

EXHIBIT NO. ___(EMM-7)
DOCKET NO. _____
2005 POWER COST ONLY RATE CASE
WITNESS: ERIC M. MARKELL

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-_____

**SIXTH EXHIBIT TO THE PREFILED DIRECT TESTIMONY OF
ERIC M. MARKELL (NONCONFIDENTIAL)
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JUNE 7, 2005



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August 25, 2003

VIA HAND DELIVERY

Carole J. Washburn
Office of the Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Puget Sound Energy, Inc.
WAC 480-107-060 Proposed Request for Proposals for Wind
Power Resources**

Dear Ms. Washburn:

Enclosed for filing are an original and 19 copies of a Request for Proposals for Wind Power Resources submitted by Puget Sound Energy, Inc. ("PSE") pursuant to WAC 480-107-060, along with an electronic copy of this filing on the enclosed disc.

The Commission's Competitive Bidding Rules, WAC Chapter 480-107

The Commission established WAC Chapter 480-107 (previously WAC Chapter 480-105) in order to comply with the Public Utility Regulatory Policies Act of 1978 (PURPA), 16 U.S.C. § 2601 *et seq.* and regulations promulgated thereunder by the Federal Energy Regulatory Commission (FERC) in 18 C.F.R. Part 292.

As a means of implementing PURPA, the commission established the bidding rule as a preferred forum for avoided cost determination, replacing what was previously known as administratively-determined avoided costs. The commission's intent in establishing a market test for determining these avoided costs was to generate bids between PURPA developers that were lower than the administratively-determined costs, and to allow the utilities to purchase only the supply of resources needed.

In re Regulation of Electric Utilities in the Face of Change in the Electric Industry, Docket No. UE-940932, 1998 Wash. UTC LEXIS 161, at *24, 184 P.U.R. 4th 409 (April 22, 1998). In addition, the rules are meant to ensure that utilities compare

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opportunities in competitive wholesale markets with the cost of utility owned projects. *Id.*, 1998 Wash. UTC LEXIS 161, at *21-22.

The solicitation process begins when an electric utility issues a request for proposals ("RFP") that has been approved by the Commission. The utility is required to file a draft RFP with the Commission within ninety days of the utility's filing of its final least cost plan. Interested persons have sixty days from the draft RFP's filing date to submit written comments to the Commission on the proposed RFP, and the Commission then has thirty days to take action on the proposed RFP. WAC 480-107-060. However, WAC 480-107-170(3) provides that the Commission "may grant such exceptions to these rules as may be appropriate in individual cases."

PSE's Least Cost Plan, Wind Power Resource RFP and Resource Acquisition Planning Horizon

On April 30, 2003, PSE filed its Least Cost Plan ("LCP") with the Commission, pursuant to WAC 480-90-238 and 480-100-238. Among other things, the LCP finds that PSE has needs for new electric resources over the next several years. *See* LCP, Chapter I at 2-3.

Since April 2003, PSE has performed additional assessments of conservation potential in its service area and an integration analysis to reassess the conservation acquisition targets set forth in the LCP. *See* LCP, Chapter I at 3-4. PSE has also updated certain modeling assumptions used in its LCP to reflect current information and conditions, with input from stakeholders. By no later than August 31, 2003, PSE will be filing an updated LCP that incorporates revisions based on these additional efforts.

On July 28, PSE requested a four-week extension of the ninety-day deadline for filing its proposed RFP with the Commission, to August 25, 2003, in order to permit PSE sufficient time to update its April 30 LCP, and to develop its proposed RFP filing. The Commission has not yet acted on PSE's request.

PSE's LCP concludes that PSE has needs for a diverse range of resource types, including wind-powered generation. A diversified long-term resource strategy that includes several types of resource technologies spreads out and mitigates the risks associated with each specific type of technology. *See* LCP, Chapter XI at 35-36; LCP, Chapter XII at 17, 26-31; LCP Chapter XIII at 1-5.

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PSE has been exploring opportunities to meet its near term needs consistent with least cost principles outside the WAC 480-107-060 process. *See* WAC 480-107-001(1) ("These rules do not preclude electric utilities from constructing electric resources, operating conservation programs, purchasing power through negotiated purchase contracts, or otherwise taking action to satisfy their public service obligations.") PSE is currently in a competitive solicitation and negotiation process which may result in a potential acquisition of one or more generation resources. Any such acquisition will only meet part of PSE's total need and perhaps only part of the need identified for combustion turbine plant.

In order to meet the resource portfolio needs set forth in the LCP, PSE also proposes to issue multiple RFPs over the next year or two that will allow the Company to review different types of generation opportunities for particular needs and timeframes.¹ Specifically, PSE plans to issue the following:

1. Wind Power Resource RFP (Fall 2003)
2. Two or more Stable Variable Cost Thermal Resources RFPs, including but not limited to coal and large PURPA projects (Fall 2003/Winter 2004)
3. Other Renewables and Small Thermally Matched Cogeneration RFP (early 2004)
4. Potential Seasonal Shaping RFP(s) (2004)
5. Possible Second Wind RFP (2004 or 2005)

More information about PSE's resource portfolio acquisition plan and its relation to PSE's LCP is found in the description of PSE's Resource Acquisition Program, attached as Exhibit A to this letter. PSE's resource portfolio acquisition plan will be updated periodically, and the tentative schedule described above is subject to change as that updating occurs.

¹ Conservation resource opportunities are currently being assessed and developed in consultation with the Conservation Resource Advisory Group (CRAG). PSE will provide further information at a later date regarding its plan to address future capacity needs.

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As the first step of PSE's current resource portfolio acquisition plan schedule, PSE is filing herewith a proposed Wind Power Resource RFP. Although PSE believes that this Wind Power Resource RFP is substantially complete and ready for public comment and Commission action, PSE reserves the right to correct or supplement this RFP if it discovers any errors or omissions.

As described above, the Commission has authority to shorten the time for public comment on this RFP and otherwise expedite the process set forth in WAC 480-107 for issuing a final RFP. PSE believes that if the acquisition and construction of a wind power resource occurs in time to qualify for "bonus" depreciation under Section 168(k) of the Internal Revenue Code, it could reduce power costs over the life of a 150 mW nameplate project by approximately \$6 million, or \$2.00 per megawatt hour. Under the bonus depreciation rules, the owner of certain property may claim first-year depreciation equal to 50% of the property's cost, in addition to the regular depreciation allowable for the remaining 50% of the cost of the property. Generally, property must be placed in service by December 31, 2004 (or, for certain property with an estimated production period exceeding one year, December 31, 2005) in order to qualify for bonus depreciation. In any event, only costs incurred by December 31, 2004 are eligible for bonus depreciation. Accordingly, PSE would not object to expediting this process if the Commission and other interested parties would like to do so. Of course, there is no assurance that bonus depreciation could be obtained for any project that results from this RFP process even if the RFP schedule is expedited, due to potential constraints encountered in the development or construction process.

Please also note that PSE's Wind Power Resource RFP proposes to accept proposals from other utilities. PSE believes that consideration of proposals from other utilities and/or their affiliates may increase the number of qualified respondents and thus increase the overall creativity and competitiveness of the process. Pursuant to WAC 480-107-020(2), PSE requests that the Commission approve this aspect of its Wind Power Resource RFP.

PSE intends to file other proposed RFPs with the Commission as those RFPs are developed, in order to meet the schedule described above.

Estimated Generic Avoided Cost Schedule

PSE provides as Exhibit 3 to its Wind Power Resource RFP its estimated generic avoided cost schedule in order "to provide general information to potential bidders about the cost of new power supplies absent nonutility resources." WAC 480-

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107-050. These generic estimated cost schedules do not include imputed debt effects associated with power purchase agreements, counter-party credit issues and other security and control costs, or the costs of integrating a potential resource into PSE's system. Such costs will be considered in reviewing proposals, as described in the RFP.

For the Commission's convenience, PSE also provides as Exhibit B to this letter a checklist showing that PSE's proposed RFP satisfies the requirements set forth in WAC Chapter 480-107.

Efforts to Promote Public Awareness of Filing

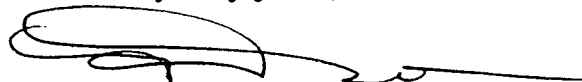
In order to broaden awareness of this RFP filing among persons who may be interested, PSE has mailed a copy of this filing to representatives of stakeholders who participated in PSE's LCP process and to approximately 90 power marketing companies, utilities, and other entities involved in development or provision of electric energy resources. PSE will be distributing the filing to a variety of trade publications and will also post the filing on its website.

PSE will host a public meeting to discuss this filing and the proposed Wind Power Resource RFP on Monday, September 15, 2003 at 1:00 p.m. at The Summit Conference Center, Summit Ridge Building, Suite 150, 320 108th Avenue NE, Bellevue, WA, 98004.

PSE invites comments on its RFP and looks forward to working with Commission Staff, proposers and other interested parties to make this RFP process successful. Questions regarding this filing should be addressed to George Pohndorf, 425-462-3272. Questions regarding PSE's LCP, resource acquisition plan, or Wind Power Resource RFP should be addressed to Charles Black, 425-462-3081.

Thank you for your assistance.

Very truly yours,



Kirstin S. Dodge

Enclosures

EXHIBIT A

**Puget Sound Energy
Resource Acquisition Program**

Puget Sound Energy Resource Acquisition Program

August 25, 2003

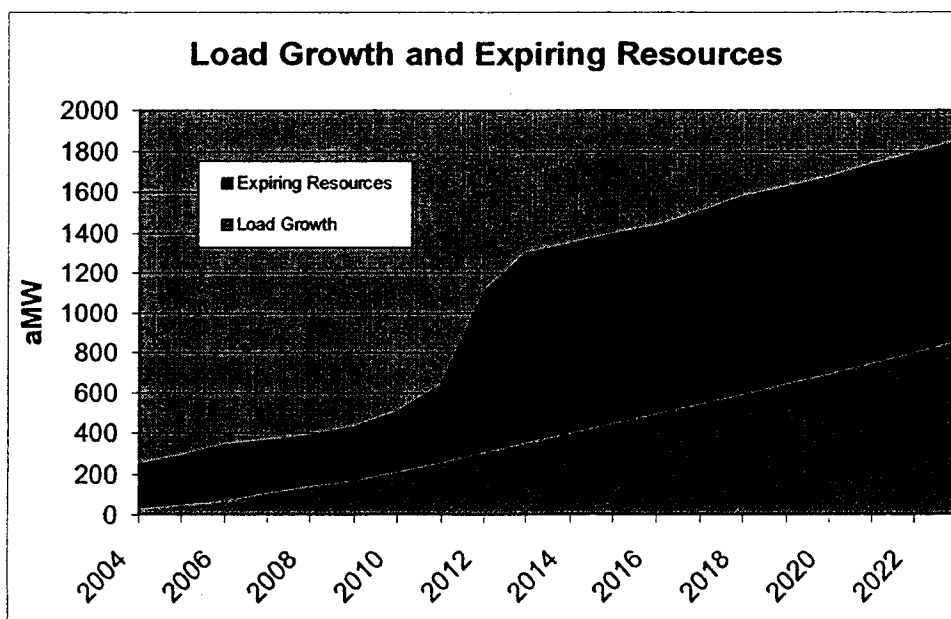
Introduction

This document describes the development of Puget Sound Energy's program to acquire new electric resources during the next several years. The first section summarizes the electric resource strategy developed in PSE's Least Cost Plan. The second section discusses implications for acquisition of new long-term resources by PSE. The third section describes the process and schedule that PSE has developed to implement its program for acquiring new electric resources.

Least Cost Plan

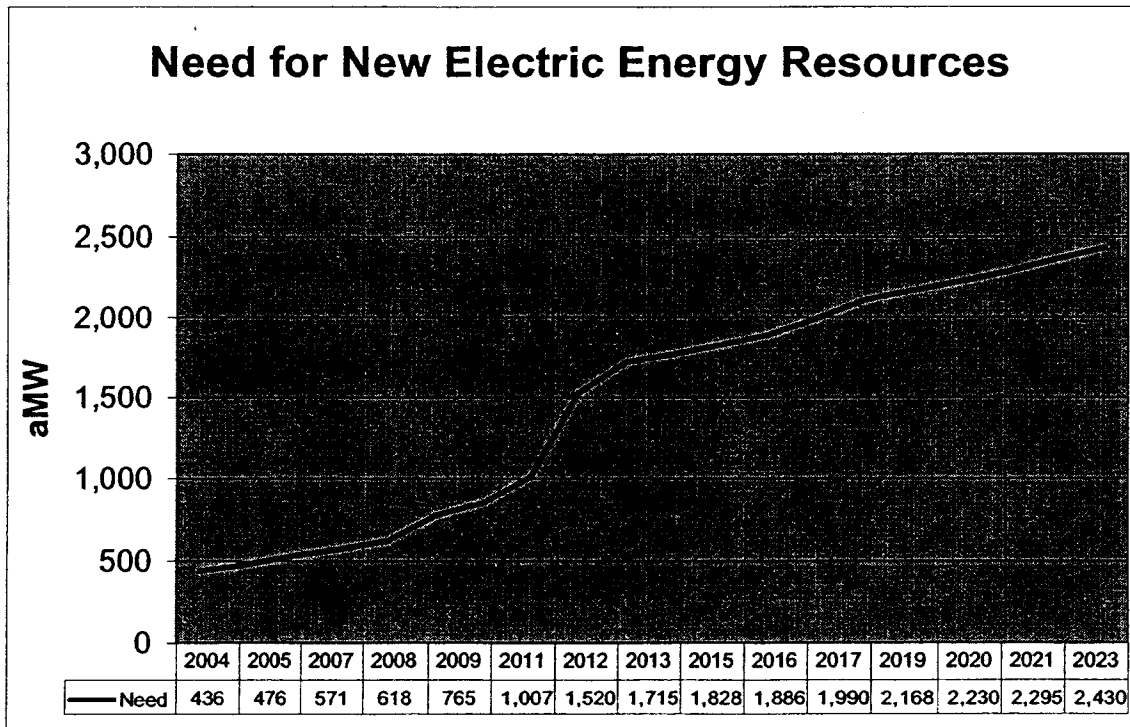
Puget Sound Energy issued its Least Cost Plan on April 30, 2003. The Least Cost Plan sets forth PSE's long-term strategic plan to configure its energy resource portfolio to meet the needs of its retail customers cost-effectively while also protecting against significant sources of risk. The Company will issue a Least Cost Plan Update on August 29, 2003, including a detailed assessment of conservation resources and integration of conservation within its overall resource strategy.

A major input to PSE's Least Cost Plan is the long-term forecast of loads for PSE's retail electric customers. Another important input is reductions in the amount of existing power supplies in the Company's electric resource portfolio, including recent and future expirations of existing long-term power supply contracts. The following chart shows both the long-term forecast of retail electric load growth and expirations of existing long-term firm resources (based on the August 29, 2003 Least Cost Plan Update):



The Least Cost Plan uses this information along with a number of other forecasts, analyses and assumptions to identify PSE's year-by-year need for new electric resources during 2004-2023. To develop the projection of its needs for new resources, PSE simulated the performance of its electric resource portfolio, including expected cost to customers and risk (measured as variability of cost to customers). The portfolio modeling included Monte Carlo simulation of the effects of key sources of risk for the portfolio such as variability in wholesale market prices for electricity and natural gas and variability in hydroelectric generation. These integrated resource portfolio analyses identified costs and risks at a variety of levels of resource adequacy, ranging from no addition of new long-term firm resources to addition of long-term firm resources to meet or exceed the projected needs.

As a result of the portfolio modeling analyses and consideration of qualitative factors, PSE has adopted a balanced resource portfolio adequacy standard for electric energy and capacity. The energy portion of the resource portfolio adequacy standard balances the electric resource portfolio by adding new long-term firm energy resources sufficient to meet projected customer energy loads under average-year hydro conditions (with PSE's single-cycle combustion turbines assumed to be held available to serve energy loads during below-average hydro years). PSE's need for new energy resources under the adopted resource adequacy standard is shown in the following chart:



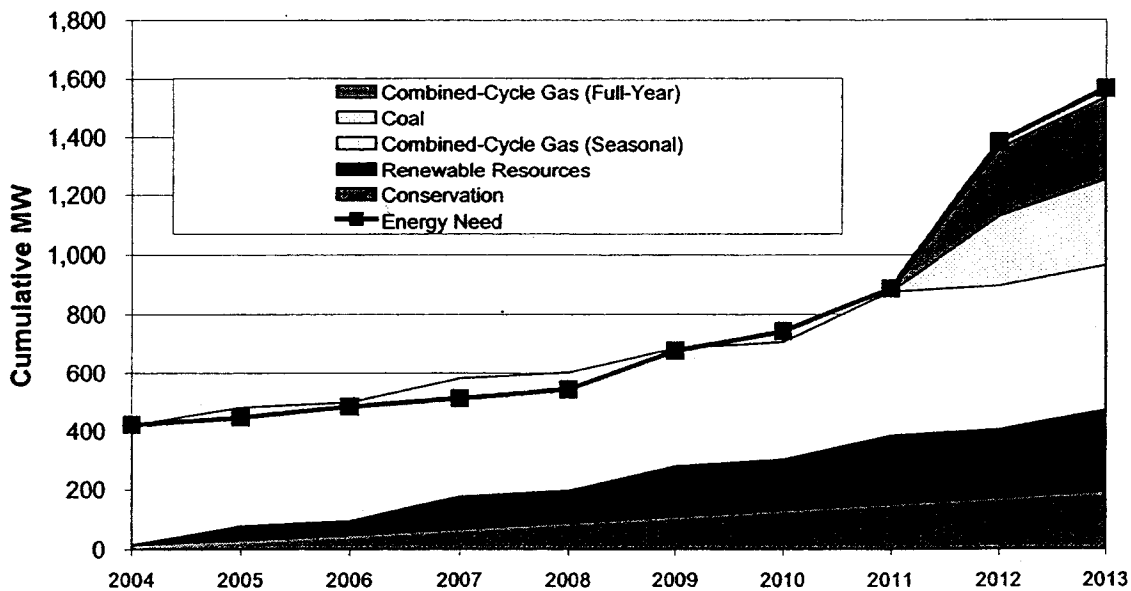
Similarly, the capacity portion of the resource adequacy standard identifies a need for new capacity resources sufficient to enable the portfolio to meet projected peak loads on cold winter days that the minimum-hour temperature at Sea-Tac Airport drops to 16 degrees Fahrenheit. PSE's need for new capacity resources at the adopted resource adequacy standard is approximately 1,000 megawatts in 2004 and grows to about 2,950 megawatts in 2013.

In addition to establishing a resource portfolio adequacy standard, the Least Cost Plan identifies a preferred mix of 'generic' resource technologies planned for addition to the portfolio during 2004-2013. The preferred mix of new electric energy resources includes:

- New electric conservation resources (including a goal to acquire an average of 19 aMW per year of new conservation during 2004-2013, from the August 29, 2003 Least Cost Plan Update)
- Renewable resources (including a goal to meet 10 percent of PSE's annual customer energy loads with renewable resources by 2013)
- Combined-cycle gas-fired turbine generation
- Coal-fired generation
- Seasonal exchanges or other seasonal shaping transactions

The following chart displays the diverse mix of new electric resources identified in the Least Cost Plan:

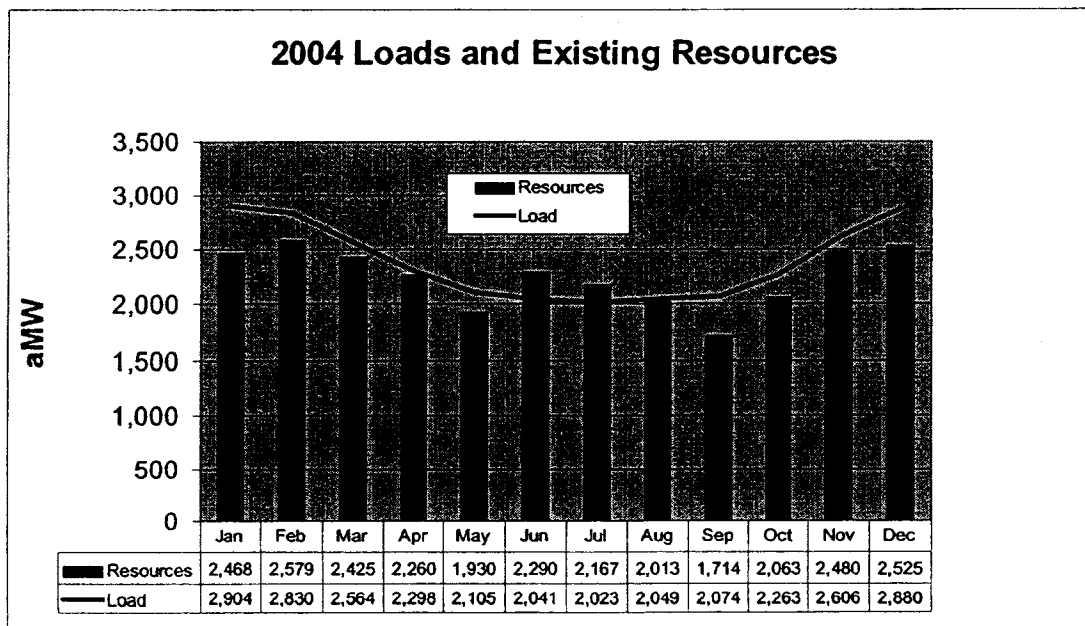
Strategy to Add a Diverse Mix of New Resources



Implications for Acquisition of New Electric Resources

The resource strategy developed as part of PSE’s Least Cost Plan provides a “shopping list” that serves as a guide for acquisition of new electric resources. Some of the major implications from the Least Cost Plan include:

1. PSE has an existing need for new electric resources. The largest near-term driver for this need is the recent and impending expiration of several power supply contracts.
2. PSE’s Least Cost Plan resource strategy includes goal to acquire an average of 19 aMW per year of conservation during 2004-2013. This can meet a portion (192 aMW by 2013) of the Company’s need for new electric resources. To meet the remaining need, it will be necessary to acquire new electric resources based on generating technologies.
3. PSE’s strategy is to seek to acquire new resources from a diverse mix of resource technologies and fuel types. This diversified approach provides an important means to avoid the concentration of risks that could result from relying exclusively on a single resource technology to meet all of the need.
4. As PSE’s need for new electric resources grows over time, it will be necessary and beneficial for PSE to make a series of resource acquisitions, rather than all at once. For example, a resource acquisition program that occurs in several stages helps spread risks and allows new information to be factored into the process over time.
5. PSE’s need to acquire new electric resources has a seasonal “shape”. In other words, PSE’s need for new electric resources is largest during the winter months. In contrast, PSE does not have a current need for new resources during the summer months. This is illustrated by the following chart:



6. Accordingly, PSE's resource acquisition program should also seek to acquire new electric resources that can be "shaped" to fit the seasonal profile of its need, either directly or through companion transactions.
7. Evaluation of alternative proposals for new resource acquisitions must include analysis and comparison of the net impacts of each proposal on the costs and risks to PSE's retail electric customers. This type of analysis requires integrated modeling of new resource acquisition proposals within PSE's overall resource portfolio, including interactions between loads, existing resources, and new resources.
8. Therefore, a one-dimensional estimate of avoided costs does not provide a sufficient basis for evaluating and comparing new resource acquisition proposals.
9. As noted above, PSE has developed a strategy to acquire a diverse mix of new resource technologies. In addition to evaluating resource acquisition proposals in terms of net impacts on portfolio cost and risk, PSE is obligated to seek specific resource opportunities that have lower costs relative to other proposals for the same or similar types of resources (i.e., competing proposals within a resource technology). Therefore, early-stage evaluation of specific resource proposals that are based on the same resource technology (e.g., wind power, combined-cycle combustion turbines) can be aided by development of 'pro forma' avoided costs that are specific to that generic resource technology.
10. Acquisition of new electric resources to meet PSE's need for energy will also meet a portion of the Company's need for winter peaking capacity. It will be necessary to acquire capacity resources to meet the remaining need for winter peak capacity. Such resources could include winter peak-clipping or other forms of customer demand response, as well as generation-oriented capacity resources.

Resource Acquisition Program

PSE has developed a diversified, multi-stage resource acquisition program to implement the long-term resource strategy developed in the Least Cost Plan. The Company has designed this program to address the implications identified in the previous section of this document. The program is also designed to address various resource acquisition considerations that extend beyond the relatively generic context of resource planning.

PSE has been exploring opportunities to meet its near-term needs to acquire new resources through solicitations (outside the WAC 480-107-060 process) that the Company issued in August 2002 (assets) and November 2002 (power purchase agreements). Any acquisitions that result from those solicitations will only meet a portion of PSE's total need for new resources and may only meet a portion of its need for combined-cycle gas-fired turbine generation as identified in the Least

Cost Plan. PSE will implement its resource acquisition program through a series of requests for proposals pursuant to WAC Chapter 480-107. These RFPs will be coordinated with completion of the resource solicitations that PSE began in 2002 and a screening solicitation for coal resources to be issued in Fall 2003.

The planned schedule for major elements of PSE's resource acquisition program during the next two years includes the following elements:

- (a) Completion of the competitive solicitations that PSE issued in August 2002 (assets) and November 2002 (power purchase agreements)
- (b) RFP for 150 MW of Wind Power Resources (Fall 2003)
- (c) Screening Solicitation for Coal Resources (Fall 2003)
- (d) Two or more RFPs for Resources with Stable Variable Costs, Including but not Limited to Coal and Large PURPA projects (Fall 2003/ Winter 2004)
- (e) RFP for Other Renewable Resources and Small Thermally-Matched Cogeneration (Early 2004)
- (f) Potential RFP(s) and/or Solicitation(s) for Seasonal Shaping (2004)
- (g) Possible Second RFP for Wind Power (2004 or 2005)

Summary information about PSE's resource acquisition program:

1. The resource acquisition program is designed to result in acquisition of new resources to meet the needs of PSE and its retail electric customers at least cost and within acceptable risk. The program allows a broad variety of resource technologies to participate in the competitive resource acquisition process and be evaluated on a consistent basis.
2. A specific set of avoided cost estimates will be developed for each RFP. These avoided cost estimates will be based on the type of resource technology(s) being solicited in the RFP. The avoided cost estimates will provide general information to potential respondents regarding the costs of new power supplies based on the generic resource technology requested under each RFP.
3. Where applicable, the RFPs will include requests for proposals under multiple acquisition approaches. One such approach would involve resource development by the respondent, leading to project ownership by PSE. Another example for the acquisition approach would be through a power purchase agreement.
4. PSE's evaluation of proposals submitted in response to each RFP will include analysis of each proposal's net impacts on overall cost and risk in PSE's electric resource portfolio.

5. PSE's evaluation of proposals submitted in response to each RFP will include evaluation of various risks and costs, including project permitting, financing and development risks. The evaluations will also address such topics as counterparty credit, imputed debt and compensating equity costs (for PPAs), security and control costs, resource integration, transmission and environmental considerations.
6. PSE will periodically update its resource acquisition program to reflect ongoing progress, including:
 - Results of each stage of resource acquisition
 - Biennial Least Cost Plans and Updates
 - Other new information and analysis
7. PSE is also evaluating alternatives for meeting its winter peaking capacity needs. Acquisition of capacity resources will be coordinated with acquisition of energy resources (including conservation and generation) and will consider demand response as well as generation-based forms of peaking capacity.

EXHIBIT B
WAC CHAPTER 480-107
REQUIREMENTS CHECKLIST

EXHIBIT B

WAC CHAPTER 480-107 REQUIREMENTS CHECKLIST:

Requirement and Citation	Location in RFP
Identify a resource block consisting of the overall amount of power to be solicited from project developers through the bidding process, and specify that block in the RFP. WAC 480-107-040(1), WAC 480-107-060(2)(c).	Section 1
Demonstrate (as part of the RFP documentation) that the size of the resource block is consistent with the range of estimated new resource needs identified in the LCP. WAC 480-107-040(2).	Section 2 & Exhibit 4
Specify any minimum criteria that bidders must satisfy to be eligible for consideration in the ranking procedure. WAC 480-107-060(2)(d).	Sections 1, 4 & 10
Explain the criteria that will be used to rank project proposals. Project ranking procedures must be based on least-cost planning goals, and the factors must at a minimum address price, dispatchability, risks imposed on ratepayers, and environmental effects including those associated with resources that emit carbon dioxide. The ranking procedures shall recognize differences in relative amounts of risk inherent among different technologies, fuel sources, financing arrangements, and contract provisions. WAC 480-107-070(1)-(3).	Section 10
Explain the methodology for performance adjustments to be made if the QF or generating facility agrees to be operated under economic dispatch (price bid to be adjusted by operating performance adjustments such as the project's equivalent availability factor). WAC 480-107-080(2).	Sections 3, 6 and 10

<p>Explain security requirements and the rationale for them. (Security is required on all project contracts whose expected payment to the project developer at any point in time will exceed the payment which would have been made under the utility's avoided cost schedule, but is not required if no such payments are expected.) WAC 480-107-090(1).</p>	<p>Sections 9 & 10.2.5</p>
<p>Specify the time period for the project or contract if it is to exceed 20 years. WAC 480-107-100(2).</p>	<p>Section 10.1</p>
<p>State whether the utility intends to allow its subsidiaries to participate in the bidding process. If so, indicate how it will ensure that its subsidiaries will not gain any unfair advantage over potential nonaffiliated competitors. WAC 480-107-160(2).</p>	<p>Section 4</p>
<p>If other electric utilities will be permitted to bid (subject to the approval of the Commission), such a decision must be explained in the RFP submittal. WAC 480-107-020(1), (2).</p>	<p>Section 4</p>
<p>Determine the avoided costs for the energy and capacity associated with the resource block calculated per WAC 480-107-040 on an annual basis for the greater of 20 years or the longest period over which power purchase contracts entered into per the bidding rules will be effective. This price stream will be referred to as the utility's avoided cost schedule. The avoided cost schedule and its supporting documentation shall be filed with the RFP. WAC 480-107-050.</p>	<p>Section 10.1 & Exhibit 3</p>
<p>Specify the long-term avoided cost schedule as calculated under WAC 480-107-050. WAC 480-107-060(2)(c).</p>	<p>Exhibit 3</p>
<p>File initial prototype contracts with the Commission, attached to the RFP. WAC 480-107-010.</p>	<p>Exhibits 1 & 2</p>