

**EXHIBIT NO. \_\_\_(RG-34C)  
DOCKET NO. UE-072300/UG-072301  
2007 PSE GENERAL RATE CASE  
WITNESS: ROGER GARRATT**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-072300  
Docket No. UG-072301**

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

**REDACTED  
VERSION**

**REVISED DECEMBER 21, 2007**

## ***Sumas Cogeneration Company, LP***

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May 7, 2007

Via first class mail and email

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**Re: Sumas Cogeneration Company, LP Power Purchase Agreement**

Dear Sirs:

In early 2006, Sumas Cogeneration Company, LP (SCCLP) informed Puget Sound Energy (PSE) that recent, substantial sustained increases in prices for natural gas and related costs (including costs for royalties, transportation, and field operations) had undermined the ability of SCCLP and its new owners to maintain positive cash flow under our long-term Agreement for Firm Power Purchase (PPA). This adverse economic situation was not foreseen by the parties when they negotiated the PPA in 1989, and it has rendered SCCLP's sustained ongoing performance under that agreement commercially impracticable.

We proposed restructuring the PPA to alleviate the problem in a way that would still provide benefits to both parties. After a series of discussions, PSE insisted that a termination of the PPA and a sale of our Sumas plant to PSE were the only acceptable route for such a restructuring. Although this was not our preferred approach, SCCLP agreed to pursue it and since last summer we have been negotiating with you on that basis.

During the many months of our negotiations, PSE acknowledged that it could replace the existing PPA by purchasing electricity from other sources at the same or lower cost. Your negotiating team generally indicated willingness to enter into a mutual termination of the PPA and purchase of the Sumas generation facility if PSE could be assured of realizing a financial benefit of at least \$20 million. SCCLP offered an incentive in that amount, but we emphasized that prompt action was needed before operation of the Sumas plant created a serious negative cash flow (i.e. after the first quarter of 2007).

Although negotiations seemed to be moving ahead and we were awaiting expected final edits from you to a draft Letter of Intent, on March 26, 2007 you sent us a letter that called a halt to our ongoing negotiations. PSE advised in that letter that it was unwilling to continue negotiations.

In the meantime, we notified you months ago that we had retained a marketing agent to assist in the sale of our Canadian subsidiary company, ENCO Gas, Ltd., (ENCO) that owns the gas reserves that supplied much of the fuel to operate SCCLP. Consistent with our previous notifications, we have followed through with a sale of the shares of ENCO, which sale closed on May 3, 2007. This sale was an essential step in mitigating the spiraling financial losses that SCCLP would otherwise incur if it continued to operate under the PPA.

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The SCCLP Sumas plant is currently shut down under a mutually agreed Displacement through June 30, 2007. Unfortunately, but to be abundantly clear, SCCLP will not make further deliveries of electricity under the PPA during or after the Operating Period. If PSE wishes to replace the PPA with other available power from a substitute source, it should pursue such mitigation promptly.

As part of our months of negotiations, we mutually and separately explored a number of possible approaches to replace the power that was previously provided under our PPA. In order to further assist you in evaluating available substitute suppliers of electricity, we enclose for your consideration a term sheet prepared by BP Energy Company (BPEC). The term sheet outlines the prices and terms under which we understand that BPEC is currently prepared to sell power to replace the PPA. This term sheet closely matches the fixed prices and the displacement features of the PPA and is provided with the permission of BPEC. We believe it offers a viable substitute for the PPA, and it reinforces our understanding that replacement power remains available at prices and terms similar to the PPA. In any event, and regardless of BPEC's particular proposal, we believe that the prevailing prices for long and short term electricity in the market today will enable PSE to replace the PPA without loss or delay should it choose to do so.

To the extent that PSE may regard our actions as a default under the PPA, despite the ready availability of substitute power, SCCLP hereby waives any opportunity to cure under the 60-day cure period of the PPA.

We understand that PSE would have preferred to avoid this issue, but unanticipated and extreme adverse market conditions have left SCCLP with no realistic alternative but to take reasonable steps to avoid huge and ongoing losses that would otherwise have occurred. At the same time, and notwithstanding PSE's discouraging letter of March 26, 2007, SCCLP remains ready and willing to renew negotiations for a mutually agreed termination of our PPA and a sale of our Sumas plant or new tolling contract on our Sumas plant, if PSE is willing to move ahead expeditiously.

We are confident that issues relating to the PPA and to our Sumas facility can still be negotiated to the mutual benefit of both parties. We urgently request your prompt participation in renewed negotiations toward that end.

SUMAS COGENERATION COMPANY, LP

By:



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Charles E. Martin  
President  
Sumas Energy, Inc., General Partner

Attachment – Term sheet: Firm (LD) Energy with Displacement Optionality

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**SALE AND PURCHASE OF ENERGY WITH DISPLACEMENT OPTIONALITY**

Seller  
Buyer  
Term  
Product  
  
Contract Quantity  
  
Period of Delivery  
  
Delivery Point  
Maximum Fixed  
Price

**CONFIDENTIAL**  
Per WAC 480-07-160

Energy Contract  
Price

Text in Box is Confidential

Incremental  
Generation Rate  
("IGR")

Replacement  
Power Cost  
("RPC")

Fixed  
Incremental Fuel  
Price:

Calculation Date

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**DECEMBER 21, 2007**

Seller Credit

Other:

Text in Box is Confidential

**Redacted**

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