

EXHIBIT NO. \_\_\_\_\_ (EMM-11)  
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.

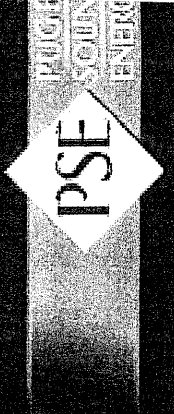
PUGET SOUND ENERGY, INC.,

Respondent.

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

# Discussion of Business Context

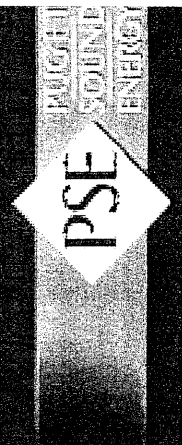
**Bill Gaines - Vice President, Energy Supply**



# Business Context –

## Least Cost Planning

- PSE faces a significant and growing need for new firm power supply resources due to:
  - - expiration of existing long term firm supply contracts
  - - continuing load growth
- As part of its resource planning activities under WUTC regulations, PSE is required to update its Least Cost Plan (LCP) every two years. The LCP is intended to identify the need for new resources, and to evaluate all resource alternatives, including conservation, on an even-handed basis.
- The LCP points the utility toward a least-cost solution by evaluating the attributes of various types and combinations of resources, but does not evaluate particular resource opportunities.

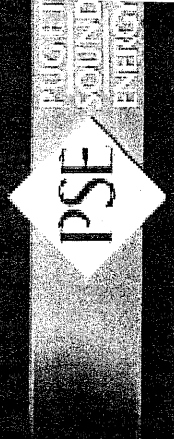




## **Business Context –**

### **Least Cost Planning**

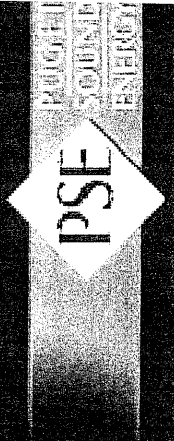
- **PSE filed an interim update of its LCP with the WUTC in December 2002, and has committed to finalizing its LCP update by April 2003.**
- **Traditionally, under WUTC regulations, the LCP would be followed by a competitive bidding process to acquire, at least cost, particular resources that are consistent with the LCP.**



# Business Context –

## Resource Acquisition

- In parallel with completion of its current LCP update, PSE is presently evaluating the results of Requests for Proposals conducted to test the market for availability and cost of new firm power supply resources, including
  - - acquisition of generating assets
  - - power purchase agreements
  - - self-build of generating assets
- This parallel approach considers:
  - - the immediacy and magnitude of PSE's resource need
  - - market and credit risks of relying on short-term hedging transactions
  - - potentially fleeting opportunities to acquire resources at favorable prices
- If a compelling resource opportunity presents itself through this parallel process, and if it is consistent with the evolving LCP, PSE would be positioned to act on the opportunity.





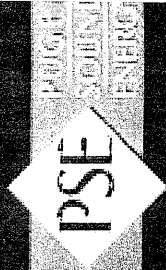
## **Business Context –**

### **Resource Acquisition**

- **Remaining resource needs could be filled through the more traditional follow-on competitive bidding process.**
- **Ultimately all resource acquisitions must be supported by the analysis contained in the LCP, and by a prudency demonstration.**

# **Business Context – Regulatory Prudence and Cost Recovery**

- **WUTC regulations provide that prudently incurred utility costs may be recovered through customer rates.**
- **Through a number of Orders and other writings, the WUTC has enunciated its standards concerning prudence of resource acquisition decisions. These include involvement of the Board of Directors.**
- **Consistency with LCP analysis is a necessary but not a sufficient condition for a prudence determination. Demonstration of prudence is carried out through the rate case process.**





## **Business Context –**

### **Regulatory Prudence and Cost Recovery**

- **Through the settlement of PSE's general rate case in the Spring of 2002, the WUTC has provided for an accelerated, single-issue, 'resource only rate case' process for recovery of new resource costs. This is an alternative to the traditional general rate case process.**
- **The particular process employed to recover PSE's next tranche of new resource costs will be determined by the timing of any resource acquisition decision, commercial operation date of the resource, and by other financial and ratemaking considerations.**

