

EXHIBIT NO. _____ (EMM-6HC)
DOCKET NO. _____
2003 POWER COST ONLY RATE CASE
WITNESS: ERIC M. MARKELL

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

Docket No. _____

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DIRECT TESTIMONY OF
ERIC M. MARKELL
ON BEHALF OF PUGET SOUND ENERGY, INC.

I. SUMMARY OF PRESENTATIONS TO BOARD OF DIRECTORS

A. Presentations in 2002

1. September Board Retreat

PSE management met with the Board at its Annual Retreat in September 2002, and presented materials titled *Load and Resource Outlook* and *New Resource Opportunities*. These materials are collectively attached to Mr. Markell's testimony as Ex. ____ (EMM-7). In the materials, PSE management reviewed: (1) developments in the regional energy markets; (2) PSE's expected load and resource outlook; (3) possible resource acquisition opportunities; (4) possible criteria to evaluate those opportunities; and (5) other topics as noted.

2. October Board Meeting

At the Board's October 2002 meeting, PSE management reported on the Company's process for identifying and prioritizing resource opportunities to meet customer load. PSE management presented materials titled *Progress Report Generation Planning*. These materials are attached to Mr. Markell's testimony as Ex. ____ (EMM-8). In the materials, PSE management reviewed: (1) the development of evaluation criteria for the Asset Acquisition Option and the PPA Option; (2) the initial responses that PSE received in response to the Asset RFP; and (3) other topics as noted.

3. November Board Meeting

At the Board's November 2002 meeting, PSE management gave updates on the least cost planning process and the resource acquisition process. PSE management presented materials titled *Power Resource Acquisition Team Weekly Progress Review*. These materials are attached to Mr. Markell's testimony as Ex. ____ (EMM-9). In the materials, PSE management reviewed: (1) the status of responses that PSE had received to the Asset RFP; (2) the valuation for the respondent projects; (3) the analyses and decisions that the Company needed to perform; (4) the coordination of the planning and acquisition processes; and (5) other topics as noted.

B. Presentations in 2003

1. January Board Meeting

At the Board's January 2003 meeting, PSE management gave updates on the least cost planning process and the resource acquisition process. The Board received a copy of PSE's draft 2002-2003 Least Cost Plan (filed in December 2002).

At the January meeting, PSE management presented materials titled *Resource Acquisition Opportunity Review*. These materials are attached to Mr. Markell's testimony as Ex. ____ (EMM-10). In the materials, PSE management reviewed: (1) PSE's expected resource requirements; (2) a summary assessment of several projects; (3) the five evaluation criteria that PSE had adopted; (4) the responses to the Asset RFP that PSE received through January 2003; (5) a preliminary report on the PPA RFP; and (6) other topics as noted.

2. February Board Meeting

At the Board's February 2003 meeting, PSE management gave: (1) an overview of the business context for the least cost planning process and the resource acquisition process; (2) a report on the Commission's prudence standard with respect to resource acquisitions; (3) a status report on the 2002-2003 Least Cost Plan; and (4) a status report on the resource acquisition process.

The Board discussed the 2002-2003 Least Cost Plan extensively and considered strategies to meet PSE's energy and capacity needs. The Board determined that it wanted to review the Least Cost Plan planning standards further at the next Board meeting.

In addition, the Board discussed the materials titled *Resource Acquisition Team Report* (see below), including the scenarios, alternatives, and underlying assumptions and models that were used in the materials. The Board determined that it wanted to review the progress of the resource acquisition team at the next Board meeting.

At the February 2003 meeting, PSE management presented a copy of a memorandum titled *WUTC Prudence Standard* (May 27, 2002) that had been provided earlier to the Company's Energy Resources Committee. PSE management also presented materials titled *Discussion of Business Context, Least Cost Plan Report, and Resource Acquisition Team Report*. The May 27, 2002 memorandum is attached to Mr. Gaines's testimony as Ex. ___ (WAG-6). The materials are attached to Mr. Markell's testimony as Ex. ___ (EMM-11), Ex. ___ (EMM-12), and Ex. ___ (EMM-13), respectively.

In the memorandum and in the materials, PSE management reviewed: (1) the need for new power supply resources due to expiration of long-term power supply contracts and continuing load growth; (2) the process, schedule, and issues involved with the preparation of the 2002-2003 Least Cost Plan; (3) an assessment of the Asset Acquisition, PPA, and Self-Build Options; (4) the prudence standard that the Commission had discussed in prior decisions; and (5) other topics as noted.

3. March Board Meeting

At the Board's March 2003 meeting, PSE management: (1) presented the portfolio planning standards for the 2002-2003 Least Cost Plan; (2) reviewed the results of further resource portfolio analysis, including topics that were discussed at the February 2003 meeting; and (3) presented an update on the resource acquisition process.

The Board discussed the analysis of portfolio planning standards, resource needs, and resource technology mixes. The Board determined that it wanted to further review the Least Cost Plan and the progress of the resource acquisition team at the next Board meeting.

At the March 2003 meeting, PSE management presented materials titled *Resource Planning and Acquisition Update to the PSE Board of Directors*. These materials are attached to Mr. Markell's testimony as Ex. ___ (EMM-14). In the materials, PSE management reviewed: (1) the recommended adoption of the B2 planning standard and the process that went into that recommendation; (2) the implications for PSE of a diversified mix of resources to meet the

standard; (3) the status of discussions with resource owners and developers; (4) hybrid combinations of resources that PSE might consider; and (5) other topics as noted.

4. April Board Meeting

At the April 2003 Board meeting, PSE management: (1) gave an update on least cost planning and resource acquisition matters; (2) reported that PSE intended to file the 2002-2003 Least Cost Plan in final form on or before April 30, 2003; and (3) discussed PSE's preliminary evaluation of resource alternatives.

At the April 2003 meeting, PSE management presented materials titled *Resource Acquisition Update to the PSE Board of Directors*. These materials are attached to Mr. Markell's testimony as Ex. ___ (EMM-15). In the materials, PSE management reviewed: (1) potential risks associated with the _____ projects; (2) the assessment and valuation of the remaining projects _____ and Frederickson 1; (3) potential PPA alternatives associated with the _____; and (4) other topics as noted.

5. July Board Meeting

At the July 2003 Board meeting, PSE management: (1) gave a progress report on least cost planning and resource acquisition matters; (2) discussed the due diligence work that PSE had performed to date; and (3) reviewed observations on the most attractive generation projects that were under review.

At the July 2003 meeting, PSE management presented materials titled *Resource Planning and Acquisition Update*. These materials are attached to Mr. Markell's testimony as Ex. ___ (EMM-16). In the materials, PSE management reviewed: (1) the _____, and Frederickson 1 projects; (2) the Company's expected timeline for completing a transaction; (3) resource strategies stemming from the 2002-2003 Least Cost Plan; and (4) other topics as noted.

6. September Board Retreat

PSE management met with the Board at its Annual Retreat in September 2003, and presented materials titled *Energy Resources Group 5-Year Capital and Expense Plan*. These materials are attached to Mr. Markell's testimony as Ex. ___ (EMM-17). In the materials, PSE management reviewed: (1) the Company's existing generation resources; (2) new resource options; (3) power and gas supply issues; (4) capital and expense forecasts for energy resources; (5) the Company's load forecast and expected resource deficits; and (6) other topics as noted.

7. October Board Meeting

Mr. Markell discusses in his testimony the presentation that PSE management gave to the Board at its October 2003 meeting.

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