

**EXHIBIT NO. __ (RG-20CT)
DOCKET NO. UE-070565
2007 PSE PCORC
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-070565

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(CONFIDENTIAL) OF ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

MAY 23, 2007

PUGET SOUND ENERGY, INC.

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(CONFIDENTIAL) OF ROGER GARRATT**

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PUGET SOUND ENERGY, INC.

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(CONFIDENTIAL) OF ROGER GARRATT**

I. INTRODUCTION

Q. Are you the same Roger Garratt who provided prefiled direct testimony in this Docket on behalf of Puget Sound Energy, Inc. (“PSE” or “the Company”)?

A. Yes.

Q. What topics are you covering in your supplemental direct testimony?

A. I am updating the capital and operations and maintenance (“O&M”) expenditures for the Goldendale Generating Station for changes that have occurred since the time of the original filing on March 20, 2007. In addition, I update the capital expenditures for the Wild Horse Wind Project. I also provide background information on why the Sumas Cogeneration PPA and the Sumas Recovered Energy Project have been removed from the Company’s power costs portfolio.

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1 **II. CHANGES TO GOLDENDALE GENERATING STATION**
 2 **CAPITAL AND O&M COSTS**

3 **Q. Please explain the changes to the acquisition costs for the Goldendale**
 4 **Generating Station.**

5 A. The Company’s purchase price for the Goldendale Generating Station remains
 6 \$120,000,000 but the additional acquisitions costs have decreased based on actual
 7 costs to date and updated estimates of changes in planned facility improvements.
 8 As indicated in the following table, the revised total acquisition cost is forecast to
 9 be \$127,794,014:

Goldendale Generating Station	Project Costs Filed 3-20-07	Project Costs Revised
Facility Purchase Price	\$120,000,000	\$120,000,000
Real Estate Excise Tax (50%)	\$ [REDACTED]	\$ [REDACTED]
Facility Improvements	\$ [REDACTED]	\$ [REDACTED]
Transaction & Due Diligence	\$ [REDACTED]	\$ [REDACTED]
Property Taxes	\$ [REDACTED]	\$ [REDACTED]
AFUDC	\$ [REDACTED]	\$ [REDACTED]
Other (accounting transfers)		\$ [REDACTED]
Subtotal Project Capital	\$ [REDACTED]	\$ [REDACTED]
Capitalized parts for major maintenance in 2007	\$ [REDACTED]	\$ [REDACTED]
TOTAL	\$130,952,698	\$127,794,014

10 Real estate excise tax is approximately \$6,500 higher due to slight changes in the
 11 allocation between personal and real property at the time of the sale.

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1 Facility Improvements are lower by about \$705,000 due to changes in the roof
2 construction, reheat bypass piping, the addition of a second floor fire escape, and
3 other project changes as explained below:

4 (i) The Additional Roof Construction was not needed, resulting in a
5 reduction of approximately \$485,000. Initial discussion with the
6 insurance underwriter indicated that modification to roof
7 construction might be necessary. Further investigation has
8 determined that the existing roof is satisfactory and roof
9 modification will not be required.

10 (ii) The Reheat Bypass Piping project will not be done at this time.
11 This project would have installed piping modifications to the heat
12 recovery steam generator that would allow for faster ramping
13 during cold starts. Elimination of this project results in a reduction
14 in capital of approximately \$400,000. Additional project economic
15 analysis will be completed prior to a decision to proceed.

16 (iii) The Second Floor Fire Escape Addition is a new facility
17 improvement project identified to increase safety of employees in
18 the control room at the Goldendale Generating Station. The cost is
19 estimated at approximately \$100,000. The control room at the
20 Goldendale Generating Station is on the second floor of the power
21 building, which also contains the gas and steam turbines, electrical
22 room, and other plant equipment. The control room is accessed by
23 a staircase from the gas turbine area. It is necessary to construct an
24 emergency egress route from the control room directly to the
25 outside to allow plant personnel to escape in the event of a fire
26 occurring in the gas turbine area of the building.

27 (iv) Other Facility Improvement changes include physical security and
28 technology upgrades. The net change for these additional facility
29 improvements is now estimated to be higher by about \$80,000.

30 Transaction and Due Diligence costs estimates are lower by approximately
31 \$482,000. Of this variance approximately \$159,000 in transaction costs was
32 charged to administrative expense in 2006, which cannot be reversed. The
33 remainder of the variance is due to lower transaction costs than originally

1 estimated.

2 Property taxes are higher by about \$55,000. This reflects the Company's actual
3 share of the 2007 property taxes and uses the Klickitat County assessed value of
4 \$160,000,000 for the plant instead of the project acquisition cost to compute the
5 property taxes accrued for 2008.

6 AFUDC was removed because it applies to plant construction not acquisition of
7 completed plants.

8 Other (accounting transfers). These adjustments reduce Goldendale Capital by
9 approximately \$1,335,000. It is comprised of approximately \$1,065,000 of
10 existing spare parts that were included as part of the acquisition purchase price,
11 but were transferred to inventory. The balance is an adjustment to PSE's
12 accounting system to transfer approximately \$269,000 to a non-plant asset
13 account.

14 **Q. Please explain the changes to Goldendale Operation and Maintenance**
15 **Expense (O&M) forecast?**

16 A. Total rate year O&M is reduced by approximately \$837,000 from the March 20,
17 2007 filing. Variable costs are lower by approximately \$424,000 and fixed costs
18 are lower by approximately \$413,000. Variable costs changes are all associated
19 with the reduction in water and wastewater charges and the effect that the lower
20 dispatch cost had on increased generation.

1 Water and Wastewater. Actual water rates are lower than forecast resulting in
2 significant decrease in the variable operating cost. This is reflected in the variable
3 O&M rate that has been reduced from \$2.90 per MWh to \$2.50 per MWh.
4 Revised water rates are based on actual billings from the City of Goldendale.
5 Input of the actual water rates lowered rate year costs by approximately \$570,000.
6 The original estimate for water and wastewater rates was based on PSE's costs at
7 the Frederickson Generating Station. Offsetting the decrease in water and
8 wastewater costs are increased variable costs associated with the higher generation
9 forecast by AURORA. These offsetting increases are in backfeed power to the
10 plant and additional increased maintenance expense.

11 Labor. The Goldendale proforma originally assumed that several support
12 positions would be 100% assigned to Goldendale. It is now anticipated that these
13 support positions will only charge a portion of their total time to the Goldendale
14 Generating Station. This change reduced forecast fixed costs in the rate year by
15 approximately \$121,000.

16 Steam Turbine Generator Oil Containment. During plant inspection immediately
17 following purchase of the Goldendale Generating Station, the insurance
18 underwriter indicated that an oil containment system is required. This
19 containment system will minimize equipment damage in the event of a fire in the
20 steam turbine-generator. The expected cost is approximately \$100,000 with
21 \$40,000 spread to the rate year.

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1 Other Major Maintenance. The frequency of maintenance on non-generation
2 plant was reviewed and modified. This modification resulted in a decrease of
3 about \$102,000 in fixed expenses in the rate year.

4 Project Upgrades. The project upgrade costs were originally estimated based on
5 an independent study conducted by North American Energy Services for the
6 Company. Since the March 20, 2007 filing, it has been determined that these
7 project upgrade costs will not be incurred at Goldendale. This resulted in a
8 reduction of approximately \$229,000 in fixed cost rate year expenses.

9 Other. Other minor adjustments resulted from removing specific line items such
10 as vehicle costs and employee recognition that are already included in the
11 overhead charge.

12 **Q. Were there any changes to costs not included in production O&M?**

13 A. Yes, insurance and property tax costs have changed. Insurance costs are
14 approximately \$19,000 lower based on the actual Goldendale premiums from
15 April 1, 2007 to April 1, 2008. Property tax accrued expenses for PSE are
16 approximately \$43,000 higher because the updated estimate uses the Klickitat
17 County assessed value of \$160,000,000 instead of the project acquisition cost to
18 compute the Company's property taxes accrued for 2008.

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1 **III. UPDATE TO CAPITAL EXPENDITURES FOR THE**
2 **WILD HORSE WIND PROJECT**

3 **Q. Have you updated capital expenditures for the Wild Horse Wind Project?**

4 A. Yes. Projected capital expenditures for the Wild Horse Wind Project have
5 increased \$384,006 from \$377,202,027 in the forecast of January 31, 2007, to
6 \$377,586,033 in the forecast of April 30, 2007. *See* Exhibit No. ____ (RG-21).

7 **Q. What has caused the projected capital expenditures for the Wild Horse Wind**
8 **Project to increase by \$384,006?**

9 A. The following increases have caused the projected capital expenditures for the
10 Wild Horse Wind Project to increase by \$384,006:

- 11 (i) an increase of \$139,300 related to real estate purchase and land
12 leases;
- 13 (ii) an increase of \$44,705 related to transmission interconnection; and
- 14 (iii) an increase of \$200,000 in PSE Construction Management.

15 **Q. Please explain the increase of \$139,300 related to real estate purchase and**
16 **land leases.**

17 A. The increase of \$139,300 related to real estate purchase and land leases is a
18 payment for a transmission line easement that PSE originally believed to be
19 included in the Membership Interest Purchase Agreement but was found to have
20 been paid under separate cover.

1 **Q. Please explain the increase of \$44,705 related to transmission**
2 **interconnection.**

3 A. PSE paid \$44,705 to install necessary transmission communication equipment at
4 the existing microwave communication towers.

5 **Q. Please explain the increase of \$200,000 related to PSE construction**
6 **management.**

7 A. The increase in PSE construction management of \$200,000 is the forecasted PSE
8 construction management internal labor and overhead costs expected to be
9 incurred until the Wild Horse Wind Project reaches final completion.

10 **Q. When does PSE expect Wild Horse Wind Project to reach final completion?**

11 A. PSE currently expects the Wild Horse Wind Project to occur by the end of
12 June 2007.

13 **Q. Will the \$384,006 projected increase in capital expenditures for the Wild**
14 **Horse Wind Project affect the final budget for the project?**

15 A. No. PSE's original budget for the Wild Horse Wind Project was \$383,411,395.
16 With the \$384,006 projected increase in capital expenditures the final capital cost
17 of the project is expected to be \$377, 586,033, which is under the original budget
18 by more than \$5,800,000.

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1 payments will be made by PSE to SCCLP.

2 PSE continues to include the facility in the Company's AURORA database runs
3 for the region because, to the best of our knowledge, the facility remains
4 interconnected with the electrical grid and would be available to provide
5 electricity under bilateral contracts when market heat rates make dispatch
6 economically viable.

7 **V. SUMAS RECOVERED ENERGY PROJECT**

8 **Q. Why have costs associated with the Sumas Recovered Energy Project been**
9 **removed from the Company's power costs?**

10 A. OrSumas, LLC, the owner of the Sumas Recovered Energy Project, has requested
11 a time extension to assess critical construction and operational factors associated
12 with the project. The extension will result in a delay until approximately
13 November 18, 2008 to complete the project. PSE has indicated its willingness to
14 consider the requested date in exchange for other commercial considerations.
15 Negotiations on an amendment to the power purchase agreement are ongoing.

16 **VI. CONCLUSION**

17 **Q. Does that conclude your prefiled supplemental direct testimony?**

18 A. Yes, it does.

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