

**EXHIBIT NO. ___(RG-7T)
2013 PSE PCORC
WITNESS: ROGER GARRATT**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of
PUGET SOUND ENERGY, Inc.

For an Accounting Order Authorizing
Accounting Treatment Related to Payments
for Major Maintenance Activities

Docket No. UE-130583

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

PUGET SOUND ENERGY, INC.,
Respondent.

Docket No. UE-130617

In the Matter of the Petition of
PUGET SOUND ENERGY, Inc.

For an Accounting Order Authorizing the
Sale of the Water Rights and Associated
Assets for the Electron Hydroelectric Project
in Accordance with WAC 480-143 and
RCW 80.12.

Docket No. UE-131099

In the Matter of the Petition of
PUGET SOUND ENERGY, Inc.

For an Accounting Order Authorizing the
Sale of Interests in the Development Assets
Required for the Construction and Operation
of Phase II of the Lower Snake River Wind
Facility

Docket No. UE-131230

**PREFILED REBUTTAL TESTIMONY
(NONCONFIDENTIAL) OF ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 28, 2013

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY
(NONCONFIDENTIAL) OF ROGER GARRATT**

CONTENTS

I. INTRODUCTION1

II. THE COMMISSION SHOULD REJECT COMMISSION STAFF’S
PROPOSAL TO REDUCE THE DEFERRED CARRYING CHARGES
REGULATORY ASSET ASSOCIATED WITH THE LOWER SNAKE
RIVER WIND PROJECT BY \$3.4 MILLION2

III. NO PARTY CHALLENGES THE PRUDENCE OF THE FERNDALE
GENERATING STATION ACQUISITION FOR WHICH PSE SEEKS A
PRUDENCE DETERMINATION IN THIS PROCEEDING15

IV. THE COMMISSION SHOULD MAKE A PRUDENCE
DETERMINATION OF THE ELECTRON PPA IN THIS
PROCEEDING, SUBJECT TO THE CONDITION THAT THERE ARE
NO MATERIAL CHANGES TO THE TERMS SUBMITTED.15

V. CONCLUSION.....21

1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY**
3 **(NONCONFIDENTIAL) OF ROGER GARRATT**

4 **I. INTRODUCTION**

5 **Q. Are you the same Roger Garratt who provided prefiled direct testimony in**
6 **this proceeding on April 25, 2013, on behalf of Puget Sound Energy, Inc.**
7 **(“PSE” or “the Company”)?**

8 A. Yes. On April 25, 2013, I filed direct testimony, Exhibit No. ____ (RG-1CT), and
9 five exhibits supporting such direct testimony, Exhibit No. ____ (RG-2) through
10 Exhibit No. ____ (RG-6HC).

11 **Q. Please summarize the purpose and scope of your prefiled rebuttal testimony.**

12 A. This prefiled rebuttal testimony addresses the recommendation of the Staff of the
13 Washington Utilities and Transportation Commission (“Commission Staff”) to
14 reduce the principal balance of the transmission service credits regulatory asset of
15 the Lower Snake River Wind Project by \$20.5 million, and to reduce the balance
16 of the accrued carrying charges regulatory asset by \$3,390,059.

17 This prefiled rebuttal testimony also reaffirms PSE’s request for a prudence
18 determination for the following resources:

- 19 (i) the acquisition of the Ferndale Generating Station,
20 including any and all associated costs (operating,
21 transmission, etc.) related to such project; and

1 (ii) the execution of the purchase power agreement for the
2 output of the Electron Hydroelectric Project
3 (the "Electron PPA").

4 **II. THE COMMISSION SHOULD REJECT COMMISSION**
5 **STAFF'S PROPOSAL TO REDUCE THE DEFERRED CARRYING**
6 **CHARGES REGULATORY ASSET ASSOCIATED WITH THE**
7 **LOWER SNAKE RIVER WIND PROJECT BY \$3.4 MILLION**

8 **Q. Please summarize the proposal of Commission Staff with respect to the**
9 **transfer of a portion of the transmission service credits associated with the**
10 **Lower Snake River Wind Project to Portland General Electric Company as**
11 **part of the sale of assets for Lower Snake River Wind Project, Phase 2.**

12 A. Commission Staff proposes (i) to reduce the current principal balance associated
13 with the transmission service credit regulatory asset by \$20.5 million and (ii) to
14 reduce the balance of the accrued carrying charges regulatory asset by
15 \$3,390,059. See Exhibit No. ___T(JH-1T) at page 3, lines 12-15.

16 **Q. Does PSE agree with Commission Staff's proposals?**

17 A. No. Although PSE agrees with Commission Staff's proposal to reduce the current
18 principal balance associated with the transmission service credit regulatory asset
19 by \$20.5 million, PSE disagrees with Commission Staff's proposal to reduce the
20 balance of the accrued carrying charges regulatory asset by \$3,390,059.

1 **Q. Why does PSE disagree with Commission Staff’s proposal to reduce the**
2 **balance of the accrued carrying charges regulatory asset by \$3,390,059?**

3 A. PSE disagrees with Commission Staff’s proposal to reduce the balance of the
4 accrued carrying charges regulatory asset by \$3,390,059 for the following
5 reasons:

- 6 (i) PSE’s only option to bring the output of Lower Snake
7 River Wind Project Phase 1 to PSE’s load center was to
8 interconnect to the 500 kilovolt (kV) transmission system
9 of the Bonneville Power Administration (“BPA”) by
10 prefunding \$99.8 million in refundable Network Upgrades,
11 including construction of the new Central Ferry
12 Substation;¹ and
- 13 (ii) PSE did not have an option to prefund a smaller and less
14 expensive interconnection substation than the Central Ferry
15 Substation because BPA requires substations with
16 minimum capacities of 1,250 MW to interconnect
17 generation to BPA’s 500 kV transmission system.

18 This means that the full \$99.8 million in prefunded Network Upgrades—as well
19 as all associated carrying costs—were necessary to place Lower Snake River
20 Wind Project Phase 1 in service on February 29, 2012.

21 In essence, Commission Staff’s proposal to reduce the balance of the accrued
22 carrying charges regulatory asset by \$3,390,059 requests that the Commission
23 disallow accrued carrying charges associated with prepaid Network Upgrades
24 required to interconnect Lower Snake River Wind Project Phase 1.

¹ To interconnect Lower Snake River Wind Project Phase 1 to BPA’s transmission system, PSE also prepaid \$2.5 million in non-refundable direct assigned upgrades to connect the facility to the new substation, as described below.

1 **Q. Has the Commission approved accrued carrying charges associated with**
2 **prepaid Network Upgrades required to interconnect Lower Snake River**
3 **Wind Project Phase 1 for recovery?**

4 A. Yes. The Commission approved accrued carrying charges associated with
5 prepaid Network Upgrades required to interconnect Lower Snake River Wind
6 Project Phase 1 for recovery in Docket UE-100882:

7 Puget Sound Energy's requested accounting treatment for the costs
8 associated with the transmission network upgrades to meet transmission
9 capacity needs of the region and serve the LSR Wind Project, is approved.
10 Puget Sound Energy is authorized to (1) defer the prepayment made to the
11 Bonneville Power Administration (BPA) by PSE to construct the Central
12 Ferry Substation and certain transmission Network Upgrades to meet the
13 transmission capacity needs of the region and to serve the LSR Wind
14 Project, beginning May 20, 2010, the filing date of the petition, and (2)
15 book monthly carrying charges on the deferred costs at PSE's approved
16 net of tax rate of return until amortization begins.²

17 Please see the Prefiled Rebuttal Testimony of Ms. Katherine J. Barnard, Exhibit
18 No. ___(KJB-12T), for a discussion of the accounting for the accrued carrying
19 charges regulatory asset and the implications of Commission Staff's proposal to
20 reduce the balance of the accrued carrying charges regulatory asset by
21 \$3,390,059.

² *In the Matter of the Petition of Puget Sound Energy, Inc. for an Accounting Order Authorizing Deferred Accounting Treatment for the Costs Associated with the Transmission Network Upgrades to Meet Transmission Capacity Needs of the Region and Serve the Lower Snake River Wind Project, Docket UE-100882, Order 01 at ¶ 12 (May 31, 2012).*

1 **Q. What is the origin of the transmission service credits associated with the**
2 **Lower Snake River Wind Project?**

3 A. Lower Snake River Wind Project Phase 1 is a 342.7 MW wind generation facility
4 located in Garfield County, Washington. Prior to placing Lower Snake River
5 Wind Project Phase 1 in service on February 29, 2012, PSE signed a Large
6 Generator Interconnection Agreement (“LGIA”) with BPA to interconnect the
7 facility with BPA’s 500 kV transmission system. The LGIA included the
8 following relevant terms:

- 9 (i) PSE would prefund an estimated \$102 million for required
10 upgrades, including \$99.8 million in Network Upgrades, which
11 were primarily the construction of the Central Ferry Substation,
12 and \$2.5 million to interconnect Lower Snake River Wind Project
13 Phase 1 to the Central Ferry Substation.
- 14 (ii) In return, BPA would reimburse PSE for the \$99.8 million
15 prepayment for Network Upgrades with an equivalent amount of
16 transmission service credits.

17 The prepaid \$99.8 million is therefore similar to a loan from PSE to BPA for the
18 construction of the Central Ferry Substation. BPA constructed, owns and
19 operates the Central Ferry Substation, which steps up power delivered via the
20 230 kV transmission line between Lower Snake River Wind Project Phase 1 and
21 the Central Ferry Substation to BPA’s 500 kV transmission system.

22 **Q. How does the reimbursement process work?**

23 A. BPA repays the \$99.8 million “loan” to PSE with an equal amount of
24 transmission service credits. PSE can use these transmission service credits for

1 BPA transmission service originating at the Central Ferry Substation, and PSE
2 currently uses these transmission service credits to offset BPA transmission
3 charges associated with Lower Snake River Wind Project Phase 1. (PSE cannot
4 use these transmission service credits for BPA transmission service with a
5 different point of integration.) PSE can use these transmission service credits for
6 BPA transmission service originating at the Central Ferry Substation for up to
7 twenty years and earn 3.5665% interest from BPA (also in the form of
8 transmission service credits). If PSE does not use the balance of the transmission
9 service credits within twenty years, BPA would refund to PSE an amount equal to
10 any unused portion of the transmission service credits and all associated interest.
11 Please see the First Exhibit to the Prefiled Rebuttal Testimony of Mr. Roger
12 Garratt, Exhibit No. ___(RG-8), for a BPA business practice entitled *LGI:*
13 *Advanced Funding and Temporary Use of Interconnection Facilities, Version 1,*
14 in which BPA has outlined its process for the advanced funding of
15 interconnection upgrades and the repayment of transmission service credits.

16 **Q. Did PSE have another option to transmit the output from Lower Snake**
17 **River Wind Project Phase 1 to PSE's load center?**

18 A. No. PSE's only option to transmit the output of Lower Snake River Wind Project
19 Phase 1 to PSE's load center was to interconnect with BPA's 500 kV transmission
20 system by prefunding the upgrades required by the LGIA (i.e., the construction of
21 the Central Ferry Substation).

1 **Q. Did PSE have the option to request that BPA size the Central Ferry**
2 **Substation to better align with the 342.7 MW capacity of Lower Snake River**
3 **Wind Project Phase 1?**

4 A. No. BPA's minimum standard capacity for new substations interconnecting
5 generation to its 500 kV system is 1,250 MW. Thereafter, BPA adds capacity
6 increases in increments of 1,250 MW. Thus, although the capacity of Lower
7 Snake River Wind Project Phase 1 was 342.7 MW, PSE had no choice but to
8 prefund a 1,250 MW substation to meet minimum standard requirements to
9 interconnect the facility to BPA's transmission system. In other words, even if
10 PSE had never owned additional Lower Snake River Wind Project development
11 assets, PSE's prepayment obligation and associated carrying costs to bring Lower
12 Snake River Wind Project Phase 1 online would have been the same.

13 **Q. Could PSE have reduced the size of its prepayment obligation and associated**
14 **carrying charges by sharing the upfront costs for transmission upgrades to**
15 **interconnect Lower Snake River Wind Project Phase 1 with other entities**
16 **seeking to interconnect new generation at the same location?**

17 A. No. PSE's request to interconnect Lower Snake River Wind Project Phase 1 was
18 the only active request to interconnect new generation at the location of the
19 Central Ferry Substation at the time.

1 **Q. Is it unusual for a facility to prefund network upgrades designed to support**
2 **capacity in excess of its output to meet minimum requirements for**
3 **interconnection?**

4 A. No. When BPA requires Network Upgrades to fulfill new generation
5 interconnection requests, it is customary for the requesting generator to prefund
6 the necessary Network Upgrades in accordance with the standards established and
7 required by BPA. For example, the developers of the White Creek Wind Energy
8 Project and the Goodnoe Hills Wind Energy Project prefunded the construction of
9 the Rock Creek Substation with a minimum capacity of 1,250 MW to
10 interconnect their wind projects with capacities of 200 MW and 150 MW,
11 respectively, to BPA's Wautoma - John Day No. 1 500-kV transmission line.

12 **Q. What would happen if BPA were to receive additional requests to**
13 **interconnect new generation to the Central Ferry Substation?**

14 A. If BPA were to receive additional requests to interconnect new generation to the
15 Central Ferry Substation and unused capacity is still available, the requesting
16 generator would pay a pro rata share of the costs—and receive in return a pro rata
17 share of the transmission service credits—associated with the Network Upgrades
18 for such substation. The original requesting generator, in this case PSE, would be
19 reimbursed for the transferred portion of the transmission service credits.

20 This treatment is consistent with PSE's transfer of transmission service credits to
21 Portland General Electric Company ("Portland General") as part of the sale of the

1 Lower Snake River Wind Project Phase 2 development assets. The sale of the
2 Lower Snake River Wind Project Phase 2 development assets to Portland General
3 included a payment of \$20.5 million from Portland General to PSE for an
4 equivalent 21% of the transmission service credits associated with the Central
5 Ferry Substation Network Upgrades.

6 **Q. Please describe the elements of the sale of Lower Snake River Wind Project**
7 **Phase 2 development assets to Portland General.**

8 A. On June 3, 2013, PSE and Portland General executed an Asset Purchase and Sale
9 Agreement to sell PSE's interest in the development assets associated with Lower
10 Snake River Wind Project Phase 2 (renamed the Tucannon River Wind Farm by
11 Portland General). This project is a fully permitted, shovel-ready utility-scale
12 wind project located in Columbia County, Washington, adjacent to the Lower
13 Snake River Wind Project Phase 1 facility. Once constructed, the project is
14 expected to have a nameplate capacity of 266.8 MW.

15 At the time of the sale closing on August 1, 2013, PSE had entered into an LGIA
16 with BPA to interconnect the Lower Snake River Wind Project Phase 2 facility to
17 BPA's 500kV transmission system. As part of the sale, and in exchange for a
18 \$16,008,000 closing payment,³ PSE transferred certain property rights and
19 permits to Portland General, including, for example, 267 MW of transmission
20 rights under BPA Precedent Transmission Service Agreements ("PTSA").

³ In addition to the \$16,008,000 payment, Portland General paid certain closing costs and reimbursed PSE for certain expenses.

1 In addition, Portland General will pay PSE \$20.5 million for the transfer of
2 transmission service credits within two business days after BPA notifies Portland
3 General that BPA has completed its process of assigning the transferred
4 transmission service credits from PSE to Portland General. (PSE anticipates that
5 BPA will complete its process on or about October 1, 2013.)

6 **Q. Please explain the difference between transmission service credits and PTSA**
7 **transmission rights.**

8 A. Transmission service credits are a BPA method of reimbursing prepaid Network
9 Upgrades required to interconnect new generation to the BPA transmission
10 system. These transmission service credits are considered a regulatory asset and
11 can be used to offset the cost of BPA transmission charges associated with the
12 interconnecting facility for up to twenty years.

13 PTSA transmission rights, in contrast, are not associated with interconnection
14 upgrades and do not result in credits to be reimbursed. They are rights assigned
15 by BPA to a transmission customer when the customer has completed BPA's
16 Network Open Season ("NOS") process and BPA has determined that the new
17 firm transmission service can be provided after specified transmission upgrades
18 are constructed. The PTSAs are in the form of a contractual agreement that
19 obligates BPA to construct the transmission upgrades and the customer to take the
20 transmission service under BPA's Open Access Transmission Tariff once the
21 upgrades are completed. Although not specified within the PTSAs, BPA has
22 shown some flexibility and has allowed customers with PTSAs to convert the

1 PTSAAs to conditional rights on existing transmission until the new firm
2 transmission becomes available.

3 **Q. For the PTSA transmission rights, does the transmission customer prefund**
4 **the cost of the new transmission upgrades and receive transmission credits in**
5 **exchange?**

6 A. No. Unlike the arrangement for constructing Network Upgrades for
7 interconnecting generation, BPA funds the construction of the required
8 transmission upgrades associated with PTSAs and recovers its investment from
9 revenues from future transmission services. As part of its determination in the
10 NOS process, BPA also determines a threshold amount of new transmission
11 service required for it to fund the transmission upgrades economically. Until the
12 specified threshold has been met, BPA will not proceed with the transmission
13 upgrade project.

14 **Q. What transmission rights does PSE hold associated with the Lower Snake**
15 **River Wind Project?**

16 A. PSE acquired 600 MW of transmission rights in the BPA 2008 NOS process to
17 deliver power from the Lower Snake River Wind Project to PSE's load center.
18 When PSE purchased the second half of the Lower Snake River Wind Project
19 development rights in 2009, PSE acquired an additional 200 MW of transmission
20 rights.

1 Of the total 800 MW of transmission rights, 250 MW are rights for firm
2 transmission from the Central Ferry Substation, and PSE currently uses these firm
3 right to transmit the majority of the output of Lower Snake River Wind Project
4 Phase 1 to PSE's load center. The remaining 550 MW are PTSA transmission
5 rights contingent upon BPA building a third 500 kV transmission line between
6 Central Ferry Substation and the Lower Monumental Substation.

7 PSE converted 90 MW of its 550 MW of PTSA transmission rights to conditional
8 firm rights to transmit the remainder of the Lower Snake River Wind Project
9 Phase 1 output to PSE's load center until BPA completes the third line between
10 the Central Ferry Substation and the Lower Monumental Substation and firm
11 transmission becomes available. Additionally, as discussed above, PSE has
12 included 267 MW of these PTSA transmission rights in the development assets
13 sold to Portland General.

14 **Q. Is PSE's decision to sell to Portland General the Lower Snake River Wind**
15 **Project Phase 2 development assets, including the 267 MW of PTSA**
16 **transmission rights, beneficial to PSE?**

17 A. Yes. There are currently two BPA 500 kV transmission lines in the vicinity of
18 Central Ferry Substation. BPA originally constructed these lines to deliver
19 energy from the Snake River hydro projects. With the addition of the Central
20 Ferry Substation, these two lines now also deliver output from Lower Snake River
21 Wind Project Phase 1 to PSE's load center, but a third 500 kV transmission line
22 would be necessary to deliver additional power from the Central Ferry Substation.

1 Based on similar historical projects, PSE has estimated that the addition of a third
2 500 kV transmission line between the Central Ferry Substation and the Lower
3 Monumental Substation would cost approximately \$120-150 million. BPA has
4 been unwilling to begin construction of a third 500 kV transmission line until
5 additional generation resources are built in the area to ensure sufficient
6 subscription of the proposed third line.

7 PSE's sale of the Lower Snake River Wind Project Phase 1 development assets,
8 including the 267 MW of PTSA transmission rights, significantly increases the
9 need for additional firm transmission on the path between the Central Ferry
10 Substation and the Lower Monumental Substation when Portland General's new
11 generation facility becomes operational. Indeed, BPA has indicated that the
12 increased demand associated with Portland General's construction of Lower
13 Snake River Wind Project Phase 2 (now the Tucannon River Wind Farm) is
14 sufficient to justify the construction of the third 500 kV transmission line.

15 PSE directly benefits from the construction of the third 500 kV transmission line
16 because the 90 MW of conditional firm transmission that PSE currently uses to
17 transmit part of the Lower Snake River Wind Project Phase 1 output from the
18 Central Ferry Substation to PSE's load center will become firm transmission once
19 BPA has built and placed the third 500 kV transmission line into service.

1 **Q. Is PSE’s decision to transfer \$20.5 million of transmission service credits to**
2 **Portland General beneficial for PSE’s customers?**

3 A. Yes. As described in Ms. Barnard’s prefiled rebuttal testimony, even if PSE were
4 never to sell its transmission service credits or further develop subsequent phases
5 of the Lower Snake River Wind Project, PSE would recover the full \$99.8 million
6 plus interest. This would occur through the transmission service credits applied
7 to BPA transmission charges for Lower Snake River Wind Project Phase 1 output
8 and, if necessary, through BPA reimbursement of any unused credits plus interest
9 after twenty years.

10 The \$20.5 million received from Portland General for the transfer of transmission
11 credits effectively helps to repay the PSE “loan” to BPA more quickly. This has
12 the effect of reducing the size of the regulatory asset earlier on which PSE earns
13 its regulated return, thereby reducing the overall cost to PSE’s customers over the
14 life of the “loan”.

15 **Q. In summary, should the Commission adopt Commission Staff’s proposal to**
16 **reduce the carrying charges regulatory asset by \$3.4 million?**

17 A. No. For the reasons described above and in Ms. Barnard’s prefiled rebuttal
18 testimony, the Commission should reject Commission Staff’s proposal to reduce
19 the deferred carrying charges regulatory asset by \$3.4 million.

1 **III. NO PARTY CHALLENGES THE PRUDENCE OF THE**
2 **FERNDALE GENERATING STATION ACQUISITION FOR**
3 **WHICH PSE SEEKS A PRUDENCE DETERMINATION IN THIS**
4 **PROCEEDING**

5 **Q. Has any party challenged the prudence of the acquisition of the Ferndale**
6 **Generating Station?**

7 A. No. No party has challenged the prudence of the acquisition of the Ferndale
8 Generating Station. Indeed, Commission Staff expressly recognizes the prudence
9 of such acquisition:

10 Based on the documentation provided by the Company, I
11 recommend that the Commission determine that PSE's acquisition
12 of the Ferndale Plant was prudent, and that the full cost of the plant
13 be placed into rate base.

14 Exhibit No. ___T(JMW-1T), at page 39, lines 9-11.

15 **IV. THE COMMISSION SHOULD MAKE A PRUDENCE**
16 **DETERMINATION OF THE ELECTRON PPA IN THIS**
17 **PROCEEDING, SUBJECT TO THE CONDITION THAT THERE**
18 **ARE NO MATERIAL CHANGES TO THE TERMS SUBMITTED.**

19 **Q. What recommendation has Commission Staff made with respect to the**
20 **prudence of the sale of the Electron Hydroelectric Project to Electron**
21 **Hydro LLC?**

22 A. Commission Staff testimony recommends that the Commission approve with
23 certain conditions the sale of the Electron Hydroelectric Project to Electron
24 Hydro LLC ("Electron Hydro") as in the public interest. The conditions are as
25 follows:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

- (i) The Asset Purchase Agreement’s Article 4, Section 4.2; Conditions to Closing, remains unchanged from what is filed in PSE’s application in Docket UE-131099 and contained in Exhibit C to that application; and
- (ii) That there are no material changes to the consideration received or obligation incurred by either party as a result of the sale and transfer of the Electron Project as described in the Asset Purchase Agreement filed in in PSE’s application in Docket UE-131099 and contained in Exhibit C to that application.

Exhibit No. ___CT(DCG-1CT), at page 13, lines 10-17.

Q. Does PSE agree with Commission Staff’s recommendation with respect to the prudence of the sale of the Electron Hydroelectric Project to Electron Hydro?

A. Yes. PSE agrees with Commission Staff recommendation with respect to the prudence of the sale of the Electron Hydroelectric Project to Electron Hydro. Please see the Prefiled Rebuttal Testimony of Mr. Paul K. Wetherbee, Exhibit No. ___(PKW-16CT).

Q. What proposal has Commission Staff made with respect to the inclusion of the Electron PPA in power supply costs?

A. Commission Staff recommends removing the cost of the 51,501 MW output of the Electron PPA and replacing it with the same amount of power at AURORA-modeled Mid-C flat prices, which Commission Staff estimates would reduce AURORA Model rate year power costs by \$1.4 million. Exhibit No. ___CT(DCG-1CT), at page 11, lines 8-11.

1 **Q. Does PSE agree with Commission Staff's proposal to remove the cost of the**
2 **51,501 MW output of the Electron PPA and replacing it with the same**
3 **amount of power at AURORA-modeled Mid-C flat prices?**

4 A. Yes. PSE generally agrees with Commission Staff's proposal to remove the cost
5 of the 51,501 MW output of the Electron PPA and replacing it with the same
6 amount of power at AURORA-modeled Mid-C flat prices. Please see the Prefiled
7 Rebuttal Testimony of Mr. David E. Mills, Exhibit No. ___(DEM-8CT).

8 **Q. What proposal has Commission Staff made regarding the prudence of the**
9 **Electron PPA?**

10 A. Commission Staff proposes that the Commission delay its determination of
11 prudence related to the Electron PPA on the grounds that costs and benefits
12 cannot be known and measurable due to remaining uncertainties associated with
13 the Asset Purchase Agreement and the Renewable Resource Agreement with the
14 Puyallup Tribe of Indians. Specifically, Commission Staff states that the
15 uncertainties regarding the delivery of power under the Electron PPA are as
16 follows:

17 First, as described above, Electron Hydro and PSE have yet to
18 close on the Asset Purchase Agreement, and therefore it is
19 uncertain when the Electron PPA will be executed, when Electron
20 Hydro will begin delivering power, and, if Electron Hydro does
21 deliver power to PSE, how much power will Electron Hydro
22 deliver to PSE in the rate year.

23 Exhibit No. ___CT(DCG-1CT) at page 14, lines 3-7.

1 **Q. Does PSE agree with Commission Staff’s Proposal to approve the sale of the**
2 **Electron Hydroelectric Project but defer a determination of prudence**
3 **related to the Electron PPA?**

4 A. No. PSE disagrees with Commission Staff’s Proposal to approve the sale of the
5 Electron Hydroelectric Project but defer a determination of prudence related to
6 the Electron PPA. As stated in the prefiled direct testimony, the Commission has
7 cited several specific factors that inform the question of whether a utility’s
8 decision to acquire a new resource was prudent. These factors include the
9 following:

- 10 • First, the utility must determine whether new resources are
11 necessary.⁴
- 12 • Once a need has been identified, the utility must determine
13 how to fill that need in a cost-effective manner. When a
14 utility is considering the purchase of a resource, it must
15 evaluate that resource against the standards of what other
16 purchases are available, and against the standard of what it
17 would cost to build the resource itself.⁵
- 18 • The utility must analyze the resource alternatives using
19 current information that adjusts for such factors as end
20 effects, capital costs, impact on the utility’s credit quality,
21 dispatchability, transmission costs, and whatever other
22 factors need specific analysis at the time of a purchase
23 decision.⁶

⁴ See e.g., *WUTC v. Puget Sound Power & Light Co.*, Docket No. UE-921262, *et al.*, Nineteenth Supplemental Order, at page 11 (Sept. 27, 1994) (“Prudence Order”).

⁵ *Id.*

⁶ *Id.* at pages 2, 33-37, 46-47.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

- The utility should inform its board of directors about the purchase decision and its costs. The utility should also involve the board in the decision process.⁷
- The utility must keep adequate contemporaneous records that will allow the Commission to evaluate its actions with respect to the decision process. The Commission should be able to follow the utility’s decision process; understand the elements that the utility used; and determine the manner in which the utility valued these elements.⁸

No additional information is necessary to meet these enumerated standards. Indeed, this proceeding is most appropriate time for the Commission to make a prudence determination with respect to the Electron PPA because it is the time period most proximate to that in which PSE made its decision to execute the agreement.

If the Commission were concerned about potential material changes in the terms of the Electron PPA, PSE would suggest that the Commission use the same approach to render a finding of prudence for the Electron PPA as Commission Staff has recommended for the authorization of the sale of the Electron Hydroelectric Project. In other words, PSE would request that the Commission make a prudence determination with respect to the Electron PPA subject to the condition that there are no material changes to the terms submitted by PSE in this proceeding.

⁷ *Id.* at pages 37, 46.

⁸ *Id.* at pages 2, 37, 46.

1 **Q. Do you agree with Commission Staff's assessment that a determination of**
2 **prudence cannot be made for the Electron PPA at this time because of the**
3 **uncertainties described above?**

4 A. No. PSE does not expect any material change in the terms of either the
5 Electron PPA or the Asset Purchase Agreement for the sale of the Electron
6 Hydroelectric Project. Contrary to Commission Staff's testimony, PSE and
7 Electron Hydro have executed the Electron PPA.

8 It is true that there are two conditions precedent to closing of the Asset Purchase
9 Agreement for the sale of the Electron Hydroelectric Project:

- 10 (1) the Renewable Resource Agreement with the Puyallup
11 Tribe of Indians must be executed, and
12 (2) the Commission must issue an order authorizing the sale of
13 the Electron Project.

14 In addition, there is one condition precedent to the Electron PPA: the closing of
15 the Asset Purchase Agreement for the sale of the Electron Hydroelectric Project.

16 **Q. Has any other party challenged the prudence of the execution of the**
17 **Electron PPA?**

18 A. No. Therefore, as stated above, PSE's requests that the Commission make a
19 prudence determination of the Electron PPA in this proceeding, subject to the
20 condition that there are no material changes to the terms submitted.

V. CONCLUSION

1

2 Q. Does that conclude your prefiled rebuttal testimony?

3 A. Yes, it does.