

**EXHIBIT NO. ___(RG-29HC)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-09___
Docket No. UG-09___**

**TWENTY-EIGHTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

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VERSION**

MAY 8, 2009

Fredonia 3&4 Lease Buyout

Jim Elsea

EMC Meeting January 14, 2008



CONFIDENTIAL

Fredonia 3&4 Lease Buyout

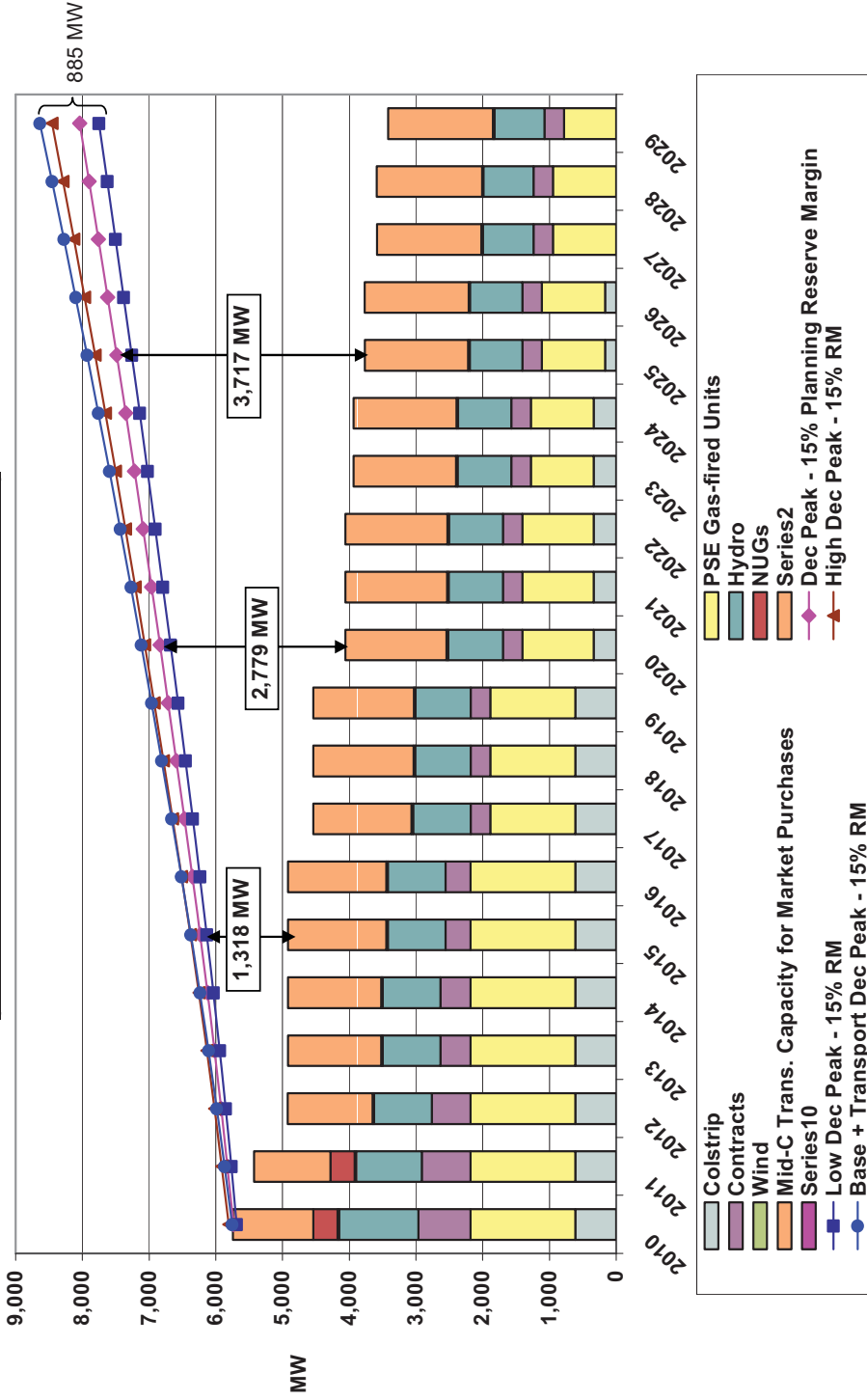
- ◆ Purpose: This presentation shows results of the quantitative analysis of the purchase of Fredonia 3&4 gas-fired combustion turbine generators from the current lessor, GE Capital Commercial Inc.
- ◆ Fredonia 3&4:
 - ◆ Commercial Operation Date August 2001
 - ◆ Two Pratt and Whitney FT8 combustion turbines, approximately 54 MW each with a heat rate of about 9.6 mmbtu / MWh,
 - ◆ Total cost was about \$65.4 million
 - ◆ May 2001, prudence documentation shows Units 3&4 best of seven alternative resource options needed i) to mitigate poor hydro conditions in 2001, ii) in the medium-term to help meet load growth and iii) in the long-term to provided flexibility as peaking units.
- ◆ Discussed in 2001 GRC

Lease – Fredonia 3&4

- ◆ September 1988 Citicorp BLC Corporation begins lease financing for vehicle fleet
- ◆ April 2001, BLC added up to \$70 million line for Fredonia 3&4, 10 year amortization with rent rate at 1.2% over 30-day LIBOR
- ◆ Basic term of 10-years expiring in 2011, with option to cancel by either party after three years
- ◆ 2004 Washington sales tax audit concluded this is a financing lease and resulted in payment of sales tax booked as a pre-payment and amortized through July 2011
- ◆ August 2008, GE Capital Commercial Inc. acquired Citigroup's North American commercial leasing businesses including BLC
- ◆ November 14, 2008 letter, GE Capital elects to terminate the Lease giving PSE 60 days notice.
- ◆ PSE sends letter seeking confirmation that termination date is January 13, 2009.
- ◆ Since terminated by Lessor, PSE as Lessee may purchase all Equipment for its then Unamortized Value within a one (1) year period from termination (January 14, 2010).

PSE Needs Energy Generation Capacity

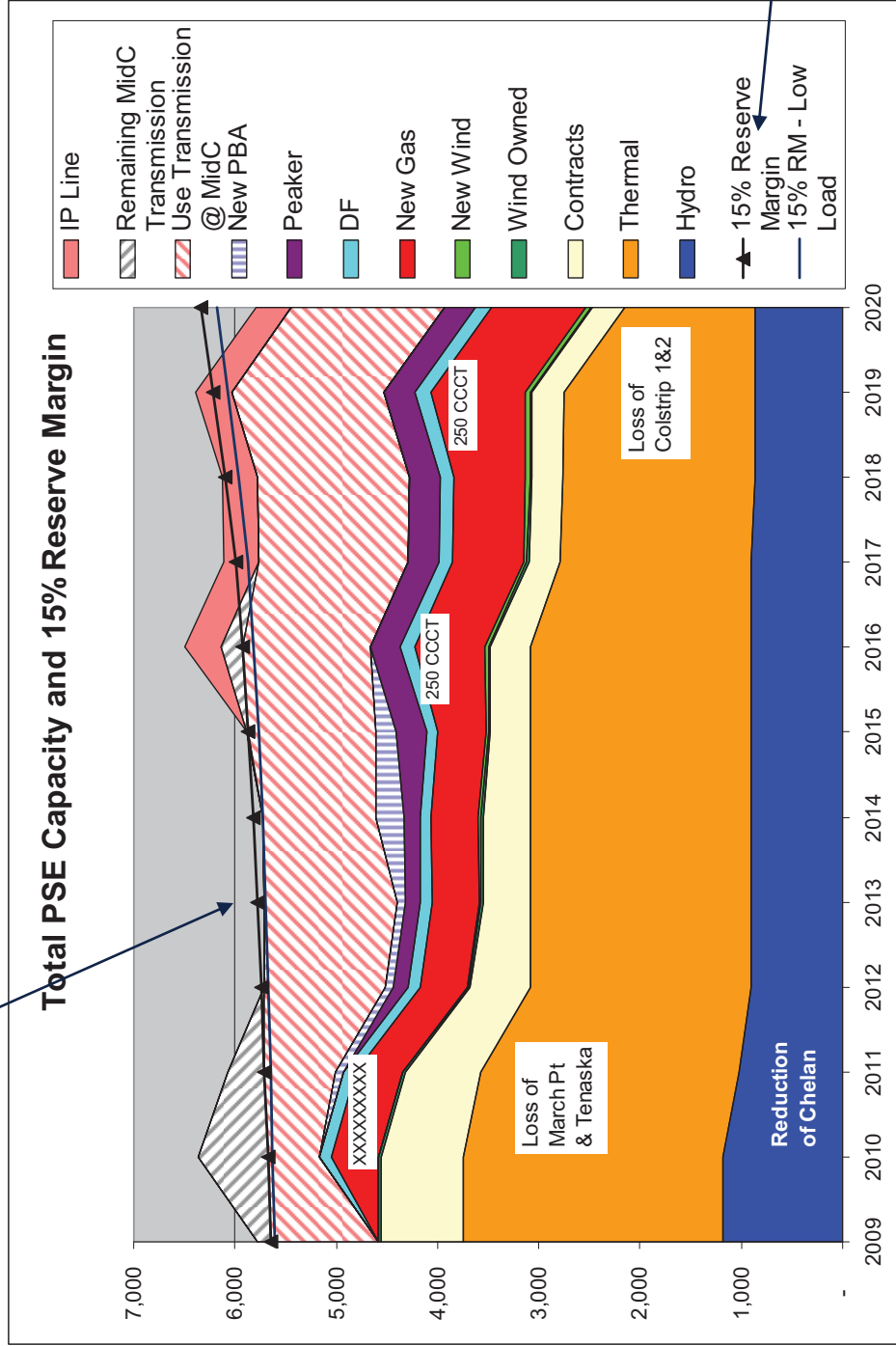
Electric Peak Capacity Resource Need - (draft as of 12/5/08)
 (W/o Conservation, With Plant Retirements)



Need in 2011& 2012 due to termination or reduction of NorthWestern Energy PPA,
 Chelan PUD PPA, and Tenaska Ferndale PPA

Need Not Fully Met with New Resources

Slight shortfall meeting 15% Reserve Margin in 2012-2015 even with Fredonia 3&4



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Optimistic Acquisition

XXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXX

Reserve Margin net of the benefits of conservation

Newest and Most Efficient of PSE Peakers

Plant	Cold Temp Capacity (MW)	Cold Temp Capacity less 7% reserves (MW)	Retire or Refurbish (year)	Heat Rate (mmbtu/MWh)
Whitehorn 2&3	159	148	2017	XXX
Frederickson 1&2	159	148	2017	XXX
Fredonia 1 & 2	222	207	2020	XXX
Fredonia 3 & 4	117	109	2032	XXX

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Alternatives Considered

	Alt #1. Purchase Fredonia Units 3&4 from Lessor	Alt #2. Re-lease with another Lessor	Alt #3. Purchase Alternative Peaking Resource
Capital Cost	\$43.7 million in December 2009 \$404 / kw	\$38.0 million in August 2011 at lease residual value	\$43.5 million in December 2009
Plant Sale Proceeds			Third party rough estimate of about \$50 million installed
Capital for Replacement Capacity			~\$134 million (108 MW * \$1,240/kw)
Additional Lease Pmnts	None after 2009	Uncertain lease rate through July 2011 then purchase	None after 2009
Life of Plant	21.6 yrs remaining	21.6 years	30 years
First year available	No break in availability	No break in availability	2012 at earliest
Heat Rate	XX	XX	XX
Variable price of power if \$7 / mmbtu gas	\$XX / MWh	\$XX / MWh	\$XX / MWh
Comment		Not available as an option due to credit market turmoil	
22 yr PV Revenue Requirement of Lease and Capital Costs 2010 - 2031	\$47.5 million Note: Rev Req for same period if we had purchased in 2001 is \$48.7 million	N/A If possible \$45.5 million	~\$129.4 million (there would be added costs and benefits 2032 through 2041)

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Conclusion

- ◆ Purchase Fredonia Units 3&4 as late as possible in the 1 year following lease termination

Purchase	\$ XXXXXXX
Sales Tax	\$ XXXXXXX
Transaction Cost	\$ XXXXXXX
Gross Book Invest	\$ 43,662,074

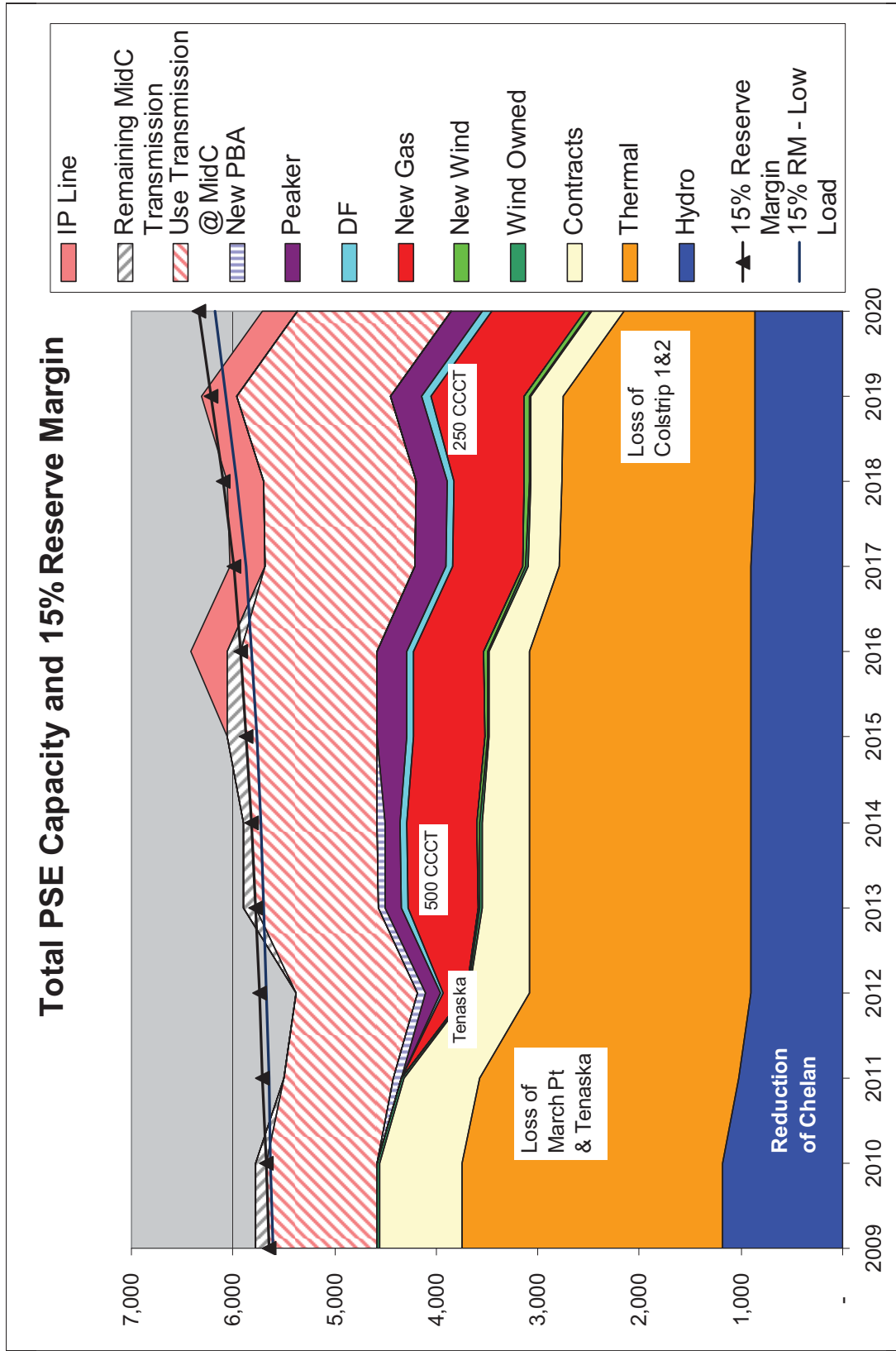
- ◆ PSE has a need for peaking resources
- ◆ Fredonia 3&4 are the newest and most efficient peaking generation units in PSE fleet
- ◆ Replacing these units with more efficient peaking units could increase capital costs to customers by over 2.5 times.

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Appendix Slide(s)



No XXXXXXXXXXXXXXXXXXXX – 15% Reserve Margin



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