

EXHIBIT NO. \_\_\_\_\_ (EMM-33HC)  
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.**

**PUGET SOUND ENERGY, INC.**  
**MINUTES OF THE**  
**BOARD OF DIRECTORS' MEETING**  
**OCTOBER 7, 2003**

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Pursuant to notice duly given on October 1, 2003 (a copy of which is filed with these minutes), a meeting of the Board of Directors of Puget Sound Energy was held in Puget Sound Energy's Board Room on the 12<sup>th</sup> Floor of the Puget Sound Energy Building, beginning at 10:30 a.m. on Tuesday, October 7, 2003.

The following Directors were present:

- D. P. Beighle
- C. W. Bingham
- P. J. Campbell
- C. W. Cole
- R. L. Dryden
- S. E. Frank (by telephone)
- K. P. Mortimer
- S. G. Narodick
- S. P. Reynolds

being more than a quorum.

Also present were:

- Puget Sound Energy, Inc.
- J. W. Eldredge, Corporate Secretary and Chief Accounting Officer
- D. E. Gaines, Vice President Finance and Treasurer
- S. A. McKeon, Senior Vice President Finance and Chief Financial Officer
- J. L. O'Connor, Vice President and General Counsel
- E. M. Markell, Senior Vice President Energy Resources
- S. McLain, Senior Vice President Operations

Mr. Beighle presided and Mr. Eldredge kept the records of the meeting.

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**PSE 2003 LEAST COST PLAN AND RESOURCE ACQUISITION STRATEGY**

Mr. Beighle then asked Mr. Markell to join the meeting and provide an update on the status of the Company's Electric Resource Strategy. Mr. Markell then presented an overview of the Company's 2003 Least Cost Plan (LCP), which was issued by the Company in April of 2003 and had been updated in August of 2003. Mr. Markell noted that the plan used an analytical framework to establish resource-adequacy standards and develop the Company's long-term balanced, diversified portfolio resource strategy. Mr. Markell reviewed with the Board how the LCP had identified a diverse mix of new resources to meet the future needs of the Company's retail customers, including conservation resources, renewable resources, and thermal generating resources. Mr. Markell reviewed with the Board how the plan applies a fully integrated analytical approach to the Company's resource portfolio analysis that treats renewable resources, conservation resources, and thermal generating resources on a comparable basis. Mr. Markell noted that the recommended balanced, diversified electric resource strategy entails multiple steps to meet growing resource needs and that the execution of any resource strategy presents risk and uncertainty, which require ongoing resource planning and analysis.

Mr. Markell then presented the Board with an update of the Company's conservation, renewable resource, and thermal resource acquisition strategies and the various potential transactions under consideration.

**PSE Update on Implementation: Conservation**

Mr. Markell then reviewed with the Board the Company's Conservation Resource Acquisition Program (2004-2005 Conservation Program Plan) that was being developed as part of the implementation of the 2003 Least Cost Plan. The 2004-2005 Conservation Program Plan was being developed in collaboration with an external Conservation Resource Advisory Group, according to the terms of the 2002 Conservation Stipulation Agreement for the Company's last General Rate Case. Mr. Markell noted that the Company had conducted a detailed study of electric and natural gas conservation potential. This study estimated that over the next 20 years the potential existed to achieve aggregate savings of 328 megawatts. Additionally, the study identified an achievable potential of 10,788,029 decatherms per year of cumulative natural gas savings over the same 20-year period.

Mr. Markell noted that as part of the Company's August 2003 LCP Update, the Company had determined that establishment of a long-term goal to acquire conservation at levels detailed in the plan was an appropriate strategy for the Company to implement. He noted that the LCP contemplated a cumulative total of 203 average megawatts of savings during 2004-2013, and a cumulative total of 273 average megawatts of savings over the entire 2004-2023 planning period.

Mr. Markell then explained that the Company is currently developing the energy efficiency targets and programs for electricity and gas for 2004-2005 within the

Conservation Resource Advisory Group. Targets and programs are currently scheduled to be filed with the WUTC on October 31.

**PSE Update on Implementation: Renewable Resources**

Mr. Markell then reviewed with the Board the Company's Renewable Resource Strategy that is being developed as part of the implementation of the 2003 Least Cost Plan. Mr. Markell reviewed with the Board how the plan established a goal of acquiring renewable resources sufficient to meet 10% of the Company's electric load by 2013 . Mr. Markell then presented the Board with an overview of the Company's Electric Resource Acquisition Program that had been developed in order to implement the 2003 Least Cost Plan.

In furtherance of meeting the 10% goal, Mr. Markell noted that on August 25, 2003 the Company filed with the Washington Utilities and Transportation Commission (the "WUTC") a draft Request for Proposals seeking proposals for up to 150 megawatts in wind generation capacity. Mr. Markell noted that the filing of the draft Request for Proposals was the first step in implementing the renewable resource acquisition strategy contemplated by the 2003 Least Cost Plan.

Mr. Markell reviewed for the Board that the draft Request for Proposals contemplates that the Company would consider both power purchase agreements with owners of wind generation facilities or acquisitions whereby the Company would acquire an ownership interest in these facilities. Mr. Markell described the draft Request for Proposal schedule

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that would allow the Company to execute Letters of Intent by March 19, 2004, and noted that the Company would continue to monitor other wind opportunities on a faster track the RFP process. Mr. Markell also noted that the Company plans to issue another Request for Proposals for other renewable resources in early 2004.

After discussion, it was unanimously

RESOLVED, that the Board deems it advisable and in the best interests of the Company that the Company proceed with the steps necessary to implement the Conservation Program, including the goal of savings of approximately 203 megawatts during 2004 – 2013 as outlined in the Company's 2003 LCP, and the Renewable Resources Acquisition Program, with the goal of acquiring renewable resources sufficient to meet 10% of the Company's electric load by 2013, provided that the Company's officers shall seek further approval of the Board prior to the execution of any definitive agreements with respect to the acquisition of wind or other renewable generation resources; and

FURTHER RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company that the Company continue to analyze and pursue such additional renewable resource acquisition strategies as the officers of the Company may deem appropriate in order to carry out the goals contemplated by the Company's 2003 Least Cost Plan; and

FURTHER RESOLVED, that the officers of the Company shall provide the Board with an update regarding the implementation of the Company's conservation program and renewable resource acquisition strategy at the next regularly scheduled meeting of the Board.

#### **PSE Thermal Generation Resource Strategy**

Mr. Markell then reviewed with the Board how the Company's 2003 Least Cost Plan identified a diversified mix of thermal generation resources to meet the remaining needs of the Company for new electric resources. These resources include combined-cycle gas-

fired combustion turbine generation, single-cycle gas-fired combustion turbine generation, and coal-fired generation.

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INFORMATION REDACTED**

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INFORMATION REDACTED**



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**PSE Acquisition of an Ownership Interest in the Frederickson 1 Facility**

Mr. Markell then provided the Board with a detailed update of the status of the proposed acquisition of a 49.85% interest in the Frederickson 1 Facility. Mr. Markell reviewed for the Board the draft of the Purchase and Sale Agreement for the Frederickson 1 Facility and the other agreements relating to the proposed transaction, including the draft Joint Ownership Agreement, the draft Operations and Maintenance Agreement and various other agreements and schedules, summaries of which had been furnished to the Board in advance of the meeting and, together with the materials furnished to the Board during the meeting, are filed with the minutes of this meeting. Mr. Markell reviewed the general terms of the transaction and reviewed regulatory issues in connection with the proposed transaction.

Mr. Markell noted that the purchase price for the Company's interest in the Frederickson 1 Facility was expected to be approximately:

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INFORMATION REDACTED**

Markell noted that if the transaction were consummated, the Company would own a 49.85% interest as a tenant in common with respect to the Frederickson 1 Facility. The remaining 50.15% would continue to be owned by FPLP, and the facility would be operated pursuant to a long-term Operations and Maintenance Agreement with another subsidiary of EPCOR.

As a result of the transaction, the Company would own approximately 125 megawatts of the generating capacity at the Frederickson 1 Facility. Mr. Markell also noted that a potential for an additional 25 megawatts of capacity at the facility existed and that FPLP was currently studying the possibility of implementing this expansion, conceivably during the second quarter of 2004. Thus, if the expansion were also completed, the Company would obtain slightly less than an additional 12.5 megawatts of generating capacity. Mr. Markell described how it was contemplated that the Company would sign the Purchase and Sale Agreement shortly following this meeting, and that it was expected that approximately six months would be required to obtain all the necessary consents and approvals before the closing of the transaction could occur. Thus, it was expected that the transaction would close in the first quarter of 2004. Mr. Markell noted that the Purchase and Sale Agreement would, unless the parties otherwise agree, terminate if the transaction had not closed within 210 days following the signing of the Purchase and Sale Agreement.

Mr. Markell then reviewed the various representations, warranties and covenants made by the parties in the Purchase and Sale Agreement, and noted that the transaction was subject to the satisfaction of various conditions, including that the transaction be approved by the WUTC for inclusion in the Company's base rates as part of a Power Cost Only rate filing with the WUTC.

Mr. Markell then reviewed with the Board the various representations, warranties and covenants contained within the draft Joint Ownership Agreement that would govern the

relationship between FPLP and the Company. Mr. Markell noted that FPLP would be acting as the Manager of the facility and would be responsible for interacting with the operator and otherwise administering the relationship between FPLP and the Company.

Mr. Markell then reviewed with the Board the various representations, warranties and covenants contained within the draft Operations and Maintenance Agreement that would govern the relationship between FPLP and the Company, as owners of the facility, and Frederickson Project Operations Inc. (“FPO”), a subsidiary of EPCOR that would act as the operator of the facility.

Mr. Markell then noted that EPCOR would be providing a parent guaranty of all of the obligations of FPLP under the Purchase and Sale Agreement and the Joint Ownership Agreement, as well as a parent guarantee of FPO’s obligations under the Operations and Maintenance Agreement. Mr. Markell noted that the obligations of the Company under these agreements would not be guaranteed by Puget Energy, Inc.

After a full discussion, it was unanimously

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company that the Company enter into that certain Purchase and Sale Agreement (the “Purchase and Sale Agreement”) between the Company and FPLP, pursuant to which the Company will purchase from FPLP a 49.85% undivided interest as a tenant in common in that certain approximately 249.3 megawatt facility known as the Frederickson 1 Facility and located near Frederickson, Pierce County, Washington, on the terms and subject to the conditions substantially as set forth in the Purchase and Sale Agreement; and

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FURTHER RESOLVED, that the Purchase and Sale Agreement, together with the draft Joint Ownership Agreement and the draft Operations and Maintenance Agreement, in substantially the form as such agreements were presented to the Board, be and hereby are approved by the Board; and

FURTHER RESOLVED, that the officers of the Company, or any of them, are hereby authorized to execute and deliver the Purchase and Sale Agreement and such other agreements and documents contemplated thereby, including the Joint Ownership Agreement and the Operations and Maintenance Agreement, for and on behalf of the Company, with such changes therein as the officer or officers executing the same may, in their sole discretion, deem necessary or advisable, together with any amendments thereto as such officers may deem necessary or advisable, the execution of the Purchase and Sale Agreement and such other agreements and documents contemplated thereby and hereby, including the Joint Ownership Agreement and the Operations and Maintenance Agreement, and any amendments thereto, on behalf of the Company to be conclusive evidence of such approval and of the ratification of such changes by this Board; and

FURTHER RESOLVED, that the Board of the Company hereby authorizes the officers of the Company to take all actions necessary, proper, advisable or desirable to proceed with the consummation of the transactions contemplated by the Purchase and Sale Agreement; and

FURTHER RESOLVED, that the Board hereby authorizes the filing with the WUTC of a Power Cost Only Rate Filing (as defined by the WUTC in its 12th Supplemental Order in Docket UE 011 570) seeking the approval of the WUTC for the inclusion of the full amount of the purchase price contemplated by the Purchase and Sale Agreement, plus all of the Company's transaction costs, in the Company's rate base.

Omnibus Resolutions

RESOLVED, that any acts of the officers of the Company and of any person or person designated and authorized to act by an officer of the Company, which acts would have been authorized by the foregoing resolutions except that such acts were taken prior to the adoption of such resolutions, are hereby severally ratified, confirmed, approved and adopted as acts in the name and on behalf of the Company; and

FURTHER RESOLVED, that the officers hereby are, and each of them with the full authority to act without the others hereby is, authorized, empowered and directed, in the name and on behalf of the Company (such officers hereby being given the absolute power to delegate all or any part of the authorization herein contained to such designee or designees as such

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officer may appoint from time to time), to do and perform, or cause to be done or performed, all such acts, deeds and things, and to make, execute and deliver, or cause to be made, executed and delivered, all such agreements, undertakings, documents, proxy solicitations, instruments, schedules or certificates, in the name and on behalf of the Company or otherwise, as each such officer (or such officer's designee or designees) may deem necessary or appropriate in order to effectuate or carry out fully the purpose and intent of the foregoing resolutions.

**EXECUTIVE SESSION WITHOUT MANAGEMENT PRESENT**

Mr. Beighle then asked management employees present to leave the meeting and the Board went into an executive session. Mr. Beighle informed Mr. Eldredge after the meeting that the Board held a discussion on corporate governance matters.

**ADJOURNMENT**

There being no further business to come before the meeting, on motion duly made and seconded, it was unanimously

RESOLVED - That this meeting be and hereby is adjourned.

A true record.

ATTEST:

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Corporate Secretary