

EXHIBIT NO. \_\_\_\_\_ (WAG-25)  
DOCKET NO. UE-031725  
2003 POWER COST ONLY RATE CASE  
WITNESS: WILLIAM A. GAINES

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-031725

**REBUTTAL TESTIMONY OF  
WILLIAM A. GAINES  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**FEBRUARY 13, 2004**

---

WUTC Open Meeting – 12/10/97  
Docket No.: UE-971619

CL: Chairwoman Levinson  
TS: Tom Schooley  
CH: Commissioner Hemstad  
CG: Commissioner Gillis  
JG: Jeff Goltz  
KK: Karl Karzmar  
DL: Dixie Linnenbrink

CL:	Call this December 10 meeting to order. [skipped opening business] Let's move on to the utilities portion of the agenda.
TS:	<p>Good morning, Commissioners, I'm Tom Schooley, in the energy section. Item 2A, Docket UE-971619, Puget Sound Energy brings us an accounting petition. They request authorization to capitalize the buyout cost of a gas supply contract to a cogeneration plant. PSE requests confidential treatment of information concerning the parties to the contract and to any numerical data, but apparently as of today, we can mention the T-word. This is the Tenaska contract. The cogeneration at the heart of this petition has a lengthy legal history. The outcome of that history was a commission order ruling the contract was entered into imprudently and its power costs were not fully allowed into rates in the 921262 case. This petition does not foreclose any future discussions of the prudence of the power sales contract, nor does it prevent any review of the power cost allowances in future proceedings, and all parties involved are looking forward to those future proceedings.</p> <p>The item at hand concerns only the gas supply contract of the power sales agreement, and the cost of the gas in the contract escalates, while the cost supply--the cost of the gas in the contract escalates every year for the next millennium or so. PSE has successfully negotiated a letter of intent to buy out the gas supplier. PSE then takes control of buying the natural gas itself. The savings of the gas costs over the years is significant, but the purchase price is more than what PSE can swallow in one year, and the company seeks commission approval to spread that cost over the remaining life of the power agreement.</p>

TS:	Yes, this is only gas supply portion of it, and the new contract extracts that gas supply contract from the rest of the power sales contract.
CH:	Do you anticipate we will see a filing in the future dealing with a reformed purchase power contract?
TS:	Puget is still working on revising the power sales agreement itself, and they are working on other similar cogen plant contracts, so this won't be the last of this type of proposal. It's the first of what should be several.
CH:	Now, all right, is there any question that if we approve this as a regulatory asset, it does not preclude in any way the review of the amended and reformed power purchase contract in the future for prudence or other rate making issues?
TS:	That's true.
CH:	You referenced the tax question. Spelling out further detail on that, as I understand it, this is a--will be--well, <u>is</u> an unknown matter for future determination. Shouldn't the order spell out that the future treatment of the tax question has not been resolved at this time?
TS:	Yes, I believe it should. I personally am not--see, I see it as a future question and one that has too many unknowns to make any definitive declaration now. And that although Puget would prefer to see a clause that says that the indemnification or any amounts they need to pay under that will be treated the same as the rest of the contract, I would rather see it left open because, for one, we don't know what the industry atmosphere will be like in two, three, four years and there may be a totally different way of handling the same thing. There is proposed language which allows that future review or to determine this if it ever occurs.
CH:	Okay, I'd ask Puget, when its representative makes his comments, to address that question.
TS:	Oh yes, please.
CH:	Alright. Then, with regard to the gas price risk, this is a risk that the company is taking on. How will it deal with the firmness of the gas price estimates? Does the company intend to lock in those prices now or is that going to be left open? And in either event, what risks are the ratepayers facing here, and how should those risks be addressed?

TS:	The company may address the issue of whether they intend to lock in prices now or manage this as part of the entire gas portfolio. The risks to the ratepayers do exist. What was a known amount of gas supply at an increasing rate has now been replaced by a risky gas supply, and--or a risky price for the gas supply, and that I guess will need to be addressed as future rate proceedings come up. I don't imagine we'll have cost-based ratemaking in the future, and there may be something different that will be used to handle that question.
CH:	In other words, should the order--should we have something in the order that would state that the future review of PSE's performance as a gas supply purchaser will be reviewed in the future ratemaking proceedings? Should the order say something about that?
TS:	I don't think this order needs to say that. I think that will be inherent in the filings themselves--that that option always exists. But I've been playing lawyer for the last day and I don't really know what the answer is.
CH:	Okay, but in other words, that issue of the appropriateness of their management of that gas supply will be for future consideration.
TS:	Yes.
CH:	That's all I have.
CG:	I don't have any--does counsel want to respond to that question?
JG:	I think that Mr. Schooley's right, correct, but you could state that in the order if you so desire. I mean, it's--even if you're restating what is inherent, it's okay to state that in the order [unintelligible].
KK:	Good morning, Chairman, Commissioners. My name is Karl Karzmar. I am manager of revenue requirements, Puget Sound Energy. The only things I really have to comment on this morning are the questions that came up, and I'd like to talk a little bit about the effort that staff put into bringing this before us all today. But, the two issues that I heard had to do with (1) the tax indemnity provisions, the potential amount that we're going to have to pay in the future. The company had a couple of options in negotiating this part of the agreement and one would have been to pay more now and never have to worry about this indemnification provision or, in its best judgment, get the best price now and indemnify the other parties for a portion of the potential risk that's still at stake. We believe that as it stands, we'll probably never have to talk about this again and

	<p>we've taken the best option, but it's our preference that the order state that, absent some significant change in the industry or the electric business, that we would like the treatment of that portion of the costs, should it come to us again, be consistent with what we've applied here today. That would be the company's preference.</p>
CH:	<p>What do you mean, consistent as it applies here today?</p>
KK:	<p>We have developed a principle in determining the amount--the way that the accounting distributes the costs and the benefit of what we've spent so far to--or what we're spending to achieve the benefit of the cost savings, which distributes the benefit, and reduce our costs on an equal percentage basis for whatever the remainder of the power contract is. We would like that same principle that we're using to get to "yes" today to be applied to any amount that we have to pay in the future as a result of potential triggering of that indemnification provision.</p> <p>The other issue that I heard was--had to do with future and forward price costs, and the company's intention at this time was not to lock in those prices, although that would be an option. That kind of looks like what we had before. We had locked in forward prices then. We would like to manage this with the rest of our portfolio. That would be the company's preference.</p> <p>There being no other questions, I'd like to comment on staff's participation in this filing. We filed this on November 10 and requested that staff give us action and request our review--request a review of our proposal in 30 days. And this required a lot of effort on staff's part. The company commends the agility of staff and all the effort that was put in by the staff members, Mr. Schooley and Martin, Ken Elgin, and the contributions made by Doug Kilpatrick and Dixie Linnenbrink. A tremendous amount of effort was required and a lot of work between the company and staff, but the work got done and I think the company commends--the company applauds their efforts, and I think they should be commended for what they did. I have nothing else.</p>
CL:	<p>Thank you. Discussion at this time? Does public counsel wish to comment? You're not signed up on this item?</p>
CH:	<p>I have one question of staff, mainly.</p>
TS:	<p>Yes?</p>