

**EXHIBIT NO. ___(RCR-4CT)
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: R. CLAY RIDING**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-090704
Docket No. UG-090705**

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(CONFIDENTIAL) OF
R. CLAY RIDING
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

SEPTEMBER 28, 2009

PUGET SOUND ENERGY, INC.

**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(CONFIDENTIAL) OF
R. CLAY RIDING**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED SUPPLEMENTAL DIRECT TESTIMONY**
3 **(CONFIDENTIAL) OF**
4 **R. CLAY RIDING**

5 **I. INTRODUCTION**

6 **Q. Are you the same R. Clay Riding who provided prefiled direct testimony in**
7 **these dockets on behalf of Puget Sound Energy, Inc. (“PSE”)?**

8 A. Yes, I filed prefiled direct testimony, Exhibit No. ___(RCR-1CT) and two
9 supporting exhibits (Exhibit No. ___(RCR-2) and Exhibit No. ___(RCR-3)).

10 **Q. What topics are you covering in your supplemental direct testimony?**

11 A. This supplemental direct testimony updates my initial testimony with information
12 regarding the status of incremental pipeline capacity acquisition in support of
13 PSE’s electric generation portfolio since May 8, 2009.

14 **Q. Please summarize your testimony regarding the update of pipeline capacity**
15 **contracts.**

16 A. Due to significant recent developments in natural gas supply markets, it now
17 appears that a regionally supported expansion of pipeline capacity to access new
18 gas supply from the Rockies--through a cross-Cascades project, in which PSE
19 intended to participate--may not be possible in the near term. As a result, PSE
20 has taken steps to acquire additional firm pipeline capacity from existing sources

1 that fully supports PSE's existing fleet of gas-fired generation assets. PSE is also
2 supplementing its upstream firm pipeline capacity holdings on Westcoast Pipeline
3 in order to provide additional supply security and pricing diversity. PSE will
4 continue to monitor regional and upstream market conditions in anticipation of
5 acquiring additional firm capacity when needed to support future gas-fired
6 generation requirements.

7 **II. NEW PIPELINE CAPACITY CONTRACTS**

8 **Q. Please describe the status of new Northwest Pipeline firm capacity contracts**
9 **since PSE filed its initial evidence in this proceeding.**

10 A. PSE is in the final stages of negotiating agreements to: (1) convert the temporary
11 release to PSE of 9,000 MMBtu per day of firm capacity to a permanent release,
12 effective upon the termination of the temporary (15 month) term, April 1, 2010;
13 (2) acquire by temporary release an additional 25,000 MMBtu per day of
14 discounted firm capacity, commencing on April 1, 2010 with an option, at PSE's
15 sole discretion, to convert the temporary release to a permanent release (at
16 maximum pipeline rates) prior to March 31, 2012; (3) acquire directly from
17 Northwest Pipeline 2,000 MMBtu per day of currently unsold firm capacity,
18 effective November 1, 2009; and (4) [REDACTED]

19 [REDACTED].
20 The first three contracts described above will have either a PSE unilateral
21 evergreen provision or a bilateral (with Northwest Pipeline) evergreen provision,

1 with the standard FERC-mandated rights-of-first-refusal. Both such options
2 allow PSE to extend the term of the contract indefinitely. [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]. While the contracts are
6 not yet finalized, primary terms and conditions, including price, have been
7 determined. PSE's Energy Management Committee ("EMC") authorized the
8 acquisition of this long-term capacity at an EMC meeting on August 28, 2009.

9 **Q. What are the implications of the Northwest Pipeline firm capacity contracts**
10 **that you just described?**

11 A. The capacity discussed above, along with other permanent and temporary firm
12 capacity described in my Prefiled Direct Testimony, Exhibit No. ___(RCR-1CT),
13 provides PSE with sufficient firm capacity to fully serve the gas requirements of
14 the Mint Farm Generating Station and any previously unfilled firm requirements
15 at PSE's other combined-cycle power plants through the rate year and on a long-
16 term basis. Please see Exhibit No. ___(RCR-5C) for a graphic depiction of the
17 Northwest Pipeline firm capacity held by PSE's Power Book.

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

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[REDACTED]

Q. Please describe the status of new Westcoast Pipeline firm capacity contracts since PSE filed its initial evidence in this proceeding.

A. PSE is in negotiation to secure an additional 20,000 MMBtu per day of Westcoast Pipeline “T-South” firm capacity, for the power book. This additional capacity would be from Station 2 in northern British Columbia to the Northwest Pipeline interconnect at Sumas, and would be available effective November 1, 2009. The addition of this capacity will allow PSE’s power book to acquire approximately 50 percent of its firm British Columbia gas supply requirements at the Station 2 trading hub, with the remaining 50 percent acquired at the Sumas hub. This capacity provides supply source and pricing diversity for the Company’s power book. The acquisition of this long-term capacity was also authorized at the EMC meeting on August 28, 2009.

Q. What are the significant recent developments in natural gas supply markets that influenced PSE’s decision to acquire the Northwest Pipeline and Westcoast Pipeline firm capacity at this time?

A. In the past 6-12 months, there has been growing recognition of the commercial viability of the vast shale gas resources in northeast British Columbia. These

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shale deposits have become commercially viable due to significant advancements in drilling and fracturing technology, lower royalty costs and economies of scale. The expected costs to develop such resources have reportedly dropped from \$5-\$7 per MMBtu to \$3-\$5 per MMBtu. Recent projections show potential for up to 500 Tcf of economically developable reserves in northeast British Columbia. Producers have backed their optimism by contracting for additional processing plant capacity, multiple pipeline expansion programs and drilling rig commitments.

Further, some industry observers are now predicting that the introduction of more than one Bcf per day of additional supply from the Rockies into the Malin trading hub near the California and Oregon border via the Ruby Pipeline will result in surplus supply, resulting in lower prices in both Alberta and British Columbia, and closing the gap relative to Rockies prices. As a result, the difference between Rockies and British Columbia prices is projected to shrink, even without a new cross-Cascades pipeline.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

Q. Do the new pipeline capacity contracts affect the Company’s overall power costs for the rate year in this proceeding?

A. Yes. The contracts will result in \$■ million of incremental pipeline demand charges. PSE’s fixed demand charges during the rate year will increase by \$■ million due to the additional Westcoast Pipeline firm capacity and by \$■ million due to the Northwest Pipeline firm capacity additions. PSE has also included the fixed demand charges of \$■ million associated with the Jackson Prairie storage capacity available through the Asset Management Agreement. The total effect of these additional firm capacity contracts, which reflect current Canadian exchange rate assumptions, is an increase of \$5.6 million to the rate year power costs in this proceeding.

III. CONCLUSION

Q. Does this conclude your supplemental testimony?

A. Yes, it does.