

EXHIBIT NO. ___(CAP-3)
DOCKET NO. UE-082128
WITNESS: CHRISTINE A. PHILIPPS

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For a Determination of Emissions Compliance and
Proposed Accounting Treatment For the Mint Farm
Energy Center; or, Alternatively For an Accounting
Order

Docket No. UE-082128

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
CHRISTINE A. PHILIPPS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

FEBRUARY 13, 2009

Executive Summary

This Integrated Resource Plan describes how Puget Sound Energy can meet the growing energy needs of its customers with the lowest reasonable cost combination of resources over the next 20 years.

As we acquire resources to meet the needs of our vibrant community, we also strive to demonstrate the environmental values our customers and region demand. They expect no less of us than leadership in the development of responsible energy resources, and we expect no less of ourselves. Our goal is to identify solutions that are both cost effective *and* environmentally sound.

The resource portfolio presented here is the least carbon intense portfolio we have ever identified as being least cost. It includes aggressive investment in energy efficiency as a significant and cost-effective contribution to meeting resource need. It relies heavily on increased development of wind power and gas-fired generation. And we had concluded that adding new coal resources at this time is not in the best interests of our customers, even before Washington adopted a performance standard in May of 2007 that effectively bans development of new coal generation resources without carbon capture and sequestration. The new state law supports our conclusion that new coal resources would be too risky to develop at this time.

PSE faces significant resource acquisition needs in the coming years. At the same time, concern about greenhouse gas emissions and climate change is becoming a permanent part of the landscape of utility planning, which profoundly alters the risk profile of certain supply options. Increasing competition for available resources and technical expertise is also driving up projected portfolio costs. And finally, the number of viable resource alternatives, especially renewable resources, is far more limited than we would like. It is now clear that to fulfill our responsibilities, we will need to think and act creatively to obtain all the renewable resources we require.

This document explains how PSE developed the lowest reasonable cost portfolio for meeting our customers' growing resource needs. It describes key data and assumptions. It presents the rigorous quantitative analysis we used to assess risk and test possible portfolio combinations against scenarios that depict different futures that may develop over the 20-year planning horizon. It also describes the qualitative analysis we applied. Quantitative analysis alone is insufficient to fully describe current or future market realities. So, we incorporate our commercial experience, understanding, and close observation of developing market trends into our considerations as well.

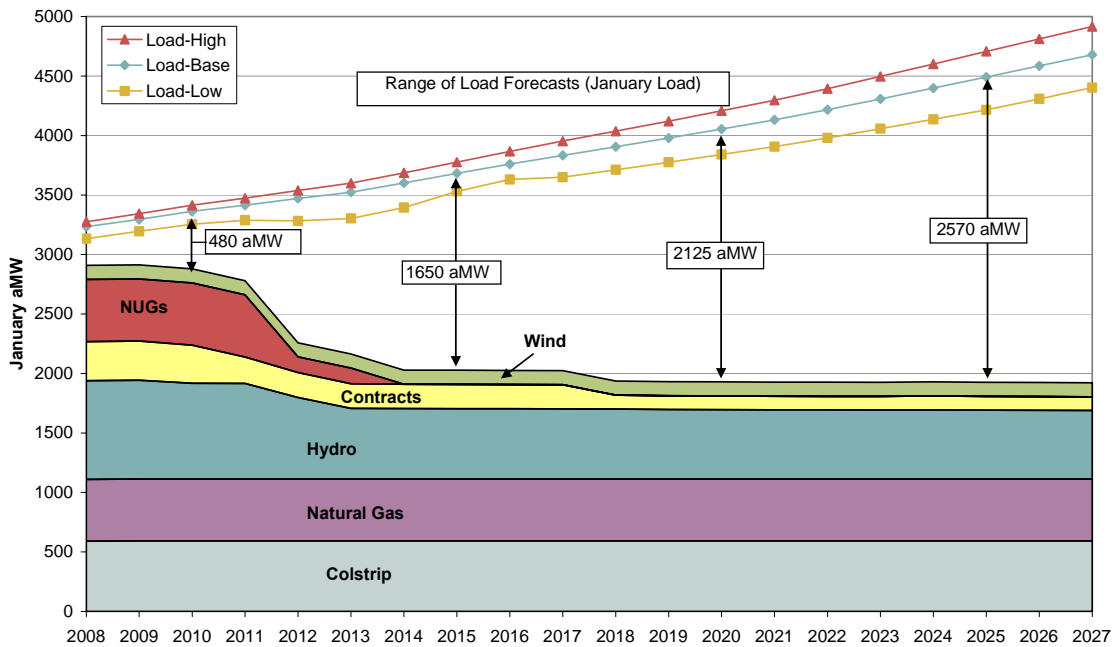
Public participation played an important part in the development of this resource plan. Stakeholder meetings generated healthy debate, suggestions, and practical information that shaped both the way we constructed our analysis and the judgment we applied to the analytical results. We value this stakeholder relationship highly, and look forward to shaping the energy future of Washington state together.

I. Resource Need: The Challenges We Face

Electric Resource Need

The combination of economic growth and expiring supply contracts means that PSE faces large electric resource needs in the years ahead. To meet the projected electric demand of our customers, we will need to replace, renew and acquire nearly 700 average Megawatts (aMW) of electric resources by 2011, more than 1,600 aMW by 2015, and 2,570 aMW by 2025, as Figure 1-1 below illustrates. This is the equivalent of adding enough electricity to power the city of Seattle for the next 20 years.

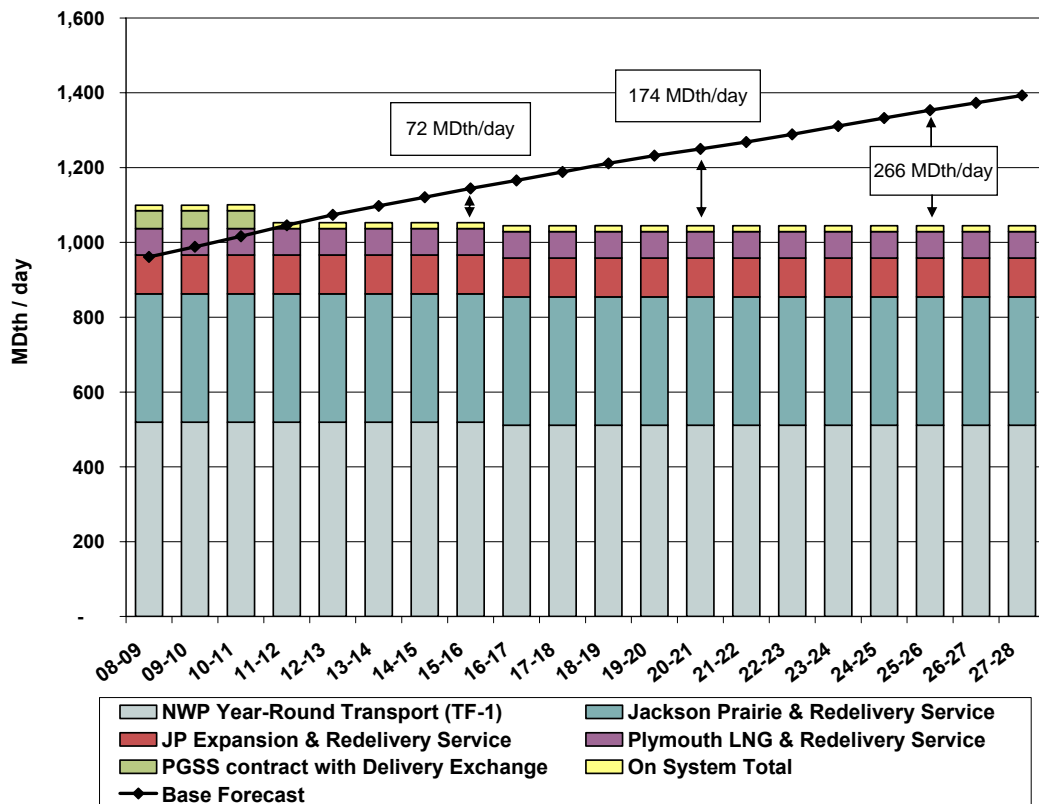
Figure 1-1
Electric Resource Need: Comparison of Projected Loads and Existing Resources



Resource Need for Gas Sales Service

PSE’s retail natural gas resource need is also growing due to increasing demand and expiring contracts, but more gradually than electric needs due to the nature of the contracts. Although several agreements with Northwest Pipeline expire in coming years, the Company has unilateral rights to terminate or continue the contracts. Only one resource in our long-term retail natural gas portfolio terminates entirely. We currently have sufficient resources to meet projected peak-day requirements until the winter of 2011-2012.

**Figure 1-2.
Gas Resource Need: Comparison of Projected Loads with Existing Resources**

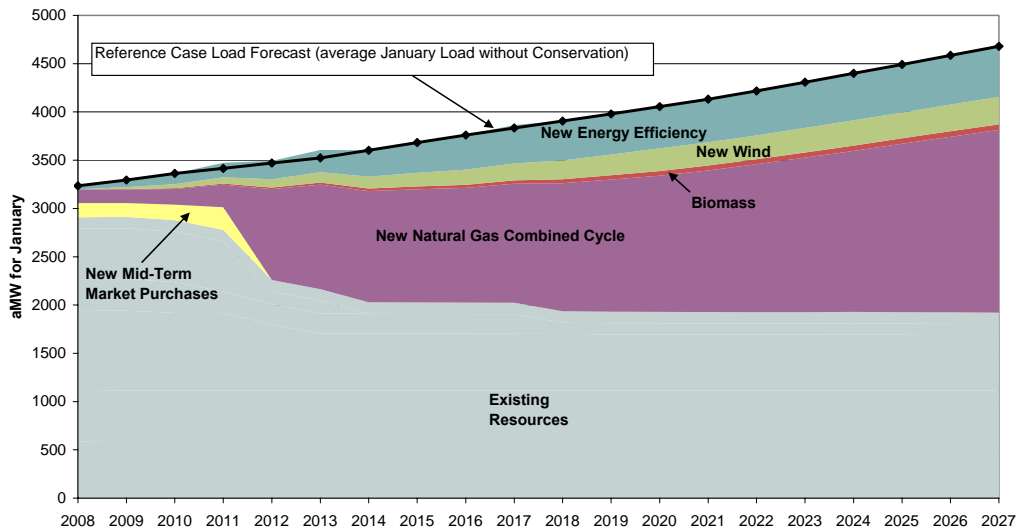


II. Meeting Electric Needs

Growing greener: more energy efficiency, more wind, and more natural gas-fired generation.

PSE’s extensive analysis indicates that the portfolio shown below in Figure 1-3 is the lowest reasonable cost long-term resource strategy to pursue to meet our customers’ growing demand for electricity. This strategy employs aggressive increases in demand-side resources (primarily energy efficiency), aggressive acquisition of wind resources in order to meet renewable portfolio standards, and gas-fired generation to make up the balance of energy needs that cannot reasonably be met through demand-side and renewable resources. In this plan, the “coal question” is largely put on hold until carbon sequestration becomes commercially viable.

**Figure 1-3
Preferred Electric Resource Strategy, 2007 IRP**



January Energy Additions aMW—Lowest Reasonable Cost Portfolio				
	2008	2015	2020	2027
DSM/Energy Efficiency	36	314	432	524
Wind	0	140	235	284
Biomass	0	29	49	59
Gas CCCT	142	1172	1410	1893
PBAs	148	0	0	0

January Capacity Additions MW				
	2008	2015	2020	2027
DSM/Energy Efficiency	36	314	432	524
Wind	0	550	921	1,112
Biomass	0	34	57	69
Gas CCCT	149	1,234	1,484	1,992
Duct Firing	20	167	200	269
SCCT	0	0	175	441
PBAs	148	0	0	0