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**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

PUGET SOUND ENERGY, INC.

Petition for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs

Docket No. UE-12_____

Petition for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs

1. In accordance with RCW 80.04.570 and WAC 480-07-395, Puget Sound Energy, Inc. (“PSE”) submits this Petition requesting that the Commission issue an order approving the Coal Transition Power Purchase and Sale Agreement (“Coal Transition PPA”) by and between TransAlta Centralia Generation LLC (“TransAlta Centralia”) and PSE, and related approvals under the terms and conditions set forth in more detail herein. Concurrent with the filing of this Petition, PSE is filing motions for expedited treatment of this Petition and for a highly confidential protective order.

2. The Coal Transition PPA for which PSE seeks approval in this Petition is a lowest reasonable cost and lowest risk capacity resource. The varying contract quantities that PSE negotiated in the Coal Transition PPA are shaped to meet PSE’s resource needs in the upcoming years. Additionally, the Coal Transition PPA is consistent with Washington

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Page 1

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The PSE Building
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Bellevue, WA 98004-5579
Phone: 425.635.1400
Fax: 425.635.2400

1 State energy policy as set forth in the Coal Transition Energy Bill signed by Governor
2
3 Gregoire in April 2011.

4
5 3. PSE requests an order: (1) approving the Coal Transition PPA, subject to and
6
7 conditioned upon, the Commission determinations and findings set forth in Section VI of
8
9 this Petition; (2) approving recovery of the equity component of the Coal Transition PPA;
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11 (3) approving deferral of certain costs associated with the Coal Transition PPA throughout
12
13 the entire term of the Coal Transition PPA including later volume and pricing changes; and
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15 (4) finding that the Coal Transition PPA is prudent, regardless of whether the term of the
16
17 Coal Transition PPA terminates upon its expiration or is terminated prior to its expiration.
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19

20
21 4. As support for PSE's Petition, PSE files herewith and incorporates herein the
22
23 prefiled direct testimony and supporting exhibits of Roger Garratt, Chris Bevil, Aliza Seelig,
24
25 and Katherine J. Barnard, as follows:
26

- 27
28 • Prefiled Direct Testimony of Roger Garratt
29 (Exhibit No. ___(RG-1HCT) and supporting exhibits
30 (Exhibit No. ___(RG-2 through Exhibit No. ___(RG-9));
31
32
- 33 • Prefiled Direct Testimony of Chris Bevil
34 (Exhibit No. ___(CB-1HCT) and supporting exhibits
35 (Exhibit No. ___(CB-2) through Exhibit No. ___(CB-
36 4HC));
37
38
- 39 • Prefiled Direct Testimony of Aliza Seelig
40 (Exhibit No. ___(AS-1T) and supporting exhibits
41 (Exhibit No. ___(AS-2) through Exhibit No. ___(AS-
42 18C)); and
43
44

- Prefiled Direct Testimony of Katherine J. Barnard (Exhibit No. ___(KJS-1T) and supporting exhibit (Exhibit No. ___(KJS-2)).

5. Mr. Garratt’s testimony describes the background and general terms of the Coal Transition PPA. Mr. Bevil’s testimony describes PSE’s 2011 Request for Proposals for All Generation Sources (the “2011 RFP”), the results it produced, and how PSE balanced a variety of findings and considerations to select the lowest reasonable cost resources to meet the needs of its customers. Ms. Seelig’s testimony describes the quantitative analysis process, the quantitative models and metrics, analysis scenarios, and key input assumptions used in the 2011 RFP. Ms. Barnard’s testimony describes the proposed recovery methodology for the costs associated with the Coal Transition PPA.

6. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address for purposes of this proceeding are:

Tom DeBoer
Director – Federal and State Regulatory Affairs
Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, Washington 98009-9734
Phone: 425-462-3495

1 PSE's representatives for purposes of this proceeding are:
2

3 Jason Kuzma
4 Sheree Strom Carson
5 Donna L. Barnett
6 Perkins Coie LLP
7 10885 N.E. Fourth Street, Suite 700
8 Bellevue, WA 98004-5579
9 Phone: 425-635-1400
10 Fax: 425-635-2400
11 Email: jkuzma@perkinscoie.com
12 scarson@perkinscoie.com
13 dbarnett@perkinscoie.com
14
15

16
17 7. Statutes and rules that may be at issue in this Petition include
18

19 RCW 80.01.040, RCW 80.04.570, Chapter 80.80 RCW, WAC 480-07-370(1)(b) and
20
21 WAC 480-07-395.
22

23 I. BACKGROUND 24

25 8. TransAlta Centralia is the owner and operator of the Centralia Transition
26
27 Coal Facility, a baseload coal-fired electric generating plant of approximately 1340
28
29 megawatts of electric generating capacity located at Centralia, Washington. Chapter 80.80
30
31 RCW imposes an emissions performance standard on baseload electric generation in the
32
33 State of Washington. Electric utilities (as defined in RCW 80.80.010(12)) may not enter
34
35 into a long-term financial commitment for baseload electric generation on or after July 1,
36
37 2008, unless the generating plant's emissions are the lower of:
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- 42 • 1100 pounds of greenhouse gases per megawatt-hour; or
- 43 • the average available greenhouse gases emissions output as
- 44 updated by the Department of Commerce.
- 45
- 46
- 47

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1 This standard effectively prohibited TransAlta Centralia from entering into a contract with a
2
3 utility in Washington for the output of the Centralia Transition Coal Facility with a term of
4
5 five years or longer, until the statute was amended in 2011 to address coal transition power.
6

7
8 9. On May 21, 2009, Governor Gregoire issued Executive Order 09-05,
9
10 Washington’s Leadership on Climate Change, which, in part, directed the Department of
11
12 Ecology to work with TransAlta Centralia to establish an agreed order to apply the
13
14 emissions performance standard to the Centralia Transition Coal Facility by no later than
15
16 December 31, 2025. On April 26, 2010, Governor Gregoire and TransAlta Centralia entered
17
18 into a memorandum of understanding to enter discussions on an agreement to reduce gas
19
20 emissions from the Centralia Transition Coal Facility and provide replacement capacity by
21
22 2025.
23
24

25
26 10. On April 29, 2011, Governor Gregoire signed Engrossed Second Substitute
27
28 Senate Bill 5769 (the “Coal Transition Energy Bill”), which provides certain deferrals of
29
30 the greenhouse gas emissions performance standard to encourage the early closure of coal
31
32 plants in Washington. The Coal Transition Energy Bill amended the emissions performance
33
34 standard to allow coal-fired baseload facilities in Washington—such as the Centralia
35
36 Transition Coal Facility—to comply with greenhouse gas emissions performance standards
37
38 by shutting down one of its two boilers by the end of 2020 and the other by the end of 2025.
39
40 The Coal Transition Energy Bill addressed the technology that such coal-fired baseload
41
42 facilities would implement for control of nitrogen oxides. The bill also removed the
43
44 limitations that had previously been imposed on the facility limiting the duration of new
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1 financial commitments for the output from the facility. The Coal Transition Energy Bill also
2
3 established a process that allows electric utilities to petition this Commission for approval of
4
5 a power purchase agreement for coal transition power. If such a contract is approved, the
6
7 utility is allowed to earn and recover the equity component of its authorized rate of return in
8
9 the same manner as if it had purchased or built an equivalent plant and to recover the cost of
10
11 the coal transition power under the power purchase agreement. *See* RCW 80.04.570(6).
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13

14
15 11. On December 23, 2011, Governor Gregoire and TransAlta Centralia entered
16
17 into a memorandum of agreement (“MOA”), which memorialized the arrangements set forth
18
19 in the Coal Transition Energy Bill in contractual form. The MOA between TransAlta
20
21 Centralia and the State of Washington is effective as of April 1, 2012 and expires no earlier
22
23 than December 31, 2025, unless terminated earlier pursuant to its terms.
24

25
26 12. TransAlta Centralia may terminate the MOA if, as of December 15, 2012,
27
28 TransAlta Centralia or an affiliate has failed to negotiate and execute one or more power
29
30 purchase agreements for the sale of at least 500 megawatts (“MW”) of the baseload
31
32 electrical output of the Centralia Transition Coal Facility.
33

34 35 **II. THE COAL TRANSITION PPA**

36
37 13. On July 24, 2012, PSE and TransAlta Centralia entered into the Coal
38
39 Transition PPA, whereby PSE will purchase up to 380 MW of coal transition power. The
40
41 contract quantity varies over time and the price increases over time. Starting on
42
43 December 1, 2014, the initial quantity is 180 MWh/hr. The quantity increases to
44
45 280 MWh/hr on December 1, 2015, and to 380 MWh/hr on December 1, 2016. The delivery
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1 rate thereafter remains steady through December 31, 2024. On January 1, 2025, the contract
2
3 quantity decreases to 300 MWh/hr through the December 31, 2025. The Prefiled Direct
4
5 Testimony of Roger Garratt, Exhibit No. ___(RG-1HCT), provides further details of the
6
7 contract terms, including, but not limited to, transaction terms related to price, transmission,
8
9 creditworthiness, termination, force majeure events, and change in law events.
10

11 III. PRUDENCE

12
13
14 14. PSE seeks a prudence determination in this proceeding with respect to the
15
16 Coal Transition PPA, including any and all associated capital or equity component costs,
17
18 operating costs, transmission costs and other costs related to these resources. See Prefiled
19
20 Direct Testimony of Roger Garratt, Exhibit No. ___(RG-1HCT), for detailed information
21
22 supporting a prudence determination in this proceeding. In PSE's 2003 Power Cost Only
23
24 Rate Case proceeding, Docket No. UE-031725, the Commission reaffirmed the standard it
25
26 applies in reviewing the prudence of power generation asset acquisitions:
27
28
29

30
31 The test the Commission applies to measure prudence is what a
32
33 reasonable board of directors and company management would
34
35 have decided given what they knew or reasonably should have
36
37 known to be true at the time they made a decision. This test
38
39 applies both to the question of need and the appropriateness of the
40
41 expenditures. The company must establish that it adequately
42
43 studied the question of whether to purchase these resources and
44
45 made a reasonable decision, using the data and methods that a
46
47 reasonable management would have used at the time the decisions
were made.

48 *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-031725, Order No. 12 at ¶ 19.

1 15. In addition to this generic reasonableness standard, the Commission has cited
2
3 several specific factors that inform the question of whether a utility’s decision to acquire a
4
5 new resource was prudent. These factors include the following:
6

- 7 • First, the utility must determine whether new resources are
8 necessary. *See e.g., WUTC v. Puget Sound Power & Light*
9 *Co.*, Docket No. UE-921262, *et al.*, Nineteenth Supplemental
10 Order (September 27, 1994) (“*Prudence Order*”) at 11.
11
- 12 • Once a need has been identified, the utility must determine
13 how to fill that need in a cost-effective manner. When a utility
14 is considering the purchase of a resource, it must evaluate that
15 resource against the standards of what other purchases are
16 available, and against the standard of what it would cost to
17 build the resource itself. *Prudence Order* at 11.
18
- 19 • The utility must analyze the resource alternatives using current
20 information that adjusts for such factors as end effects, capital
21 costs, impact on the utility’s credit quality, dispatchability,
22 transmission costs, and whatever other factors need specific
23 analysis at the time of a purchase decision. *Id.* at 2, 33-37, 46-
24 47.
25
- 26 • The utility should inform its board of directors about the
27 purchase decision and its costs. The utility should also
28 involve the board in the decision process. *Id.* at 37, 46.
29
- 30 • The utility must keep adequate contemporaneous records that
31 will allow the Commission to evaluate its actions with respect
32 to the decision process. The Commission should be able to
33 follow the utility’s decision process; understand the elements
34 that the utility used; and determine the manner in which the
35 utility valued these elements. *Id.* at 2, 37, 46.
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42 16. As demonstrated in the Prefiled Direct Testimony of Chris Bevil, Exhibit
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44 No. ___(CB-1HCT), PSE had a clear, documented need for capacity resources in both the
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1 near and long term. PSE also performed the analyses, decision-making and documentation
2 processes expected by the Commission, as summarized in the Prefiled Direct Testimony of
3 Roger Garratt, Exhibit No. ___(RG-1HCT), the Prefiled Direct Testimony of Chris Bevil,
4 Exhibit No. ___(CB-1HCT), and the Prefiled Direct Testimony of Aliza Seelig, Exhibit
5 No. ___(AS-1T). PSE determined its need for capacity and renewable resources based on
6 the analyses performed for PSE's 2011 Integrated Resource Plan ("2011 IRP"), which PSE
7 filed with the Commission in May 2011. Please see Exhibit No. ___(RG-4) for a copy of
8 PSE's 2011 IRP. PSE subsequently updated its need for capacity resources, as described in
9 Exhibit No. ___(CB-1HCT).

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22 17. After completing and filing the 2011 IRP, PSE commenced the 2011 RFP
23 process by filing a draft 2011 RFP with the Commission on August 1, 2011. This
24 Commission subsequently approved the draft 2011 RFP. PSE released the 2011 RFP on
25 October 17, 2011. Please see Exhibit No. ___(RG-5) for a copy of the 2011 RFP.

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31 18. PSE's 2011 RFP requested proposals from power producers, marketers, and
32 power-plant developers to help PSE procure approximately 385 MW of resources. Although
33 PSE anticipates that energy efficiency, renewable power, and gas-fired generation will
34 continue to be its dominant sources of new power supply in coming years, the 2011 RFP
35 sought any viable power-supply offer or technology that could be in operation by 2016.
36 PSE also indicated that it would consider various contract arrangements, such as investment
37 in existing power plants, ownership of new plants, or long-term PPAs. See Exhibit
38 No. ___(RG-5) at 13-15. Please also see the Prefiled Direct Testimony of Chris Bevil,
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1 Exhibit No. ____ (CB-1HCT), for a detailed description of the 2011 RFP process and
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3 evaluation.
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5 19. PSE engaged in a comprehensive process to evaluate the costs and risks
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7 associated with each proposal, both as individual projects and when viewed as potential
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9 additions to PSE's resource portfolio. PSE evaluated the proposals in two stages based on
10
11 the criteria set forth in its 2011 RFP. PSE designed these criteria to take into account
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13 qualitative and quantitative factors impacting the decision whether to acquire a potential
14
15 resource. These criteria included consideration of end effects, dispatchability, transmission
16
17 costs, capital costs, impact on PSE's credit quality, and project feasibility, among other
18
19 factors. PSE examined its self-build opportunities and unsolicited proposals submitted after
20
21 the commencement of the 2011 RFP using the same due diligence criteria, analytic rigor,
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23 and models as it did for the other 2011 RFP proposals to find the resources with the lowest
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25 levelized costs, highest portfolio benefits, and lowest risk profiles. PSE reviewed the
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27 projects to determine if they fit PSE's need and the costs were compared to other reasonably
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29 executable alternatives.
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34 20. PSE involved its Board of Directors and Energy Management Committee
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36 ("EMC") in the resource acquisition process. Indeed, PSE's Resource Acquisition Group
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38 made several presentations to the Board of Directors and the EMC regarding the status of
39
40 PSE's analyses of the many potential resource opportunities it was considering to meet its
41
42 need for additional resources. The Board of Directors and the EMC were thereby advised of
43
44 the management team's evaluation methods, key assumptions, and results as the 2011 RFP
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1 evaluation progressed, including evaluations and conclusions regarding self-build
2
3 opportunities and resources that came to PSE's attention outside of the 2011 RFP process.
4
5 PSE staff regularly kept both PSE's EMC and Board of Directors informed and involved in
6
7 the 2011 RFP process and the decision to enter into the Coal Transition PPA. Please see
8
9 Exhibit No. ___(RG-6HC) for a compilation of pertinent presentations made to the EMC.
10
11 After the 2011 RFP comparative analysis identified the Coal Transition PPA as the lowest
12
13 reasonable cost and lowest risk capacity resource to acquire to meet need, PSE sought the
14
15 approval of the EMC to request approval of the Board of Directors to enter into the Coal
16
17 Transition PPA.
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21 21. On July 20, 2012, the EMC approved the request to recommend to the Board
22
23 of Directors that PSE enter into the Coal Transition PPA. Please see Exhibit No. ___(RG-
24
25 7HC) for a copy of the presentation to and minutes of the EMC meeting dated July 20, 2012.
26
27 On July 24, 2012, PSE's Board of Directors approved the recommendation to enter into the
28
29 Coal Transition PPA. Please see Exhibit No. ___(RG-8HC) for a copy of the presentation to
30
31 and minutes of the Board of Directors meeting dated July 24, 2012. Following the approval
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33 of the Board of Directors, PSE and TransAlta Centralia executed the Coal Transition PPA
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35 on July 24, 2012. The prefiled direct testimony and supporting exhibits of Roger Garratt,
36
37 Chris Bevil, and Aliza Seelig, filed with this Petition and incorporated herein, demonstrate
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39 PSE's contemporaneous documentation, including but not limited to documentation
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41 presented to the Board of Directors and the EMC.
42
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IV. EQUITY COMPONENT

22. RCW 80.04.570(6) provides that, upon Commission approval of a power purchase agreement for acquisition of coal transition power, an electrical company, such as PSE, is allowed to earn the equity components of its authorized rate of return in the same manner as if it had purchased or built an equivalent plant:

- (a) Upon commission approval of an electrical company's power purchase agreement for acquisition of coal transition power in accordance with this section, the electrical company is allowed to earn the equity component of its authorized rate of return in the same manner as if it had purchased or built an equivalent plant and to recover the cost of the coal transition power under the power purchase agreement. Any power purchase agreement for acquisition of coal transition power that earns a return on equity may not be included in an imputed debt calculation for setting customer rates.
- (b) For purposes of determining the equity value, the cost of an equivalent plant is the least cost purchased or self-built electric generation plant with equivalent capacity. In determining the least cost plant, the commission may rely on the electrical company's most recent filed integrated resource plan. The cost of an equivalent plant, in dollars per kilowatt, must be determined in the original process of commission approval for each power purchase agreement for coal transition power.
- (c) The equivalent plant cost determined in the approval process must be amortized over the life of the power purchase agreement for acquisition of coal transition power to determine the recovery of the equity value.
- (d) The recovery of the equity component must be determined and approved in the review process set forth in this section. The approved equity value must be in addition to the approved cost of the power purchase agreement.

RCW 80.04.570(6).

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1 23. As explained in the Prefiled Direct Testimony of Roger Garratt, Exhibit
2
3 No. ___(RG-1HCT), PSE used the cost of an equivalent plant for purposes of determining
4
5 the equity return component for the Coal Transition PPA. This equivalent plant yielded the
6
7 least cost purchased or self-built electric generation plant (expressed in dollars per kilowatt)
8
9 of the proposals offered in response to the 2011 RFP.
10

11
12 24. PSE used a pre-tax weighted average cost of equity of 7.24 percent as the
13
14 “equity component of its authorized rate of return” for purposes of determining the equity
15
16 return component for the Coal Transition PPA. This pre-tax weighted average cost of equity
17
18 of 7.24 percent reflects the return on equity and equity ratio authorized by the Commission
19
20 of 7.24 percent reflects the return on equity and equity ratio authorized by the Commission
21
22 in PSE’s last general rate proceeding:
23

Equity Ratio		48.00%
Return on Equity	x	9.80%
<u>Grossup for Tax (1-FIT Rate)</u>	<u>÷</u>	<u>65%</u>
Pre-Tax Weighted Average Cost of Equity		7.24%

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29
30 25. For ease of calculation, this pre-tax weighted average cost of equity remains
31
32 fixed throughout the term of the Coal Transition PPA. In other words, the pre-tax weighted
33
34 average cost of equity of 7.24 percent will be the “equity component of its authorized rate of
35
36 return” for purposes of determining the equity return component for the Coal Transition
37
38 PPA, regardless of whether the Commission increases or decreases PSE’s authorized equity
39
40 ratio or return on equity during the contract term.
41
42

43
44 26. The “cost of an equivalent plant” for purposes of determining the equity
45
46 return component for the Coal Transition PPA will, throughout the term of the Coal
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1 Transition PPA (regardless of whether the term of the Coal Transition PPA terminates upon
2
3 its expiration or is terminated prior to its expiration), be \$215 million, which is a total
4
5 equivalent plant cost for the Coal Transition PPA of a plant of approximately 346 MW.
6
7 This is the cost of an equivalent plant that is the least cost purchased or self-built electric
8
9 generation plant with equivalent capacity. This equivalent plant cost of \$215 million must
10
11 be amortized over the “life of the power purchase agreement for acquisition of coal
12
13 transition power,” which is assumed to be the term of the Coal Transition PPA (commencing
14
15 on December 1, 2014, and expiring on December 31, 2025) to determine the recovery of the
16
17 equity value. The equity component of PSE’s authorized rate of return for the Coal
18
19 Transition PPA will, throughout the term of the Coal Transition PPA (regardless of whether
20
21 the term of the Coal Transition PPA terminates upon its expiration or is terminated prior to
22
23 its expiration), be earned by PSE and recovered, in an amount equal to \$2.92/MWh for each
24
25 MWh of energy paid for by PSE under the Coal Transition PPA.
26
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31 **V. RECOVERY OF COSTS RELATED TO THE COAL TRANSITION PPA**

32
33 27. The Prefiled Direct Testimony of Katherine J. Barnard, Exhibit
34
35 No. ___(KJB-1T), describes in detail PSE proposed recovery methodology of costs related
36
37 to the Coal Transition PPA. Generally, the proposed recovery methodology consists of two
38
39 separate expenses.
40

41
42 28. The first expense is the cost per MWh of energy. TransAlta Centralia will
43
44 bill this expense, and PSE will record in FERC Account 555, Purchase Power. PSE will:
45
46 (i) pro form this cost into power costs in the same manner as PSE pro forms costs associated
47

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1 with other power purchase agreements; and (ii) treat this cost in PSE's Power Cost
2
3 Adjustment ("PCA") mechanism in the same manner as PSE treats costs associated with
4
5 other power purchase agreements.
6

7
8 29. The second expense associated with the Coal Transition PPA is the equity
9
10 return component discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit
11
12 No. ___(RG-1HCT). PSE will pro form this cost per MWh into power costs in general rate
13
14 case filings because there is no billing associated with this expense. PSE will account for
15
16 the costs associated with the equity return component on Schedule B-1 of the PCA
17
18 mechanism.
19

20
21 30. PSE will defer costs associated with the Coal Transition PPA that are not
22
23 included in rates in a similar manner as PSE deferred the costs associated with the
24
25 Goldendale Generating Station in Docket UE-070533. The deferral of costs associated with
26
27 the Coal Transition PPA would include both the contracted purchase price and the costs of
28
29 the equity return component associated with the Coal Transition PPA prior to the initial
30
31 contract being included in rates. Additionally, PSE will accrue interest on the deferred
32
33 amounts, at PSE's net of tax rate of return for the period, currently 6.71%. A similar
34
35 deferral would also be used to adjust the yearly increases in contracted power and price
36
37 increases that are discussed in the Prefiled Direct Testimony of Roger Garratt, Exhibit
38
39 No. ___(RG-1HCT). Upon Commission approval of the petition for approval of the Coal
40
41 Transition PPA and commencement of deliveries pursuant to the Coal Transition PPA, PSE
42
43 will defer those costs, including interest, in a regulatory asset account.
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1 certain costs associated with the Coal Transition PPA with interest throughout the entire
2
3 term of the Coal Transition PPA including later volume and pricing changes; and (4) finding
4
5 that the Coal Transition PPA is prudent, regardless of whether the term of the Coal
6
7 Transition PPA terminates upon its expiration or is terminated prior to its expiration.
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10 Specifically, and for the reasons described herein, PSE requests an order approving the Coal
11
12 Transition PPA, subject to and conditioned upon the Commission determining and finding
13
14 as follows:
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18 i. The Coal Transition Power PPA is a long-term financial
19 commitment for the purchase of coal transition power, as such
20 terms are defined in RCW 80.80.010(16) and RCW
21 80.80.010(5), respectively, and as such terms are otherwise
22 used in Title 80 RCW.
23
- 24
25 ii. Considering the circumstances existing at the time of the
26 Commission's review and considering factors, including
27 among other factors, the long-term economic risks and
28 benefits to the PSE and its ratepayers of the Coal Transition
29 Power PPA: The terms of the Coal Transition Power PPA
30 provide adequate protection to ratepayers and PSE during the
31 term of the Coal Transition Power PPA or in the event of early
32 termination; the resource is needed by PSE to serve its
33 ratepayers and the resource meets the need in a cost-effective
34 manner as determined under the lowest reasonable cost
35 resource standards under chapter 19.280 RCW, including the
36 cost of the Coal Transition Power PPA plus the equity
37 component as determined in RCW 80.04.570.
38
- 39
40 iii. The Coal Transition Power PPA contains termination dates
41 consistent with the applicable dates in RCW 80.80.040(3)(c).
42
- 43
44 iv. The Coal Transition Power PPA provides for modification of
45 the power purchase agreement to the satisfaction of PSE and
46 TransAlta Centralia in the event that a new or revised
47 emission or performance standard or other new or revised

1 operational or financial requirement or limitation directly or
2 indirectly addressing greenhouse gas emissions is imposed by
3 state or federal law, rules, or regulatory requirements. Under
4 the Coal Transition Power PPA, such a modification to the
5 Coal Transition Power PPA will, consistent with RCW
6 80.04.570, be subject to review and approval by the
7 Commission. Under the Coal Transition Power PPA, in the
8 event the parties cannot agree to modification of the Coal
9 Transition Power PPA, either party to the Coal Transition
10 Power PPA has, consistent with RCW 80.04.570, the right to
11 terminate the Coal Transition Power PPA if such party is
12 adversely affected by the new standard, requirement, or
13 limitation as described in RCW 80.04.570(2).
14
15

- 16
17 v. PSE is allowed to earn the equity component of its authorized
18 rate of return in the same manner as if it had purchased or built
19 an equivalent plant and to recover the cost of Coal Transition
20 Power PPA. The equity component of PSE's authorized rate
21 of return for the Coal Transition PPA as determined in RCW
22 80.04.570 will, throughout the term of the Coal Transition
23 PPA (regardless of whether the term of the Coal Transition
24 PPA terminates upon its expiration or is terminated prior to its
25 expiration), be a pre-tax weighted average cost of equity of
26 7.24 percent. The "cost of an equivalent plant" for purposes
27 of determining the equity return component for the Coal
28 Transition PPA will, throughout the term of the Coal
29 Transition PPA (regardless of whether the term of the Coal
30 Transition PPA terminates upon its expiration or is terminated
31 prior to its expiration.), be \$215 million, which is a total
32 equivalent plant cost for the Coal Transition PPA of a plant of
33 approximately 346 MW. This is the cost of an equivalent
34 plant that is the least cost purchased or self-built electric
35 generation plant with equivalent capacity. This equivalent
36 plant cost of \$215 million must be amortized over the "life of
37 the power purchase agreement for acquisition of coal
38 transition power," which is assumed to be the term of the Coal
39 Transition PPA (commencing on December 1, 2014, and
40 expiring on December 31, 2025) to determine the recovery of
41 the equity value. The equity component of PSE's authorized
42 rate of return for the Coal Transition PPA will, throughout the
43 term of the Coal Transition PPA (regardless of whether the
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term of the Coal Transition PPA terminates upon its expiration or is terminated prior to its expiration), be earned by PSE and recovered, in an amount equal to \$2.92/MWh for each MWh of energy paid for by PSE under the Coal Transition PPA and in a manner and accounted for as described in section V of this petition. The recovery of the cost of the Coal Transition PPA will also be in a manner and accounted for as described in Section V of this Petition.

- vi. PSE's entry into the Coal Transition PPA is prudent and the associated costs are reasonable for recovery in rates, subject to a future prudence review of PSE's actual power costs as provided in Paragraph 4 of the PCA Settlement Agreement approved in Docket Nos. UE-011570 and UG-011571. The Coal Transition PPA is prudent for the term in its entirety, or any portion thereof.
- vii. The Commission determines that the Coal Transition PPA is consistent with RCW 80.04.570 and approves the Coal Transition PPA and the recovery of related acquisition costs and deferral of costs in accordance with the terms of the Petition of Puget Sound Energy, Inc. for Commission Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power.
- viii. Commission approval of the Coal Transition Power PPA is in the public interest.

Dated this 20th day of August, 2012

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