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**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

Docket No. UG-151663

PUGET SOUND ENERGY

Declaration of Roger Garratt in  
Support of Motion to Establish  
a Bifurcated Proceeding

for (i) Approval of a Special Contract for  
Liquefied Natural Gas Fuel Service with  
Totem Ocean Trailer Express, Inc. and  
(ii) a Declaratory Order Approving the  
Methodology for Allocating Costs  
Between Regulated and Non-regulated  
Liquefied Natural Gas Services

1. I, ROGER GARRATT, hereby declare under penalty of perjury under the laws of the State of Washington that the following are true and correct:

2. I am the Director of Strategic Initiatives for Puget Sound Energy (“PSE”). My present responsibilities include oversight of: (i) the acquisition and development of electric resources for PSE; (ii) contracts for long-term electric supply; and (iii) PSE’s emerging technology investigations and strategies.

3. I have personal knowledge of the matters set forth in this Declaration and, as to matters that call for an opinion, state such opinion on information and belief based on my experience in the industry and with PSE.

4. As discussed in the prefiled direct testimony and supporting exhibits filed in this docket on August 11, 2015, PSE proposed to develop at the Port of Tacoma a liquefied

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Bellevue, WA 98004-5579  
Phone: 425.635.1400  
Fax: 425.635.2400

1 natural gas (LNG) facility (the “Tacoma LNG Facility”) capable of (i) receiving nearly  
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3 21,000 Decatherms per day (Dth/day) of natural gas, (ii) producing approximately  
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5 250,000 gallons of LNG when liquefying at nameplate capacity; and (iii) storing  
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7 approximately 8 million gallons of LNG. In that direct filing, PSE identified three functions  
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9 to be performed by the Tacoma LNG Facility:  
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- 11 (i) The Tacoma LNG Facility would serve as a peaking  
12 resource for PSE’s natural gas sales customers;
- 13 (ii) The Tacoma LNG Facility would supply fuel to Totem  
14 Ocean Trailer Express, Inc. (“TOTE”), under a contract  
15 PSE entered with TOTE on October 27, 2014 (the “TOTE  
16 Fuel Supply Agreement”); and
- 17 (iii) The Tacoma LNG Facility would provide fuel for sales to  
18 other marine vessels or other purchasers.  
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25 5. PSE proposed that the first and third functions should be treated as part of its  
26 regulated business, with the first meeting the needs of a single customer (TOTE) under a  
27 special contract and the third providing capacity to meet natural gas sales customers’ peak  
28 requirements at tariffed rates. PSE proposed that the second function would be a separate,  
29 non-regulated business.  
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36 6. Specifically, PSE requested that the Commission issue:

- 37 (i) an order approving the TOTE Fuel Supply Agreement as a  
38 special contract pursuant to and consistent with the  
39 requirements of WAC 480-80-143; and
- 40 (ii) a declaratory order approving PSE’s proposed methodology  
41 for allocating the costs of the Tacoma LNG Facility, which  
42 is consistent with the current cost allocation methodology  
43 approved by the Commission in Docket Nos. UE-960195  
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1 and U-072375, for use with respect to the allocation of  
2 costs and revenues associated with the regulated and non-  
3 regulated services that PSE will provide from the Tacoma  
4 LNG Facility.  
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6  
7 7. The Commission issued made several rulings in Order 04 in this proceeding.<sup>1</sup>  
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9 First, the Commission ruled that it could, under appropriate circumstances, to regulate sales  
10 of LNG by gas companies for use as transportation fuel:  
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12  
13 the general Commission's general jurisdiction under Title 80 RCW  
14 includes the authority, under appropriate circumstances, to regulate  
15 sales of liquefied natural gas by gas companies for use as  
16 transportation fuel.<sup>2</sup>  
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19 Second, the Commission ruled that it could not exercise authority over the TOTE Fuel  
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21 Supply Agreement because PSE did not intend to offer sales of LNG to the general public  
22 for use as transportation fuel:  
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25 Other factors may be considered when determining whether a  
26 particular service is a public service, but where it is clear that the  
27 service is not being offered generally to the public and, to the  
28 contrary, is offered selectively to a single customer, or to select  
29 companies the service provider is free to accept or reject, we  
30 cannot find that the service is dedicated or devoted to a public use.  
31 We determine, therefore, that PSE's service to TOTE as presently  
32 proposed is not within the Commission's jurisdiction to regulate.<sup>3</sup>  
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41 <sup>1</sup> *In the Matter of the Petition of Puget Sound Energy for (i) Approval of a Special Contract for*  
42 *Liquefied Natural Gas Fuel Service with Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order*  
43 *Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquefied Natural Gas*  
44 *Services*, Docket UG-151663, Order 04 (Dec. 18, 2015)

45 <sup>2</sup> Order 04 at ¶ 19.

46 <sup>3</sup> Order 04 at ¶ 28.  
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1 In sum, Order 04 suggests that the Commission could, under appropriate circumstances,  
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3 regulate sales of LNG by gas companies for use as transportation fuel but could not regulate  
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5 the TOTE Fuel Supply Agreement because PSE did not intend to offer sales of LNG to the  
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7 general public for use as transportation fuel.  
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10 8. The Commission suggested in Order 04 that alternative business models  
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12 could be considered.  
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15 THE COMMISSION GIVES NOTICE THAT parties may file  
16 supplemental briefs by January 15, 2016, to address whether there  
17 may be alternative business models with structures that would fall  
18 under the Commission's jurisdiction. Such argument should  
19 consider whether other factors considered in the Commission's  
20 2014 Interpretive Statement, such as the presence or absence of  
21 monopoly and the presence or absence of a need for consumer  
22 protection, need to be analyzed even if the business is structured so  
23 as to be offered to the public generally. To the extent a party  
24 identifies a model, or models, that legally could be subject to our  
25 jurisdiction, they should address, among other things, the question  
26 whether the Commission should regulate LNG sold as an end-use  
27 commodity such as vehicular fuel.<sup>4</sup>  
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31 9. In light of Order 04, PSE has decided to proceed with the Tacoma LNG  
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33 Facility under an alternative business model in which all offers for sales of LNG for use as  
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35 transportation fuel would be made by an affiliate of PSE that would not be subject to the  
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37 jurisdiction of the Commission. The PSE affiliate (tentatively named "Puget LNG") would  
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39 be a newly-formed, wholly-owned direct subsidiary of Puget Energy. Puget Energy has not  
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41 yet created Puget LNG.  
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47 <sup>4</sup> Order 04 at ¶ 32.

10. Puget LNG would acquire a 56% ownership share of the Tacoma LNG Facility and compensate PSE for 56% of PSE's then-existing development and construction costs for the Tacoma LNG Facility. This 56% ownership share has been determined based upon the allocation of projected closing costs (less AFUDC) presented in the Third Exhibit to the Prefiled Direct Testimony of Roger Garratt, Exhibit No. \_\_\_(RG-4C):

	<b>Peak Shaving</b>	<b>TOTE</b>	<b>Unregulated Fuel Sales</b>	<b>Total</b>
Closing Costs Less AFUDC	\$136,422,724	\$92,885,438	\$81,396,644	\$310,704,805

11. Under the proposal now considered by PSE, the portion of capital costs previously allocated to TOTE would now be unregulated fuel sales:

	<b>Peak Shaving</b>	<b>Unregulated Fuel Sales</b>	<b>Total</b>
Closing Costs Less AFUDC	\$136,422,724	\$174,282,082	\$310,704,805

12. This proposed allocation would result in (i) 44% of the projected capital costs of the Tacoma LNG Facility being allocated to PSE for regulated services and (ii) 56% of the projected capital costs of the Tacoma LNG Facility being allocated to Puget LNG for non-regulated sales of LNG for use as transportation fuel.

13. The business and affairs of Puget LNG would be managed under the direction and control of a Board of Managers or Board of Directors. Puget Energy, the sole

1 member or shareholder of Puget LNG, would designate each of the members of the Board of  
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3 Managers or Board of Directors. It is not expected that Puget LNG would have employees.  
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5 14. After its creation, Puget LNG and PSE would enter into an Ownership  
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7 Agreement that would provide generally for the rights and obligations of each of Puget LNG  
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9 and PSE with regard to the Tacoma LNG Facility. Under the Ownership Agreement, Puget  
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11 LNG would acquire a 56% ownership share of the Tacoma LNG Facility and compensate  
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13 PSE for 56% of PSE's then-existing development and construction costs for the Tacoma  
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15 LNG Facility. The Ownership Agreement would require a final accounting based on actual  
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17 costs and a reassignment of interests based on that final accounting. The capital investment  
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19 of each of Puget LNG and PSE would thereafter be in proportion to their respective  
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21 ownership interests.  
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25 15. Puget LNG and PSE would also enter into an Operating Agreement under  
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27 which PSE would have management responsibility for operating the Tacoma LNG Facility.  
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29 Pursuant to the terms and conditions of the Operating Agreement, PSE would serve as the  
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31 operator of the Tacoma LNG Facility, and Puget LNG would compensate PSE for its portion  
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33 of the costs of operating the plant. The Operating Agreement would provide generally that  
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35 the costs of operating the Tacoma LNG Facility would be shared by Puget LNG and PSE in  
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37 proportion to the usage of the Tacoma LNG Facility based on the approved cost allocation  
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39 methodology.  
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16. Puget LNG would take distribution system transportation service to the Tacoma LNG Facility pursuant to a PSE rate schedule or a special contract with PSE, either of which would be subject to the jurisdiction of this Commission.

17. After the creation of Puget LNG, PSE would assign the TOTE Fuel Supply Agreement to Puget LNG pursuant to section 21.2 of that agreement. PSE would also assign its obligations concerning the provision of short-term LNG supply to TOTE to Puget LNG.

Executed this 4th day of March, 2016, at Bellevue, Washington.



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Roger Garratt