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III. PCA PERIOD 6 POWER COSTS

A. New Resources During PCA Period 6

Q. What new long-term electric supply resources are included in the PCA Period 6 power costs?

A. There are four new resources in the PCA Period 6 power costs, 1) a purchased power agreement with PPM Energy for output from its Klondike III Wind Project 2) a purchased power agreement with TransAlta Energy Marketing (US) Inc., 3) the Wild Horse wind project, and 4) the Goldendale Generating Station.

PSE began receiving power in December 2007 under a 20-year power purchase agreement with PPM Energy’s Klondike III Wind Project (50 MW of additional capacity) and began exchanging power under a 3½ year Locational Exchange Agreement with TransAlta Energy Marketing (US) Inc. in July 2007. PSE has filed for recovery of and a prudence determination on these new resources in a General Rate Case filing, Docket Nos. UE-072300 and UG-072301 (the “2007 GRC”).

PSE has already received a prudence determination for the Wild Horse wind project and the Goldendale Generating Station in PSE’s 2006 General Rate Case proceeding, Docket No. UE-060266 and UG-060267 (the “2006 GRC”) and PSE’s 2007 Power Cost Only Rate Case proceeding, Docket No. UE-070565 (the “2007 PCORC”).

1 **B. PSE's Management of its Power Portfolio and Related Fuel Supply for**
2 **PCA Period 6**

3 1. **Overview of PSE's Portfolio and Risk Management Systems**

4 **Q. What organizational structures are in place to provide oversight and control of**
5 **power portfolio management activities?**

6 A. PSE's Energy Portfolio Management Department ("EPM Department") includes
7 certain employees from the Energy Supply & Planning Department ("ESPD") and
8 the Structuring, Asset Optimization and Analytics Department. The EPM
9 Department is composed of energy market analysts, quantitative analysts, seasoned
10 energy traders, and other professionals. The EPM Department is responsible for
11 identifying, quantifying, monitoring and recommending risk management strategies
12 for the Company. The EPM Department performs these tasks and manages PSE's
13 short- and medium-term portfolios. ESPD is led by the Chief Resource Officer.
14 Energy Risk Control ("ERC") Department includes the Credit Risk Management
15 group, and is responsible for providing risk control oversight. Since April 2007, the
16 ERC Department and the Structuring, Asset Optimization and Analytics
17 Department have been led by the Chief Financial Officer / Sr. Vice President of
18 Finance.

19 PSE's Energy Management Committee ("EMC") – composed of senior PSE
20 officers – oversees the activities performed by the EPM Department ~~and ESPD~~.

21 The EMC is responsible for providing oversight and direction on all portfolio risk

1 shows, for each of the months following the date of the report, the resource types in
2 PSE's power position grouped by: short-term purchase and sale transactions, long-
3 term contracts, combustion turbines ("CT") grouped by heat rate efficiency of the
4 facilities, NUGs/QFs, coal plants, wind projects and hydro (both PSE-owned and
5 Mid-Columbia ("Mid-C") contracts).

6 Based on this volumetric position for each month, KW3000 also generates a report
7 showing the potential exposure associated with the "open" positions (defined as any
8 net surplus or deficit amount). See Exhibit No. ___(DEM-4).

9 Once PSE's aggregated energy position and net exposure are defined for a
10 particular period, the ~~risk management staff~~ EPM Department evaluates and develops
11 risk management strategy proposals and/or executes transactions around the purchase
12 or sale of gas or power, as appropriate to balance the position and reduce the
13 exposure. Execution entails entering into specific transactions with approved
14 counterparties, using both approved instruments and executed master agreements.

15 **Q. How does PSE's staff develop a view of appropriate hedging strategies for the**
16 **power portfolio?**

17 A. The EPM Department utilizes a wide set of tools and sources of information to help
18 its members make informed decisions about dispatching plants, purchasing fuel,
19 executing hedges approved by the EMC and optimizing excess capacity in the
20 power portfolio. The EPM Department also holds weekly strategy meetings so that
21 the combined teams can review operational events, discuss market trends, and