Now, the Goldendale plant is a gas generation
21 plant that met the greenhouse emission standards in
22 RCW 80.80.040; is that correct?

23 A Yes.

24 Q And therefore, PSE had the ability to declare
25 that it would defer the operating cost, the

0145

1 depreciation and return on the plant under
2 80.80.060(6), without Commission approval; is that
3 right?

4 A That is correct.

5 Q Does PSE consider the proposed deferrals for
6 the coal transition PPA to be allowed by law, as with
7 Goldendale, or does the Commission have the discretion
8 to approve the deferral or not, or do you know?

9 A I have an answer, just a moment.

10 You asked a two-part question. To the first
11 part of the question, does the coal transition PPA
12 qualify under 80.80.060, the answer is no. However,
13 80.80.060 allows for automatic deferral, and in this
14 particular case we've asked, as part of our petition,
15 to include deferrals. So that is one of the elements
16 of our petition that we are asking for approval of the
17 Commission.

18 Q Right. But you affirm it is not -- it does
19 not qualify for the automatic deferral of
20 80.80.060(6)?

21 A It does not qualify, no, but 80.80.060 doesn't
22 disallow it, either.

23 Q Correct.

24 Now, I handed you a copy of the Commission's
25 order that has attached to it -- this is the order --

0146

1 the 12th supplemental order in Docket UE-011570 and
2 UG-0011571. And attached to that is the settlement
3 agreement which has the terms for the power cost
4 adjustment, or PC mechanism. Do you see that?

5 A Yes, I have that.

6 Q Now, in a very -- in a very broad sense, this
7 mechanism sets a baseline for power costs and then
8 defers the difference between the actual expense and
9 the baseline; is that correct?

10 A That's correct.

11 Q And the PCA includes accrual of interest on
12 the deferred balances; is that correct?

13 A That is correct.

14 Q If you could turn to Page 5 of the settlement
15 terms for the PCA, and specifically Paragraph 7, that
16 refers to new resources.

17 A I'm there.

18 Q And the last sentence of that paragraph says,
19 "New resources with a term greater than two years may
20 be included in the PCA allowable cost at the lesser of
21 the actual cost or the average embedded cost in the
22 PCA (including transmission into PSE's Puget Sound
23 system) as a bridge mechanism, until the then future
24 costs of these new resources can be reviewed in a
25 Power Cost Only Rate review."

0147

1 Do you see that?

2 A I see that.

3 Q So I think we can agree that PSE has a
4 deferral mechanism for power purchase agreements, but
5 is it simply that you don't like -- you would not like
6 to apply it in this circumstance?

7 A The difference here, I think, is that -- that
8 the coal transition PPA is not like a normal or
9 typical resource addition. The PPA requires the
10 utility to file for preapproval. And one of the key
11 differences with this particular PPA that was part of
12 Roger -- Mr. Garratt and Mr. Bevil's testimony is the
13 load shaping characteristics which provide benefits to
14 customers in the near term, and there's significant
15 volume differences. And under this new resource, it's
16 more contemplated that it's a -- maybe like a baseline
17 generation, where we've purchased it, so it's a
18 one-time figure.

19 Q Right. But this -- the term that I read, it
20 would -- this is a new resource with a term of greater
21 than two years; is that correct?

22 A That is correct.

23 Q All right.

24 Turning now to the equity return component in
25 your testimony on Page 3. On Line 6 you talk -- you

0148

1 speak of the "costs associated with the equity return
2 component," and then you speak later of the increase
3 in power costs associated with the equity return
4 component. And what are these costs of which you are
5 speaking?

6 A The costs I'm referring to here are line items
7 in the PCA mechanism for adjustments, so they are
8 not -- for example, it's similar to the Tenaska and
9 March Point disallowances. In terms of our actual
10 costs, our actual costs will be what we have to pay to
11 Centralia, but according to the conditions of the
12 legislation, the Company is able to include an equity
13 component, and that is in addition to the contractual
14 costs. Because of Centralia won't bill us that, we
15 need to have it on the line item.

16 So similarly in the past, the Tenaska
17 disallowance, which was not -- it was a reduction to
18 the costs that we were allowed to recover, but we
19 still incurred actual costs. This will be a cost the
20 opposite way, where we will be adding to the baseline
21 contractual costs.

22 Q All right. And so going back, then, to Page 2
23 of your testimony, on the last two lines. You
24 proposed to add the equity component to the power cost
25 in Schedule B as a cost in the adjustment mechanism;

0149

1 is that correct?

2 A Yes.

3 Q And here you refer to the equity return
4 component discussed by Mr. Garratt in his testimony.
5 Do you have Exhibit RG-16 that could be made available
6 to you? That has a discussion of the equity return
7 component.

8 A Okay.

9 Q And I'm looking particularly on Page 3 of 6,
10 which has a list of tables, and at the top it says,
11 "Equity Return Calculation For Coal Transition PPA."

12 Do you see that?

13 A I see that.

14 Q All right. If you would look at Column K,
15 which is labeled "Levelized Return PSE Method," and
16 the first number, the 0.39, or 390,000, that is the
17 equity return in month one, and then the numerals
18 going down the column represent each month's
19 additional equity return; is that correct?

20 A I believe so. This isn't my exhibit, so...

21 Q I understand. My question is simply -- okay,
22 assuming that the Commission were to accept PSE's
23 proposed level of equity return, do you know whether
24 the amount that will be posted to Schedule B will be
25 the amount that's listed here in Column K, or will it

0150

1 be 65 percent of that amount, which essentially would
2 be the expense level, less federal income tax?

3 Do you know the answer?

4 A The way we've envisioned that the item would
5 be entered on Schedule B in the PCA mechanism is based
6 on the levelized cost that is -- that would be
7 approved, so according to the Company's proposal. We
8 would be adding the \$2.92, I believe, which is the
9 figure that Mr. Garratt testified to, and that would
10 be included as the equity return that would --

11 Q And I --

12 A -- be added to the contract, which --

13 Q I believe the 2.92 gets you to the numbers
14 that are in Column K. But when you post that to
15 Schedule B, I guess the question is do you know
16 whether you would then take 65 percent of that amount
17 or the full amount? Do you know the answer to that?

18 A I don't quite understand the question, I'm
19 sorry.

20 Q Well, would you post -- for federal income --
21 to account for federal income tax, when you post the
22 amounts that are listed in Column K to Schedule B,
23 would you post the amounts that are listed here or
24 would you post 65 percent of those amounts?

25 A We would post the amount, the levelized cost.

0151

1 Q So would you not -- if you do that, wouldn't
2 you be double-counting federal income tax?

3 A No. Federal income tax is not part of the PCA
4 mechanism. It's not a line item in the PCA, at least
5 not on the O & M piece.

6 Q So again, the numbers in Column K, which are
7 based on 7.24 percent weighted pretax equity return,
8 which is listed in the top left-hand corner of the
9 sheet, doesn't that already include federal income
10 tax?

11 A No, this is the pretax equity return.

12 MR. TRAUTMAN: All right. That's all I
13 have.

14 JUDGE MOSS: All right. Thank you,
15 Mr. Trautman.

16 Do we have any questions from the bench?

17 Apparently not.

18 Well, I suppose there may be some redirect.

19 Mr. Kuzma?

20 MR. KUZMA: Yes.

21

22 R E D I R E C T E X A M I N A T I O N

23 BY MR. KUZMA:

24 Q Earlier, Mr. Trautman was asking you about the
25 Goldendale acquisition and the deferral costs

0152

1 thereunder.

2 A Yes.

3 Q Do you know when RCW 80.80 became effective?

4 Maybe if you turn to -- do you have Exhibit

5 RG-8HC?

6 A I believe it became effective initially in

7 2007, but then it was updated in 2011, 80.80.060.

8 Q Okay. And if you looked on Page 425, under

9 the definition of upgrade.

10 A 425?

11 Q Yes.

12 A (Reviews document.)

13 Q Is the date there the effective date of the

14 statute?

15 A I believe so.

16 Q And what date is that?

17 A July 22nd, 2007.

18 Q Okay. And do you know what date the

19 Commission issued an order approving the deferral of

20 costs under the -- for the Goldendale facility? It's

21 Docket UE-070533.

22 A Your order was issued April 11, 2007.

23 Q So was Goldendale the standard for RCW 80.80,

24 then?

25 A No.

0153

1 Q Also, there was a question regarding the PCA.
2 Does the PCA allow deferral of all costs that are
3 outside of the baseline costs or are there bans that
4 must be considered?

5 A There are definitely bans that must be
6 considered. The first 20 million, plus or minus, is
7 solely the responsibility of the company.

8 Q So it would be incorrect to suggest that the
9 PCA allows for full cost recovery then?

10 A That is correct.

11 MR. KUZMA: Thank you. That's all.

12 JUDGE MOSS: Okay. Nothing further,
13 then. From your perspective, Ms. Barnard, I'm sure
14 your stay on the stand was mercifully brief. We
15 thank you for your testimony, and you may step down,
16 subject to recall -- no, actually, we don't have any
17 more PSE witnesses to defer question to you, so you
18 are apparently off the hook.

19 I believe our next witness, then, will be
20 Mr. Gomez, for the Staff.

21 DAVID C. GOMEZ, witness herein, having been
22 first duly sworn on oath,
23 was examined and testified
24 as follows:

25 JUDGE MOSS: Please be seated.

0154

1 THE WITNESS: (Complies.)

2 JUDGE MOSS: Thank you.

3 Ms. Brown, are you going to be handling this
4 witness?

5 MS. BROWN: I'm dancing as fast as I
6 can.

7 JUDGE MOSS: Take your time.

8

9 D I R E C T E X A M I N A T I O N

10 BY MS. BROWN:

11 Q Mr. Gomez, good afternoon.

12 A Good afternoon.

13 Q Please state your full name for the record,
14 spelling the last.

15 A David Carlos Gomez, G-O-M-E-Z.

16 Q And what is your occupation?

17 A I am an assistant power supply manager for
18 energy regulation.

19 Q In preparation for your testimony here today,
20 did you redistribute direct testimony and exhibits,
21 Exhibits DCG-1HCT, 2-HC, 3-HC, 4-HC and 5?

22 A I did.

23 JUDGE MOSS: And the exhibits have all
24 been stipulated in, Counsel, so we don't need to offer
25 them.

0155

1 MS. BROWN: Well, I just want to ease
2 into this. He has not testified before, either.

3 Q Do you have any revisions, corrections or
4 additions you would like to make to your testimony or
5 exhibits here this afternoon?

6 A No.

7 Q And were they prepared by you or under your
8 direction or supervision?

9 A Yes.

10 Q If I were to ask you the questions set forth
11 in Exhibit DCG-1HCT today, would your answers be the
12 same?

13 A Yes, with the exception of an errata that was
14 issued, but I believe that has already been entered in
15 the record.

16 Q Okay. As have your other exhibits here.

17 MS. BROWN: I tender the witness for
18 examination, Your Honor.

19 JUDGE MOSS: Thank you.

20 Mr. Gomez is available for cross-examination.
21 Mr. Kuzma, I believe you have indicated you have some
22 interest in talking with him today.

23 MR. KUZMA: Yes, I do.

24 JUDGE MOSS: Go ahead, please.

25

0156

1 C R O S S - E X A M I N A T I O N

2 BY MR. KUZMA:

3 Q Good afternoon, Mr. Gomez.

4 A Good afternoon.

5 Q I would like you to turn to Page 10, Line 20
6 of your testimony.

7 A (Complies.)

8 Q There you state that "The Alternative
9 facility's 285 MW is a closer match for the 327 MW of
10 average energy delivered to PSE from the PPA."

11 A Again, was it Line 10 you were asking -- I'm
12 sorry, Line 20?

13 Q Line 20. Page 10, Line 20.

14 JUDGE MOSS: Some of us will have that
15 on Line 21.

16 Q Okay.

17 A Oh, I'm sorry. Go ahead and ask that --

18 Q Yes, and intending to look at the line that
19 said, "The Alternative facility's 280 MW."

20 A Yes, I see that.

21 Q Is the alternative plant referred to in this
22 statement the Ferndale cogeneration station?

23 THE COURT REPORTER: I'm sorry, the...

24 Q The Ferndale cogeneration station.

25 A Yes.

0157

1 Q Does the reference to 327 megawatts of energy,
2 average energy delivered to PSE from the PPA, refer to
3 energy to be delivered under the coal transition PPA?

4 A Yes.

5 Q If I could have you turn to Exhibit No. RG-9.

6 A Is it in the --

7 THE WITNESS: Oh, thank you.

8 A Yes. Go ahead, please.

9 Q Does Column C of Exhibit No. RG-9 reflect the
10 volumes that PSE is to receive each month under the
11 terms of the PPA?

12 A Yes.

13 Q If one were to average all of the numerical
14 values reflected in Column C on Pages 1 through 6,
15 would such average be approximately 327 megawatts?

16 A No.

17 Q If one were to average all of the numerical
18 values reflected in Column C on Pages 1 through 6,
19 would such average be approximately 346?

20 A Yes.

21 Q I would like to turn to Exhibit No. DCG-11CX.

22 A (Complies.)

23 Q Is this exhibit Staff's response to PSE's Data
24 Request No. 16?

25 A I'm having a little trouble finding that. Are

0158

1 we talking about Cross-Exhibit No. 11?

2 Q Yes.

3 A Yes, I have it. I'm sorry, go ahead.

4 Q Is this exhibit Staff's response to PSE's Data
5 Request No. 16?

6 A Yes.

7 Q How many hours are there in a calendar year
8 that's not a leap year?

9 A I believe the number is 1,860.

10 Q Would you accept, subject to check, the number
11 is 8,760?

12 A I stand corrected. I'm a little dyslexic.

13 Q Thank you.

14 If you were to divide 8,760 by 12, do you know
15 what the answer would be?

16 A No.

17 Q Would you accept, subject to check, that 8,760
18 divide by 12 is 730?

19 A Yes.

20 Q How many --

21 A If I had a calculator, I would be able to
22 answer that.

23 Q How many hours are there in a calendar year
24 that is a leap year?

25 A I would say you would have to take 24 hours

0159

1 out of that number, correct?

2 Q Or add to.

3 A Or add to.

4 Q So 8,784?

5 A Right.

6 Q Okay. And if you were to divide that by 12,
7 would you agree, subject to check, that the answer is
8 732?

9 A Yes.

10 Q So if there is 730 hours in an average month
11 of a calendar -- of a calendar year that is not a leap
12 year, and 732 in a calendar year that is a leap year,
13 how did Staff calculate the average number of hours
14 per month to be 729?

15 A Again, are you referring back to the --

16 Q Exhibit.

17 A Well, I think that the differences in the
18 result, that averages out the differences between the
19 leap year and the not leap year.

20 Q Well, the leap -- a non-leap year is 730.

21 A Right.

22 Q And a leap year is 732, so the average would
23 have to be between those two, and this is less than
24 both.

25 A That's true. I think that -- and I can't

0160

1 account for that difference. But I think for the
2 purposes of the conversation of -- or at least for the
3 purposes of a -- the discussion, in terms of an
4 equivalent plant, whether you're talking about 280,
5 346 or 327, I think in the context of the testimony,
6 in terms of the general direction on that testimony, I
7 think it was talking in terms of that and the relative
8 distance between 650 megawatts.

9 Q If you would turn to Page 11, Lines 8 through
10 11 -- well, on my version of your testimony -- the
11 sentence that begins, "Staff believes that the
12 Alternative plant's purchase price offer..."

13 JUDGE MOSS: Sorry, Mr. Kuzma, I lost
14 your reference there.

15 MR. KUZMA: Page -- on my version it is
16 Page 11, Lines 8 through 11. It starts with "Staff
17 believes that the Alternative plant's purchase price
18 offer..."

19 JUDGE MOSS: Okay.

20 A Yes, I see it.

21 Q Is the reference to the Alternative plant a
22 reference to the Ferndale cogeneration station?

23 A Yes.

24 Q Is it Staff's position that the Ferndale
25 cogeneration station is the lowest cost and lowest

0161

1 risk option for the Company to meet the capacity needs
2 proposed to be met by the coal transition PPA
3 beginning in December of 2014?

4 A Can you repeat the question? I just want to
5 make sure I understand.

6 Q Is it Staff's position that the Ferndale
7 cogeneration station is the lowest total cost, lowest
8 risk option for PSE to meet the capacity needs
9 proposed to be met by the coal transition PPA
10 beginning in December 2014?

11 A I'm going to repeat the question to make sure
12 I answer it correctly. So what you're saying is, is
13 that the Ferndale cogeneration station, as a resource,
14 is -- when compared to the coal transition purchase
15 power agreement, is least cost -- least cost resource
16 when compared to the -- or -- and capacity equivalent
17 to the coal PPA, as looking and comparing those two
18 resources against each other, correct?

19 Q Well, maybe I will back up a little bit, then.
20 So did Puget purchase the Ferndale
21 cogeneration station?

22 A It purchased it, yeah. I believe the date was
23 in November, when the -- when the actual plant closed,
24 and the board of directors approved it sometime around
25 October --

0162

1 Q Okay. And --

2 A -- 2012.

3 Q -- Puget purchased that to meet its need
4 beginning -- capacity need beginning December 2012,
5 correct?

6 A That is correct.

7 Q So would Puget also rely on that to meet its
8 incremental need beginning in 2014?

9 A Let me see if I understand the question
10 correctly. Are you saying -- is now that the Ferndale
11 cogeneration plant has been selected and is -- and I'm
12 going to go to a diagram that helps me understand that
13 relationship myself. Bear with me for a second.

14 (Pause in the proceedings.)

15 Q Maybe I can make it a little easier. If this
16 contract were to be disapproved or terminated or not
17 to be coeffective for any reason, would PSE have a
18 remaining need beginning in December of 2014?

19 A Yes.

20 Q Would PSE be able to purchase the Ferndale
21 cogeneration station to meet that need?

22 A No.

23 Q Thank you.

24 I would now like to turn you to Page 11,
25 Footnote 23.

0163

1 A In my testimony?

2 Q Yes, of your errata version.

3 A Oh, I didn't bring a copy, I'm sorry.

4 Q Oh, you don't have a copy?

5 A I'm familiar in general terms --

6 Q Okay.

7 A -- what's going on.

8 Q There you state that the corrected formula
9 should be expressed as a negative payment (0, 133 --
10 well, actually, I think you have the same statement in
11 one of your --

12 A I'm looking at it right now.

13 Q Oh, okay.

14 A It's No. 17.

15 Q Okay. Is it correct that Commission Staff
16 suggest a preference in this case for the use of a
17 payment function in Microsoft Excel, as opposed to the
18 XNPV function that PSE used?

19 A Well, I think that the -- when Staff was
20 looking at it to validate the calculations of what the
21 Company is proposing as -- is equity added throughout
22 the term of the PPA, the Company looked at the amount
23 of energy being delivered, and then compared that to
24 what the actual equity return had been calculated in,
25 I believe it's -- RG-9 would be the matrix for the

0164

1 worksheet that was used.

2 When we compared those numbers, compared to
3 what an expected results would have been, which I
4 believe is your marginal \$86.6 million return. In
5 actuality, your methodology and the method that you
6 used to calculate, or what PSE uses to calculate,
7 results in a calculation that's almost \$12 million
8 more than the nominal. So Staff's expression of the
9 payment terms resolves that issue and recognizes the
10 equity adder on a straight number or a straight steady
11 state number from what -- for 133 months of the
12 agreement, based on the nominal 86.6 million.

13 Q What is the first value in the parentheses in
14 the payment function? You have a zero there. What is
15 that?

16 A (Reviews document.)

17 Q The payment function, what is the first
18 variable included in the --

19 A The first variable is the interest, which is
20 the amount of interest that would be included in a
21 stream of payments. The reason why it's zero is
22 because that interest has already been calculated or
23 already been included as part of the nominal number.

24 Q And how is it included in the nominal number?

25 A Well, when you look at the -- and I think if

0165

1 you go back to RG-9, that's probably the easiest way
2 to talk about it. There's a nominal total dollars
3 expressed in millions in RG-9, and that number is
4 based on taking the pretax equity return at
5 7.24 percent, and running that through. When you add
6 those up, in terms of the pretax equity return, you
7 get a nominal number of 86.6 million.

8 It's Staff's position that -- we have a
9 difference of opinion in how the Company calculated
10 the equity return and how -- in terms of how it's --
11 what that actual number is going to be, than what the
12 Company has. And I think that -- that difference of
13 opinion is -- is already included in Staff's
14 testimony, as well as the Company's.

15 Q Well, to focus in on that a little bit, then.
16 You mentioned 86 million marginal there. Do you mean
17 the nominal, the nominal total aggregate equity?

18 A I'm using the terminology that's -- that's
19 included in -- in RG-9. That calls it a nominal
20 number.

21 Q Nominal, okay. So \$86 million nominal. And
22 so what Staff did was they tried to replicate the \$86
23 million nominal over the life of the contract through
24 the use of this payment function?

25 A Well, I think that when -- we can work our way

0166

1 through the worksheet in a number of different ways.
2 We can talk about formulas here all day. Essentially,
3 I think the out -- the result is really the same,
4 which is where you kind of land in terms of what the
5 actual equity adder should be.

6 Q No, I --

7 A Is it 86.6 million, as Staff proposes, or is
8 it \$12 million more, as the Company proposes?

9 Q So you -- what I'm trying to get at, though,
10 is -- is with Puget's proposal, they were trying to
11 get a present value number, not a nominal number.

12 A Right. I think what the Company is trying to
13 do look is to look at it from the perspective of
14 saying what the time value of money is and trying to
15 discount the stream of payments over the entire term
16 of the agreement. What we're saying is this is
17 just -- there's really -- maybe that would be more
18 appropriate if you were talking about an actual plant
19 that you were purchasing, as opposed to just an
20 additional source of revenue for the Company.

21 Q Well, let's talk about an actual plan, then.
22 If you turn, then, to RG-16.

23 A Go ahead.

24 Q So Column G in this would represent if
25 Puget -- I mean would represent what Puget's pretax

0167

1 equity return would be if it were to purchase a plant
2 of 346 megawatts at a price of \$215 million.

3 A Well, I just want to make sure that you
4 understand, is that I had -- while the worksheet
5 itself looks familiar, I think counsel, my counsel has
6 indicated that -- in terms of the layout and some of
7 the columns, the way they are included, they are a
8 little bit new to me.

9 Q This was filed well over several weeks ago.
10 This is not --

11 A I'm sorry, I'm sorry, my mistake. Go ahead.

12 Q Yeah, I stayed away for that reason.

13 A Okay.

14 Q So going back to the question. Column G
15 represents what the equity return would be if Puget
16 were -- under traditional ratemaking, if Puget were to
17 purchase a 346 megawatt plant for \$15 million, using
18 the weighted average cost of capital of 7.8 percent.

19 A Okay.

20 Q Now, that shows a \$1.29 million return in the
21 first month, correct?

22 A Correct.

23 Q Now, if you go over to Column L, you have
24 Commission's method, .34, 340,000.

25 A Correct.

0168

1 Q And then PSE's method is 380,000.

2 A Correct.

3 Q So under traditional ratemaking, if Puget had
4 purchased a plant of equivalent size, it would be
5 making about \$900,000 more per month in the first
6 month in equity?

7 A Correct. I think you -- I think I understand.
8 What you are saying here is -- in terms of -- I mean
9 you look at it from a monthly payment standpoint. I
10 think you need to look at it when it all totals up, in
11 terms of what it actually ends up being as a total. I
12 mean, are you talking about \$86.6 million, or are we
13 talking about \$12 million more?

14 Q But if -- projects under traditional
15 ratemaking are generally -- when they are put in rate
16 base are front-end loaded, correct? They decline in
17 value over time and the --

18 A Right.

19 Q -- equity does as well.

20 Now, in this case it is actually the converse,
21 where the volumes increase over time and as a result,
22 equity increases over time, correct?

23 A Right.

24 Q And so the difference between Staff and Puget
25 essentially comes down to -- if I can say this

0169

1 correctly, is that you tried to get the nominal value,
2 which would not account for the time value of money,
3 and Puget tried to get the present value of what the
4 equivalent plant would be on an equity basis?

5 A That's correct, and that -- that ultimate
6 result is \$12 million more in equity payments, when
7 taking into account the time value of money in this
8 case, which may be more appropriate when the Company
9 is purchasing an asset, or actual asset, or acquiring
10 an actual plant, and has money, its own money, in this
11 case, invested into this plant, but that's not what
12 this case is here.

13 Q It's 12 million more on a nominal value, but
14 Commission Staff says approximately 8, 7 or \$8 million
15 less on a present value basis?

16 A Well, that's one way to look at it. I think
17 we can spend a lot of time here trying to reconcile
18 the methodology between Staff and the Company.
19 Ultimately, I think we've -- we've already had the --
20 the opportunity to include that in our testimony.

21 Q Okay. So it is still the position of
22 Commission Staff that Puget's calculations were in
23 error, or is it more of a disagreement of the
24 methodology?

25 A It's a disagreement in methodology. And then

0170

1 that's the basis by which the errata was originally
2 issued, was -- is that -- I -- I'll use the term --
3 own it myself, because I was incorrect in that
4 statement. That's why we wanted to make sure we
5 issued the errata as soon as possible.

6 MR. KUZMA: Thank you. That's all I
7 have.

8 JUDGE MOSS: Do you have any --
9 Ms. Hirsh, haven't indicated any cross, have you? Oh,
10 yes, you did, ten minutes. Sorry.

11

12 C R O S S - E X A M I N A T I O N

13 BY MS. HIRSH:

14 Q Good afternoon, Mr. Gomez.

15 A Good afternoon.

16 Q Nancy Hirsh with the Northwest Energy
17 Coalition.

18 In your direct testimony, on Page 13, you
19 proposed that Puget be provided an equity adder only
20 for the power generated from the Centralia coal plant,
21 and in limited cases, a resupply.

22 A That is correct.

23 Q And then you go on, on Page 8, to define
24 resupply as abnormal circumstances of limited duration
25 that prevent delivery from the coal plant; is that

0171

1 correct?

2 A I'm going to Page 8 to make sure I'm -- I want
3 to answer the question correctly. Yes.

4 Q Could you provide some examples of what might
5 constitute abnormal circumstance of limited duration?

6 A I'm just trying to make sure I know what's
7 most helpful to you. And I'm assuming that NVEC has
8 been -- has seen the responses to -- to some of these
9 similar type of questions.

10 Well, let me -- let me back up. Excuse me,
11 I'll answer the question.

12 Q Right.

13 A The answer to the question is -- and maybe go
14 ahead and restate it, because I want to answer it
15 right. I don't want to waste your time. I'm sorry.

16 I think the question that you are asking is
17 what are the -- giving you examples of what would be a
18 resupply condition?

19 Q Yes, what do you consider abnormal? Would
20 normal maintenance and operation be in that? How long
21 is limited duration? So I guess I want more --

22 A Oh, I'm sorry, yes. No, I think
23 a scheduled -- scheduled outages as a result of
24 maintenance would not be included in those resupply
25 conditions.

0172

1 Q So what would be abnormal?

2 A Oh, well, a number of -- again, not being an
3 expert in how -- what could go wrong in a coal plant,
4 I think there's a number of things that could happen
5 that could force -- create a forced derate situation
6 in the plant. Catastrophic failure of a turbine is
7 a -- which would require months and months of lead
8 time to acquire new equipment to fix it. Again,
9 that's pure speculation on my part.

10 But I think the testimony -- or I mean the
11 line of reasoning here is, is that -- and the concern
12 from Staff's perspective, is resupply, and this
13 terminology which is important is not defined in the
14 contract anywhere, so it's really a very open-ended --
15 and that's a concern to Staff from a risk -- a rating
16 standpoint.

17 Q Right. Well -- and you propose a definition,
18 and that's why I'm looking for more -- more clarity.
19 When you again used the term "limited duration," do
20 you have a time frame in mind of limited duration,
21 what that might be?

22 A Yes, and I believe in the testimony that we
23 had, we did talk to -- excuse me, not testimony. Give
24 me a second to get to the reference, please --

25 Q Okay.

0173

1 A -- so I'm...

2 (Pause in the proceedings.)

3 A The actual -- the actual duration and
4 frequency -- in the contract itself, in the PPA,
5 there's a term -- a term used that's called
6 "occasion," and I will define the occasion, which
7 is -- well, this has -- this has been highlighted as
8 confidential, and I didn't stipulate to that, but...

9 JUDGE MOSS: Where are we?

10 THE WITNESS: I'm actually -- I'm
11 talking from a -- from a data request, Your Honor.

12 JUDGE MOSS: What's the exhibit number?

13 THE WITNESS: It's not an exhibit
14 number, so I don't know. I'm just using it as a
15 reference. But it's been listed as -- I don't know if
16 I can bring that in.

17 JUDGE MOSS: If it's confidential, we
18 can't really have it on the record.

19 THE WITNESS: All right.

20 A Go ahead and ask your question again.

21 Q Let me --

22 A I'm sorry.

23 Q Let me ask it in a different way.

24 Do you have specific criteria that you would
25 use to determine when a situation is abnormal and of

0174

1 limited duration?

2 A Yes.

3 Q Which would be?

4 A Those -- the specification there would be a
5 situation where the plant, given the number of
6 frequency and time of year, and the amount of time
7 that the -- that the plant would be out of -- offline.
8 And so -- and the fact that it would be a nonscheduled
9 event.

10 And so there's a set of definitions that would
11 be able to cover that within the existing agreement
12 itself. We require some modification to one of the
13 sections of the agreement, I believe it's Section 3.2,
14 to further define that and clarify those situations.

15 Q Thank you.

16 Your testimony suggests that limiting the
17 equity adder to these situations is in keeping with
18 the law's goal of mandating employment in affected
19 communities. I think you used that reference in your
20 testimony.

21 A Yes.

22 Q And the section of the law that you refer to
23 says, the -- quote, The legislature finds that coal
24 fire based on electric generation facilities are a
25 significant contributor to family-wage jobs and

0175

1 economic health in parts of the state, and that
2 transition of these facilities must address the
3 economic future and the preservation of jobs in
4 affected communities.

5 A That's correct.

6 Q Is it your position that this language means
7 that jobs at Centralia coal plant must be preserved?

8 A I think that the entire policy itself, the way
9 everything works, it doesn't -- when we talk about one
10 particular limit versus the other, we have to look at
11 it in its entirety.

12 We talked -- we talked before about the MOA,
13 for instance, and we talked about all of these other
14 things and how they interact. The point is, is that
15 they are all working together to -- to meet a larger
16 policy goal. And the policy goal is a smooth
17 transition away from coal power that doesn't impact
18 these communities. It doesn't impact the community in
19 Centralia, it doesn't -- it doesn't impact communities
20 by destabilizing the power grid, et cetera, et cetera.

21 And so I think that when we look at how a
22 resupply condition, whether or not the Company would
23 have the -- the ability within the actual agreement
24 itself, either company in this case, TransAlta, to
25 just shut down the plant and then just provide power

0176

1 from -- from a completely other -- another source into
2 one of the four distribution points allowed in the
3 power purchase agreement. I think that that all of a
4 sudden creates -- breaks down a large chunk of what
5 that -- what the actual policy was intended to do,
6 which was to ensure that there was a -- not only a
7 smooth transition from coal power, to maintain
8 stability in the grid, but also employment and
9 family-wage jobs in Centralia.

10 Q So I would infer from what you are saying,
11 that you agree, there's a distinction between
12 preserving and expanding jobs in the affected
13 community, and preserving jobs specifically at the
14 Centralia coal plant?

15 A I think that there is -- it's all of the
16 above. I mean, I think we can talk about stability of
17 the grid and impacts to that, and what that could have
18 to employment outside of the Centralia coal plant
19 area. But yeah, it's also other jobs that would -- in
20 the Centralia coal plant, too.

21 Q And the -- it's your understanding that the
22 MOA would provide annual payments by TransAlta to fund
23 local economic development and community development?

24 A Yes.

25 Q And is it your position that limiting the

0177

1 equity adder, as you recommend in your testimony, will
2 help ensure that power from the Centralia coal plant
3 is used to serve this PPA, more than would be the case
4 if the equity adder were applied to all power that's
5 provided under the PPA, regardless of source?

6 A Can you restate the -- say the question again.
7 I just want to make sure I understand.

8 Q I'm referring to how your proposal would limit
9 the equity adder.

10 A Right.

11 Q Right, to only when plant -- when power is
12 being provided from the plant.

13 A Correct.

14 Q And do you think that that would serve --
15 would that serve to keep the plant operating more than
16 if the equity added were provided for all sources of
17 power provided under the terms of the PPA?

18 A Well, and understanding the purchase power
19 agreement, I -- I believe that PSE does not have
20 dispatch authority under the contract. So if
21 TransAlta makes a decision to dispatch or run the
22 plant, not run the plant, from a purely economic
23 decision, I guess I can envision a number of
24 situations. I believe Commissioner Oshie had talked
25 about them a bit, where TransAlta could use arbitrage

0178

1 to take advantage of the situation and, you know, sell
2 the power to Puget Sound ratepayers at a much higher
3 rate than they actually would pay on the market on --
4 on a -- on an as-desired basis, ultimately, at the end
5 of the day, shuttering the plant and temporarily
6 laying off the workers at Centralia and pocketing the
7 difference.

8 The power purchase agreement, in terms of
9 the -- the standard by which Staff looks at it, in
10 terms of protecting ratepayers -- not only ratepayers,
11 but for the long term, I think is -- you know, is at
12 risk there because of that. Because we don't have
13 that kind of certainty to understand what conditions
14 the Company, in this case PSE, may earn the equity
15 adder or -- and/or the situation of when TransAlta
16 will provide power from the coal power plant or from
17 whatever source it feels like.

18 Q Just to press on that point more, though.
19 There is the possibility, the flip side, where if the
20 equity adder is only applied to operation of the
21 plant, then there could be a circumstance where we
22 would have more increased greenhouse gas emissions
23 because the plant is operating more, because there
24 perhaps may be, in the interest of both parties, to
25 operate the plant more, regardless -- instead of

0179

1 transitioning to other power sources. Is that a
2 circumstance you envision?

3 A It's certainly a situation that -- I would say
4 it has to be balanced with all of the other moving
5 parts in this purchase power agreement, and in terms
6 of what the policy objectives are. I think that that
7 balance has to be properly struck.

8 I would concur with you, that that is a
9 concern. Obviously if the plant isn't running, it's
10 not generating greenhouse gas. That's a good thing.
11 But then again, it could be -- it could be power from
12 any source. It could be power from coal strip, it
13 could be power from nongreenhouse gas compliant gas
14 plant. I mean, you know, we -- one could say
15 there's -- could be -- the power could come from
16 anywhere. It's not stipulated or -- or talked about
17 in the agreement in any way. That was the concern
18 Staff had with that.

19 Q When you thought about applying the equity
20 adder only to power that comes from the Centralia coal
21 plant, did Staff consider allowing the equity adder to
22 be applied to another facility locally owned by
23 TransAlta, such as the big Hanford gas plant in Lewis
24 County, which would satisfy your earlier statement,
25 that protecting jobs in the local community would be a

0180

1 good thing?

2 A No, we did not consider that.

3 Q So switching topics a little bit. Also in
4 your testimony on Page 16, you talk about setting a
5 condition for approval of the PPA if the MOA is
6 terminated.

7 So clarify. Does Staff believe that the PPA
8 should be terminated if any provision in the MOA leads
9 to its termination? So there are several reasons why
10 the MOA could be terminated, not just perhaps
11 conditions listed in the PPA.

12 A (Reviews documents.)

13 Q I believe it's Page 16 of your testimony.

14 But again, so the MOA says that through lack
15 of funding for the community, the tax breaks go away.
16 The selective noncatalytic reduction technology is not
17 installed, there are a variety of reasons why the MOA
18 could be terminated. And would -- is Staff
19 recommending that the PPA be terminated regardless of
20 why the MOA is terminated?

21 A Again, Staff's position -- I don't want to
22 seem repetitive, but the way -- Staff understands all
23 of these moving parts to work together as a single
24 policy. Legislation, memorandum of agreement, equity
25 adder, all these things work together. And in the

0181

1 absence of one of the very -- most important element,
2 in this case the memorandum of agreement, which
3 specifies certain things that TransAlta is going to do
4 for consideration of allowing the companies to enter
5 into agreement for longer than ten years. I think if
6 you remove one of the most critical parts of that
7 policy, I think it's difficult to -- to really justify
8 the fact that we should buy power from there at all.
9 And so therefore, that's where the statement comes
10 from. If you don't have the memorandum of agreement,
11 I think -- I think it calls into question the entire
12 arrangement.

13 Q How will Staff know if the MOA is terminated?
14 So is there -- is Staff proposing any kind of
15 conditions, or would Staff consider conditions in
16 which there's communication between TransAlta and
17 Puget, and then Puget to the Commission, and would
18 there be a time line set out for that kind of
19 communication?

20 A We haven't -- you know, beyond just the fact
21 that the MOA is terminated, what our position is, we
22 haven't gotten really into any kind of discussion
23 of -- of how compliance may work in that.

24 Certainly, I think that we will be in a
25 position to be well aware if the MOA is cancelled. I

0182

1 know that there is a deadline that has been extended
2 through December of next year, so we are certainly
3 going to put that date on our calendar. If and when
4 that date passes, if that then happens -- that that's
5 again why we're here, is to understand what happens
6 until this -- if and when -- well, I shouldn't say if
7 and -- hopefully if -- or hopefully not, that the MOA
8 is terminated.

9 MS. HIRSH: Thank you. That's the end
10 of my questions. Thank you.

11 JUDGE MOSS: Thank you, Ms. Hirsh.
12 Anything from the bench?

13 CHAIRMAN GOLTZ: A couple things,
14 Mr. Gomez.

15

16 E X A M I N A T I O N

17 BY CHAIRMAN GOLTZ:

18 Q So if PSE owned the plant, they've acquired
19 it, or reacquired it, and operated it 24/7, 365 days a
20 year, or as we know 8,760 hours, except for in leap
21 years, they would earn a return -- they would be in
22 rate base and they would earn a return on that?

23 A That is correct.

24 Q And if they operated the plant at all hours of
25 the year, except when it was down for maintenance, or

0183

1 when it was -- except during abnormal circumstances of
2 limited duration, they would still earn a return on
3 the entire investment; is that correct?

4 A That's correct.

5 Q And if during certain times of year, say in
6 May and June, they shut the plant down entirely
7 because the variable costs of power at Centralia was
8 such that it was more economical to buy power on the
9 open market, or actually get paid to take power at
10 certain times, that that's exactly what Puget Sound
11 Energy should do, and they would still earn a return
12 on that, on their overall investment; is that correct?

13 A That is correct.

14 Q On the other hand, if PSE owned the plant and
15 then shut it down entirely, and didn't operate it, it
16 would no longer be used, so they would earn zero, and
17 that is correct, too?

18 A That's correct.

19 Q And somewhere between there, there's a point,
20 and I don't know where it is, if it's they operate it
21 one hour a year, or two hours a year, or ten days a
22 year, the Commission Staff might say, yeah, that's
23 really no longer used and useful, but we just don't
24 know where that point is. Is that accurate?

25 A That's correct.

0184

1 CHAIRMAN GOLTZ: That's all I have.

2 COMMISSIONER OSHIE: Just a follow-up,

3 Mr. Gomez.

4

5 E X A M I N A T I O N

6 BY COMMISSIONER OSHIE:

7 Q If -- if -- let's -- if Puget operated the
8 plant when it wasn't economic to do so, would -- and
9 did that over a material period of time, would Staff
10 seek -- do you believe Staff would seek a disallowance
11 of those costs for how they operated the plant?

12 A In the context of the PPA?

13 Q No, I think I'm just caught up on -- on
14 Chairman Goltz's question, where he's talking about,
15 you know, if Puget owned the plant, they still earn
16 their return, even though they would shut it down
17 during uneconomic periods; in other words, the plant
18 is on the market because of power prices or gas prices
19 in combination. But if Puget operated it anyway, and
20 incurred the gas -- the cost of operation, including
21 the gas prices, would Staff -- how would Staff treat
22 that? Would they say, oh, that's just fine, or would
23 they say, wait a minute, when the market was -- for
24 power is at 15, as it is now, and it costs \$45 to run
25 it, is Staff going to say, well, that's just the way

0185

1 the ball bounces?

2 A No, I think that -- I think that that is true,
3 is that you have a situation where the Company in this
4 case -- if I understand correctly, the agreement, the
5 way it stands, is that the Company has to take the
6 power, and it has to take it at what -- what the PPA
7 price or cost is. To that extent, if market prices
8 are doing something different, we would expect that
9 the Company, through its -- its remaining portfolio
10 and through its other resources, is able to balance
11 those differences out. And to -- at the end of the
12 day, when it has entered into the PCA, those costs are
13 all kind of brought in together to -- to bring the
14 costs -- to present the costs that are at -- that are
15 at -- from a Puget Sound ratepayer standpoint, is the
16 lowest cost -- or the least cost possible.

17 At least that's my understanding. But I don't
18 know if that gets to your question, Commissioner.

19 Q Well, I think you -- you -- if I understand
20 your testimony in response, is that Staff expects
21 Puget to operate the most cost effective portfolio
22 within its -- within its -- its reasonable power to do
23 so. And -- and you would -- Staff would look at the
24 context of which plants are being operated or not
25 operated to determine whether or not that particular

0186

1 resource, when in use, provided the least cost option
2 for both the Company and ratepayers, but still met the
3 needs of the company?

4 A Yes.

5 Q That's how I understood your answer.

6 So let's talk about ROE a little bit,
7 Mr. Gomez, because reading your testimony, I have an
8 understanding of it.

9 Staff is objecting to fixing the Company's
10 ROE, basically at this point -- at the point in time
11 that the -- that the contract is approved. Is that my
12 understanding?

13 A Yes.

14 Q Okay. So there will be no power taken by the
15 Company, if I understand the terms here, before the
16 end, December 2014. Kind of -- does Staff -- assuming
17 that there's a rate case, do you think the ROE for the
18 Company will remain the same in 2014, through the term
19 of the -- of the contract, or do you believe that that
20 ROE may change in that period?

21 A I believe that the ROE may change.

22 Q I understand that that's Staff's concern here.

23 A Yes.

24 Q It doesn't reflect actuals. So would you then
25 consider Puget's proposal to be a hypothetical ROE,

0187

1 since it has no -- it has a -- it touches on reality,
2 and as we know the snapshot today, but we have no idea
3 what goes on in future years with regard to ROE?

4 A That's correct.

5 Q You didn't use the term hypothetical, but
6 that's -- but do you essentially agree with that?

7 A Yes.

8 Q Okay. So if -- if we're -- if the Commission
9 is faced with fixing a hypothetical ROE, would we be
10 bound by any real number, then?

11 A I don't know.

12 Q Do you think it would be reasonable, just
13 hypothetically, to consider the actual terms of the
14 contract and the risks that the Company is taking in
15 entering into it, and the provisions that are built
16 into the contract, which I assume are to mitigate
17 risk, so to fix a return based -- at least considering
18 the terms of the agreement?

19 A I'm not sure I understand your question. Can
20 you repeat that?

21 Q Sure. Well, do you believe ROE is based on
22 the consideration of risk and reward?

23 A Yes.

24 Q And do you believe, then, that risks should be
25 taken into consideration when fixing an ROE? Just

0188

1 said another way.

2 A Yes.

3 Q Okay. So do you think that we can consider,
4 then, the risks the Company is taking, should we
5 approve this contract, when -- and use our evaluation
6 of risk, and the Company's statements here today, as
7 well as the testimony, to perhaps set a lower ROE
8 based on the risks that are -- we see here in this
9 agreement?

10 A Yes.

11 Q Okay. Now let's talk about, you know,
12 treating -- Mr. Kuzma was asking you questions about
13 treating the plant like a purchase of the -- another
14 purchase of the company. And of course if the Company
15 purchased a plant, it would -- you know, it would own
16 it until it decided it either wasn't useful anymore or
17 that it -- you know, they decided it was -- it may
18 press us to say it another way, but they decided to
19 sell it. But we're not faced with this. We have a
20 fixed term. And so that, at least in my mind,
21 distinguishes this agreement from, you know, what --
22 how we would look at a long-term purchase of the
23 company, like Goldendale or -- or Lower Snake River,
24 others.

25 So that said, if we treated it just like a

0189

1 purchase, what do we do with depreciation,
2 particularly in today's tax world, where there's
3 accelerated depreciation in early years of the
4 purchase? Wouldn't that affect the overall value to
5 the Company? Doesn't -- doesn't depreciation affect
6 rate base?

7 A Yes.

8 Q Did Staff consider that when it wrote its
9 testimony?

10 A If I understand, Commissioner, you are saying
11 that when we look at the equivalent plants, and we're
12 talking in terms of how they depreciate in terms of a
13 much longer term, as opposed to the PPA. Is that what
14 the Commissioner is talking about?

15 Yes, we -- we looked at that. We looked at
16 our position relative to an equivalent plant, with
17 Ferndale cogeneration as being an asset much closer in
18 life to -- at least remaining book value, to what the
19 actual purchase -- to the term length of the purchase
20 power agreement, as one of the things that led to
21 Staff to select that as the equivalent plant.

22 Q Well, would Staff look at the contract, since
23 this is, you know, heard it used many times, unique,
24 one of kind of a deal, where we were supposed to treat
25 the PPA as a purchase? Wouldn't we look at the effect

0190

1 of depreciation if we're going to treat it, you know,
2 like a purchase? And the effect on rate base in this
3 situation, the PPA amount is the equivalent of rate
4 base of which the Company is earning a return on?
5 Wouldn't we look at depreciation and its effect on it
6 and say, well, if this were like a plant, we would
7 depreciate it out, and rate base would diminish,
8 return would diminish as a result?

9 A Yes.

10 Q Okay. I don't -- I take it that Staff didn't
11 look at that precise issue?

12 A Not that precise issue. But again, I -- in
13 terms of the question or line -- the questioning that,
14 Commissioner, you are using is, we looked at the
15 facility age in years and the number -- and book life,
16 as well as the -- just the scale of the plant. If you
17 look at Grays Harbor, you know, the scale is much
18 larger, and it's a much newer plant. And if we wanted
19 to depreciate that over its entire life, we would be
20 talking about a much different number, in terms of
21 equity adder, than we would Ferndale, which is already
22 19 years old and much closer to the average energy of
23 346 megawatts at 280, which is about -- as opposed to
24 being 304 megawatts.

25 JUDGE MOSS: Mr. Gomez, let me caution

0191

1 you that much of the information is confidential.

2 THE WITNESS: Sorry.

3 COMMISSIONER OSHIE: Well, with that,
4 Mr. Gomez, I guess I'm done.

5 COMMISSIONER JONES: We won't get you in
6 trouble with my questions.

7 By the way, how many hours are there in a
8 Chinese year?

9 (Discussion off the record.)

10

11 E X A M I N A T I O N

12 BY COMMISSIONER JONES:

13 Q Could you turn to Pages 11 and 12 of your
14 testimony.

15 A (Complies.)

16 Q I'm going to ask some questions on the updated
17 equity return calculation. Are you there?

18 A Page 11?

19 Q Yes, toward the bottom.

20 So just to summarize the way I understand it,
21 you are recommending for the updated equity
22 return calculation, over the life of the PPA, 33.7
23 million for that, as opposed to the Company at 86.2?

24 A The 86.2 reflects Staff's calculation method,
25 Commissioner.

0192

1 Q Oh.

2 A But the actual position, I believe, is 98.1
3 million, and that's the Company's position. Staff
4 position is 33.7 million.

5 Q So we have three numbers, 98, 86, roughly 34,
6 according to different calculations?

7 A Correct.

8 Q Okay. And then you go on to say on the
9 following page, 12, you recommend a 1.00. That's a
10 pretty even number, 1.00 per megawatt hour adder for
11 each megawatt hour delivered under the PPA, correct?

12 A Yes.

13 Q And now let's go to DCG-5, one of your -- I
14 think you provide that calculation in DCG-5, don't
15 you? And I would just like to try to understand this
16 calculation better, and how you arrived at 1.00.

17 A I have BCG-4. You're saying 5 is --

18 Q In my book it's 5.

19 A The Company is being quite helpful here. Hang
20 on.

21 Q They always are.

22 A Oh, okay. Yes, I'm there.

23 Q Okay. So my -- so let's just walk through
24 this. What -- you have -- bottom right you have
25 1.003, actual equity return calculation listed there,

0193

1 but the numbers just don't seem to sync up or add up
2 here to the 1.00, so just walk through the A through H
3 calculation here for me, please, starting with A,
4 nominal total dollars. If you could, please, just
5 walk through this.

6 A The nominal total, 33.69, represents -- and if
7 you have RG-9 available, which is -- which shows the
8 complete worksheet that the Company had submitted.

9 Q Okay, yes.

10 A And you take and you add up -- I believe it's
11 listed as Column E, which is depreciation.

12 Q Yes, I see it.

13 A And then there's F, and then G, pretax equity
14 return. So if you add up that -- all of those columns
15 in G, or that column in G, that's when you reached the
16 nominal 33.69 million.

17 Q Okay. Then what is B, present value, total at
18 7.8 percent?

19 A The B represents -- and not having the actual
20 worksheet in front of me, I believe it -- it
21 represents the calculation that myself and Mr. Kuzma
22 had talked about.

23 Q Okay.

24 A Which is the payment term over -- over the
25 length of 133 months at zero interest.

0194

1 Q And then C is the monthly amount, the 29
2 cents.

3 A Right.

4 Q And then D is levelized on an annual basis.

5 A Right.

6 Q \$3.46.

7 A Right.

8 Q E is obviously the output of the plant.

9 A Right.

10 Q And then you arrive at 1.03, levelized monthly
11 dollars per kilowatt.

12 A Right.

13 Q And then you go down to G and H.

14 A Right.

15 Q And you come up with \$1.41.

16 A Let me back up here, Commissioner. The 26.08
17 is actually the Company's calculation method, and I
18 got a little bit mixed up with this 1.03. The --
19 Item B is how the Company calculates the difference
20 between the Company method and the Staff method.

21 So the Company's method results in level --
22 based on equivalent plant of \$84 million, which is
23 Staff's position. If you use the calculation method
24 that the Company utilizes, it would result in a plant
25 of a dollar -- megawatt hour, dollar per megawatt hour

0195

1 adder of \$1.41.

2 Using Staff's calculation method, based on the
3 amount of power -- and it's not based on the
4 correct numbers and months, it's actually just the
5 power -- and you multiply that by \$1.03 -- or a
6 dollar, which is 1.003, you multiply that, you come
7 back to this nominal 33.69.

8 So just to give you an idea in total cents
9 what that means --

10 Q Oh, wait a minute, stop. You are confusing me
11 even more.

12 A I'm sorry.

13 Q So line H, the \$1.41 is the Company's
14 calculation of your plant value of 84 million?

15 A Yes, Commissioner.

16 Q Okay. So that's the Company's number.

17 So what is the Line F, 1.03? Is that your
18 calculation, according to your methodology of the 84
19 million plant value?

20 A No, Commissioner, that's the Company's
21 levelized monthly dollar per kil --

22 Q Okay. Well, I don't know how far I'm getting
23 here.

24 So how did you land at 1 -- at your
25 recommendation of 1.00?

0196

1 A We take the number and -- in A, which is
2 33.69, and when you express that in actual millions,
3 you divide that by the -- the amount of power to
4 get --

5 Q By -- by --

6 A By 33,595,680 megawatt hours.

7 Q Okay, megawatt hours. And that's based on 7
8 by 24 operation?

9 A Yes, Commissioner.

10 Q Okay. And that's how you got the 1.00?

11 A Yes.

12 Q I don't have my calculator with me.

13 A Yes, Commissioner.

14 Q All right.

15 COMMISSIONER JONES: Okay. That's all I
16 have.

17 JUDGE MOSS: Nothing further from the
18 bench?

19 Any redirect?

20 MS. BROWN: Just briefly, Your Honor.

21

22 R E D I R E C T E X A M I N A T I O N

23 BY MS. BROWN:

24 Q Mr. Gomez, you were asked some questions by
25 Mr. Kuzma about the equity adder. Does a client have

0197

1 to be available to be an equivalent plant, or could a
2 hypothetical plant be used?

3 A A hypothetical would be -- would work also.

4 Q Is the fact that Ferndale was bought by PSE
5 relevant at all to the question of whether Ferndale is
6 the least cost resource with equivalent capacity for
7 purposes of determining the equity adder?

8 A No.

9 Q Is -- is it a capacity or availability issue
10 at all?

11 A No.

12 Q Ms. Hirsh asked you some questions about -- or
13 I should say asked you to elaborate on the phrase
14 "abnormal circumstances of limited duration." To your
15 knowledge, does the PPA itself define the term
16 "occasion"?

17 A Yes.

18 Q And is that definition of occasion set forth
19 in Exhibit RG-3C at Page 11 of 51?

20 A Yes.

21 Q Ms. Hirsh asked you a question about job
22 preservation in Lewis and South Thurston counties, I
23 believe, at least for purposes of TransAlta,
24 Centralia. To your knowledge, did the legislature
25 enact findings numbering five that appended RCW

0198

1 80.80.010?

2 A Yes.

3 Q And does at least one of those findings
4 specifically refer to economic future and preservation
5 of jobs in affected communities?

6 A Yes.

7 MS. BROWN: That's all I have.

8 JUDGE MOSS: Thank you.

9 MS. BROWN: Thank you.

10 JUDGE MOSS: All right. Mr. Gomez, it
11 would appear that your time with us on the stand has
12 come to an end. We appreciate very much you being
13 here today and giving us your testimony.

14 (Discussion off the record.)

15 JUDGE MOSS: Let me dispense very
16 quickly with the housekeeping. I take it the bench
17 has no questions for Mr. Woodruff? And we've already
18 had Ms. Dixon. We understand she couldn't be here.
19 So Mr. Woodruff's exhibits have been admitted by
20 stipulation, as have Ms. Dixon's, and so that brings
21 us to the end of our -- of the witnesses, so we don't
22 have any more testimony today.

23 So with that, I will turn to Chairman Goltz,
24 who has a word for you.

25 CHAIRMAN GOLTZ: Thank you, this is very

0199

1 helpful. And I know we are having oral argument next
2 week. I just wanted to express sort of an issue that
3 I would like to see especially Mr. Kuzma address, and
4 it relates to the potential of the plant shutting
5 down. And that obviously drove my -- the bench
6 request was so -- what's the impact on the workforce
7 if that happens.

8 And so my questions are a combination of legal
9 questions and factual questions, if they are in the
10 record. And I know I've heard some testimony about
11 this, but I would like it summarized in oral argument.

12 Legally, under the contract, is it possible
13 that the plant could in effect be shut down and then
14 Puget would simply take -- resupply power for long
15 durations of time, perhaps years, and factually is
16 that really realistic? I know there's some evidence
17 in the record about that.

18 And if I could ask -- maybe direct the
19 attention, to look at it -- there's a couple of
20 elements of -- in Exhibit RGHC that I would like to
21 just go through, which is the -- both the law,
22 although not in RCW form, but also the informal
23 attorney general's opinion.

24 JUDGE MOSS: That's 8-HC?

25 CHAIRMAN GOLTZ: Yes. I'm sorry, 8-HC,

0200

1 yes.

2 So my concern is, in the statute, that over on
3 Page -- Section 304(4), which is on Page 418 of the
4 exhibit says, The commission must approve if the
5 conditions for the commission approving a power
6 purchase agreement for acquisition of coal transition
7 power -- the term being "coal transition power," which
8 is defined in Section 10219, as the output of the
9 coal-fired electric generation facility, et cetera.

10 So my concern was since this was a contract
11 for that, plus, meaning resupply power, is that going
12 to cause a problem? And I was given some comfort that
13 it's not by the informal attorney general's opinion
14 dated April 30th, which is starting on Page 449 of
15 Exhibit RG-8HC, where this issue was discussed over on
16 Page 5 of the informal AGO, which is Page 453 of the
17 exhibit. And where it says, In light of this
18 definition -- the line I just referred to for coal
19 transition power -- "if the phrase 'allowed to recover
20 the cost of coal transition power under the power
21 purchase agreement' is read in isolation, it could be
22 taken to mean that the company is allowed to recover
23 only the cost of the coal transition power - the
24 actual output of the coal-fired facility - but not the
25 cost of power provided through resupply."

0201

1 And their opinion goes on to say, basically
2 don't worry about that, yes, you can acquire more than
3 that.

4 But then when you kind of reread this, and you
5 go over on Page 452 of the exhibit, Page 4 of the AG's
6 opinion, in the next-to-last paragraph it says, "Based
7 on your explanation, this opinion assumes that, given
8 the nature of resupply rights, such rights would be
9 exercised intermittently over the multi-year term of a
10 power purchase agreement, on an as-needed basis," et
11 cetera.

12 So the question is, if -- if -- is that
13 assumption -- or one question I have, on the many I
14 guess I'm ranting on about -- but if the -- if the --
15 is the assumption in that informal AG's opinion, on
16 Page 4 of that opinion, does that limit the scope of
17 the conclusion over on Page 5, and in any event, is
18 the assumption -- as a factual matter, is that
19 assumption basically correct. That basically the
20 resupply authority, even though perhaps broad, broader
21 than that in the -- in the contract, as a functional
22 practical matter, it's not going to be broader than
23 that.

24 Do you understand what I'm getting at?

25 MR. KUZMA: Yes.

0202

1 CHAIRMAN GOLTZ: I would like that
2 addressed in some summary fashion.

3 JUDGE MOSS: Anything else?

4 We can finish up here.

5 (Commissioners exit.)

6 JUDGE MOSS: So this I believe brings us
7 to the end of the evidentiary portion of our
8 proceedings. We do have the response to Bench Request
9 1 coming in. I'm sure you will just get that to us
10 with all due dispatch.

11 MR. KUZMA: Just one question, Your
12 Honor. I thought that the -- the letter from the
13 governor's office was Bench Request 1?

14 JUDGE MOSS: Actually, it's Bench
15 Exhibit 1 right.

16 MR. KUZMA: Okay.

17 JUDGE MOSS: The response to the bench
18 request will bear a different number.

19 MR. KUZMA: Okay, that was my confusion.

20 JUDGE MOSS: It will probably be B-2.

21 So anything else?

22 All right. Well, I don't believe we have any
23 other business today, subject to you all telling me to
24 the contrary.

25 Hearing nothing, then, I will thank you all

0203

1 very much.

2 MR. FFITCH: I'm sorry, Your Honor.

3 JUDGE MOSS: Oh, Mr. ffitch, you have
4 something.

5 MR. FFITCH: I've got to be quicker.

6 JUDGE MOSS: Mr. ffitch, you always have
7 something, but it's usually very helpful, so thank
8 you.

9 MR. FFITCH: Well, I'm hoping that it
10 will be helpful. I believe I may be speaking on
11 behalf of my fellow counsel, and I will be the one to
12 stick my neck out and incur the wrath of the bench
13 here.

14 I think it would be helpful to have a little
15 bit more discussion about the oral argument --

16 JUDGE MOSS: Sure.

17 MR. FFITCH: -- on a couple of points.

18 Just speaking for myself, this was an
19 unexpected development in the case. We have, as I'm
20 sure Your Honor is aware, ordinarily been able to have
21 a period of time to review a transcript and then
22 prepare a brief in detail, discussing the record, and
23 any legal issues. So this is a -- I don't know that
24 I've ever encountered this kind of a request before
25 after -- for oral argument, where there has been no

0204

1 briefing, very shortly after an evidentiary hearing,
2 and probably very, very shortly after we see a
3 transcript. So that's the context of my questions, I
4 guess.

5 So I think it would be helpful if we could get
6 a sense of how much time the parties are going to
7 have, when we're going to see the transcript, and --
8 because this is a very short period of time to prepare
9 for an oral argument. We might even discuss whether
10 the bench would entertain a couple more days' delay,
11 depending on when we are going to see the transcript.

12 And then there's the question of the
13 confidential session. We were able to skirt around
14 that today, but if counsel are going to be talking
15 about the record in any kind of a candid way, we may
16 just want to make the entire oral argument a
17 confidential session so we can just talk about what's
18 in the exhibits.

19 So those are kind of my three areas: How much
20 time the parties are going to have, the timing of the
21 oral argument versus when we get the transcript, and
22 the confidential session.

23 I guess the other thing that is unclear to me,
24 Your Honor, is what exactly the bench would like us to
25 address. We -- ordinarily in a brief, we address the

0205

1 record in some detail. We've had one issue presented
2 to us by the chairman, so we understand that. Is the
3 bench expecting us to direct it to exhibits, to cite
4 exhibits during our presentation, you know, almost
5 give an oral brief, where we do talk about the record
6 to some extent, to the extent we want to, or are you
7 just asking just for legal issues?

8 That's the kind of question I have in my own
9 mind.

10 JUDGE MOSS: Sure.

11 Is there any reason for this to be on the
12 record? Do we need to have this on the record?

13 If anybody sees a need as we are discussing
14 it, we will do that. But let's just go off the record
15 for this discussion, which is largely a process type
16 of a discussion.

17 (Discussion off the record.)

18 JUDGE MOSS: Thank you all very much for
19 being here. I will be in touch on some of the things
20 we have talked about. And with that, we will be,
21 well, I guess I will say in recess until the oral
22 argument.

23 (Hearing adjourned 3:09 p.m.)

24

25

0206

1

C E R T I F I C A T E

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3 STATE OF WASHINGTON

4 COUNTY OF KING

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I, Sherrilyn Smith, a Certified

7

Shorthand Reporter in and for the State of Washington,

8

do hereby certify that the foregoing transcript is

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true and accurate to the best of my knowledge, skill

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and ability.

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SHERRILYN SMITH

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