

**EXHIBIT NO. \_\_\_(RG-35HC)  
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.,**

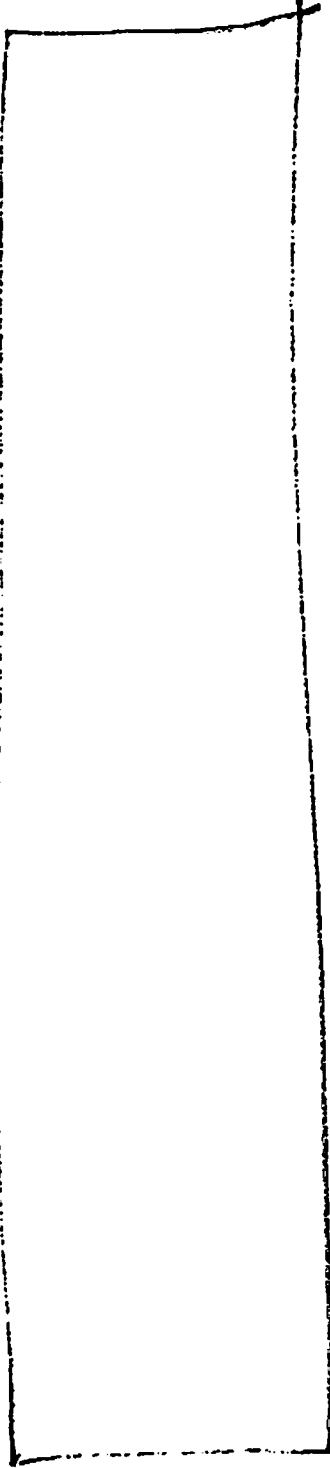
**Respondent.**

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

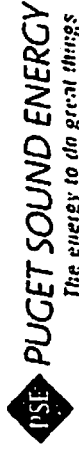
**THIRTY-FOURTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
ROGER GARRATT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED  
VERSION**

**REVISED DECEMBER 21, 2007**



**Redacted**



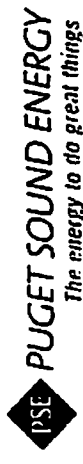
HIGHLY CONFIDENTIAL per  
WAC 480-07-160

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# Sumas notification of default under the long-term PPA

- May 7 – SCCLP (Sumas Cogeneration Company, LP) notified PSE that the Sumas plant will not make further deliveries of electricity under the PPA after June 30<sup>th</sup> (end of current displacement period)
  - ◆ 6 years short of contract expiry: April 13, 2013
  - ◆ Enco gas reserves used to fuel the plant sold May 3<sup>rd</sup>
- May 18 – PSE notified Sumas that we were in receipt of their letter and were formulating our response
- May 24 – SCCLP sent follow up letter to PSE reiterating Sumas' desire for a mutually agreed termination of the PPA and sale of the Sumas plant or new tolling contract

EMC Meeting// June 11, 2007// Sumas Default



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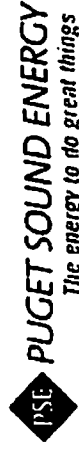
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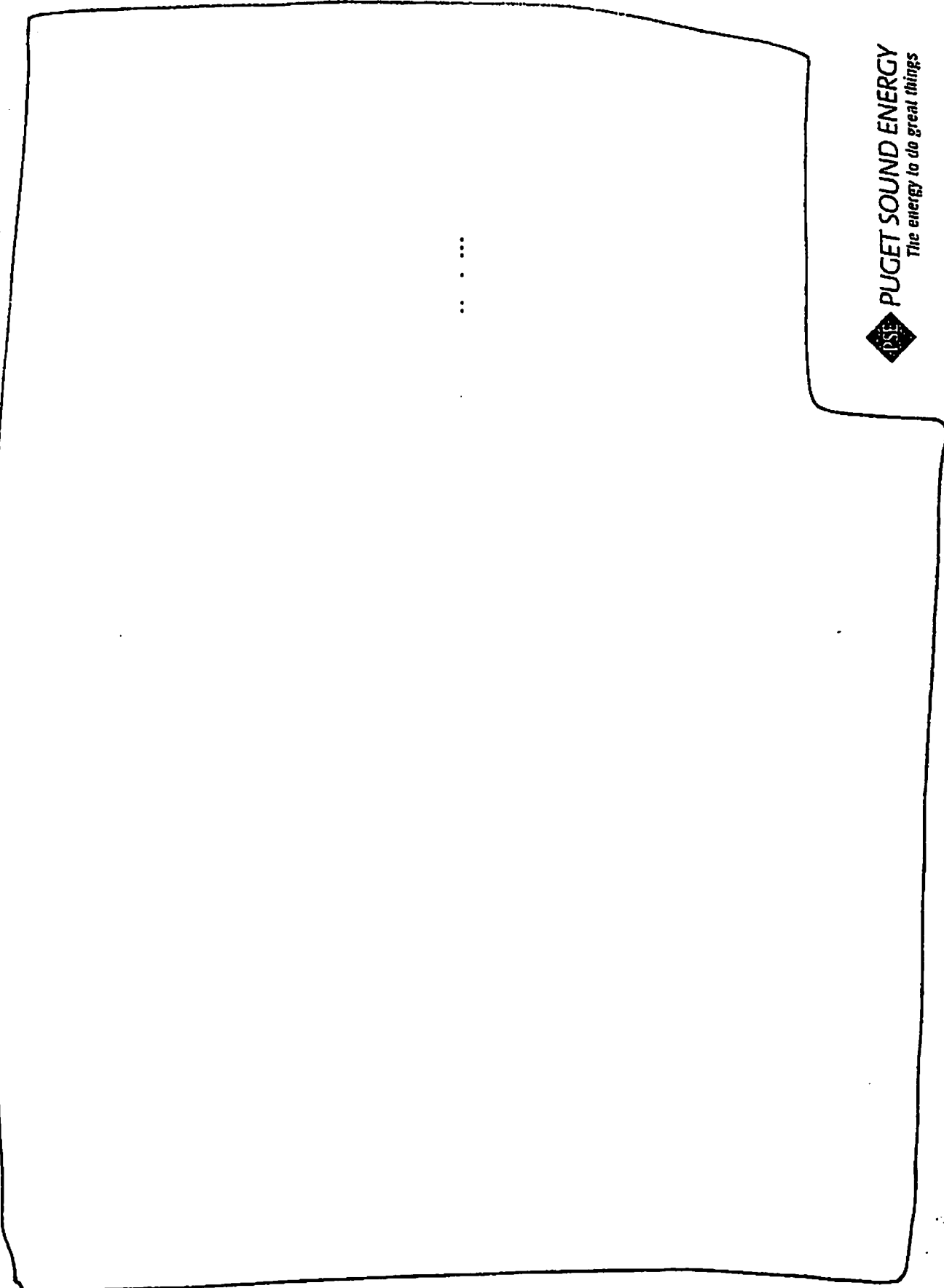
# Status of PSE's legal response

- PSE working with Perkins Coie on draft response to Sumas; awaiting direct damages calculation
  - ◆ Term sheet for replacement contract sent to four counterparties, offers due to PSE on June 14th
  - ◆ Terms and conditions identified in term sheet replicate those of Sumas PPA
  - ◆ Indirect damages calculation still to be determined and therefore, will not be included in this initial response
- PSE letter to be sent to Prudential Financial to determine whether Prudential wants to perform Sumas's obligations 1) to deliver power, and 2) to prevent the sale of dedicated gas

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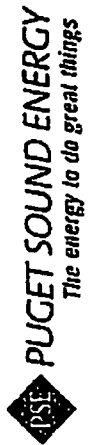
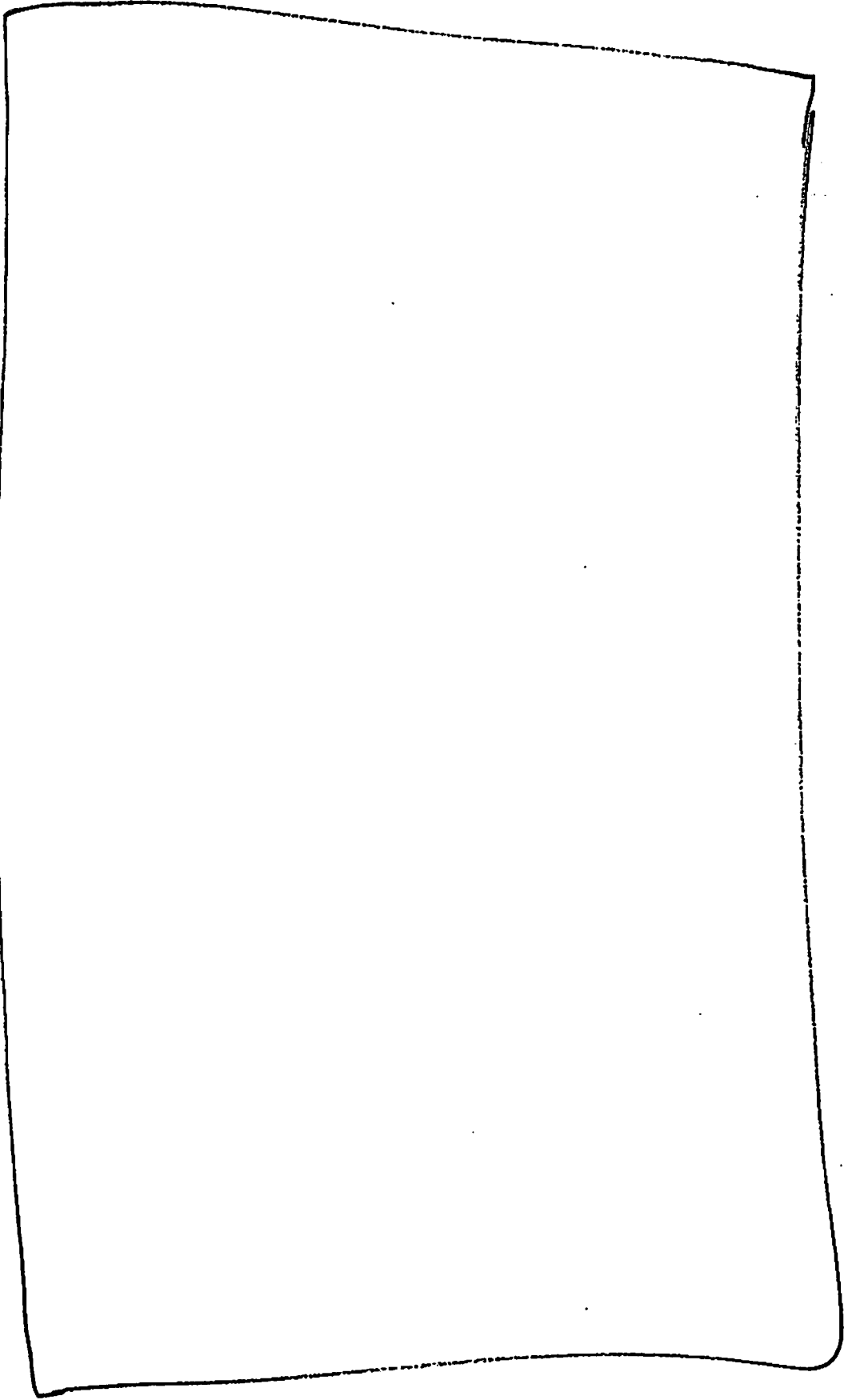


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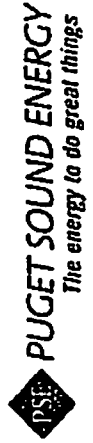


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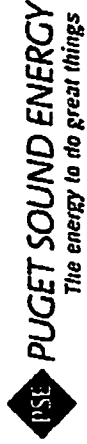
# Programmatic Hedging Continues to Reduce Short Power Position

CONFIDENTIAL  
Per WAC 480-07-160

Delivery Month	Position as of June 1, 2007 (MW)	Required Purchases in June (MW)	June 1, 2007 Position with Purchases	Required Purchases in July (MW)	End of July Position (MW)
[Redacted Content]					

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# Other Considerations

- Accounting
  - ◆ The current position and counterparty, among other factors, will be taken into consideration for FAS 133 accounting treatment of replacement power purchases.
  
- Rate Recovery
  - ◆ Next rate approval estimated to be in early 2009



# Recommendation

- If attractive offer is received in June 14<sup>th</sup> solicitation, pursue long-term replacement contract with counterparty
  
- If attractive offer is *not* received:
  - ◆ Purchase 125 MW+ at index for Q3 '07 summer reliability
  - ◆ Continue programmatic hedging through 2008
  - ◆ Solicit long term fixed price offers up to 125 MW (based on position) to reduce price exposure for 2009-2013

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**Puget Sound Energy, Inc.**  
**Minutes of the**  
**Energy Management Committee**  
**Meeting on June 11, 2007**

**Attendees**

The following members of the Energy Management Committee (EMC) attended the meeting in person: Kimberly Harris, Jennifer O'Connor, and Eric Markell.

The following non-voting members of the EMC attended the meeting: Paul Wiegand, Don Gaines, Jim Eldredge, Mike Stranik, David Mills, Jim Elsea, John Story, Salman Aladin, Tom DeBoer, Chris Janak and Roger Garratt.

Guests included: Steve Secrist, Keith Faretra, Wayne Gould, Connie Mander, Rob Neate, Joel Molander, Christine Philipps, Aliza Seelig, and Steve Pope (Perkins Coie).

**Call to Order**

The meeting was called to order at 4:00 p.m.

**Approval of Previous Meeting Minutes**

The members were reminded that minutes of the Energy Management Committee (EMC) on May 17<sup>th</sup>, 2007, were unanimously approved by emails received from members.

**Standards of Conduct Requirements and Guidelines**

A reminder of the Standards of Conduct was contained in the agenda that was distributed to attendees.

**New Matters**

1. **Sumas Default and Replacement:** Christine Philipps presented an update on the Sumas PPA that included i) a status report on PSE's legal response to the default, ii) an update on PSE's request for bids due June 14<sup>th</sup> for a replacement contract with similar terms, and iii) recommendations on near-term and long-term replacement of power. If the replacement contract bids are attractive, staff recommended proceeding with

negotiation. If the bids are not attractive, staff recommended a three step replacement of power beginning with an index purchase of 125 MW of Q3 index priced power to hedge against summer peaks or unanticipated loss of generation. Because there is less than three weeks before the beginning of July and because of the uncertainty of the pricing of the June 14<sup>th</sup> bids, the near-term recommendation was modified to only purchase index priced power for July 2007 rather than for July through September. With that modification the recommendations were unanimously approved by the committee members in attendance. Christine will notify Committee members of the results of the bids.

2. **Priest Rapids Development Meaningful Priority Contract:** David Mills and Joel Molander presented a brief overview of Grant County PUD's (District) annual offer to contract participants of the option to take a Meaningful Priority share of Priest Rapids surplus generation or a pro-rata share of net revenues. Consistent with PSE actions in 2006 and 2007 staff recommended that PSE elect to participate in the Meaningful Priority Contract with the District by June 18, 2007. Following discussion the recommendation was unanimously approved by Committee Members in attendance.
3. **Resource Acquisition Update:** Roger Garratt presented an informational update of the status of RFP short list projects as well as renewable opportunities under consideration and possible renewable opportunities targeted for future evaluation. Roger also discussed natural gas fired generation opportunities for both energy and capacity as well as other PPA opportunities.

#### **Next Meeting**

The next meeting of the Energy Management Committee is scheduled for 2:30 p.m. on Friday July 20, 2007 in the Meydenbauer Conference Room, PSE-12.

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There being no further business, the meeting was adjourned at 4:50 p.m.

**Respectfully submitted:**

*Jim Elsea* 7/10/07  
Jim Elsea or David Mills, Secretary

**Accepted by the Energy Management Committee:**

*Kimberly Harris*  
Eric Markell, Bert Valdman, or Kimberly Harris

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