

April 1, 2021

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Washington Utilities and Transportation Commission
Attn: Mark L. Johnson
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Puget Sound Energy Draft 2021 Request for Proposals for All Generation Sources

Dear Mr. Johnson:

Puget Sound Energy (“PSE”) hereby submits to the Washington Utilities and Transportation Commission (the “Commission”) the enclosed draft 2021 All-Source Request for Proposals for Renewable and Peak Capacity Resources (the “Draft 2021 All-Source RFP”) for approval by the Commission. For the Commission’s convenience, attached as Attachment A to this letter is a checklist showing that the Draft 2021 All-Source RFP satisfies the requirements set forth in WAC Chapter 480-107.

A. PSE’s Resource Needs Identified in the 2021 Integrated Resource Plan

Concurrent with the filing of this Draft 2021 All-Source RFP, PSE filed its 2021 Integrated Resource Plan (the “2021 IRP”) with the Commission in Dockets UE-200304 and UG-200305 pursuant to WAC 480-100-238 and WAC 480-90-238, respectively. The 2021 IRP included a discussion of the electric planning standard and described the methodology for analyzing PSE’s resource needs. The 2021 IRP can be found on PSE’s web site at the following link: <http://www.pse.com/irp>.¹

Washington state’s renewable portfolio standard and renewable energy requirements calculate the required amount of renewable resources as a percentage of megawatt hour (MWh) sales; therefore, when MWh sales decrease, so do the amount of renewables PSE needs. Demand-side resources, including conservation, decrease sales volumes, which then decrease the amount of renewable resources needed. Consistent with the 2021 IRP, demand-side resources include energy efficiency, the Washington State Energy Code and federal and state equipment codes and standards, distribution efficiency and customer-owned photovoltaic (PV) solar generation. Figure 1 below provides PSE’s renewable needs before and after 2021 IRP demand-side resources levels.

¹ See also Docket Nos. UE-200304 (electric) and UG-200305 (natural gas).

The 2021 IRP demonstrated a need for additional resources to help meet PSE's peak capacity and Washington state's Clean Energy Transformation Act ("CETA") compliance needs. Given these objectives, PSE's analysis of proposals will focus on a resource's ability to meet all or part of its capacity, CETA, or both needs at the lowest reasonable cost to customers. PSE will evaluate any commercially viable electric generation, storage, or other resource type or technology, provided that the resource complies with all applicable laws and regulations, and meets the minimum qualification requirements described in Section 4 of the Draft 2021 All-Source RFP. Resources that offer both (i) a material capacity contribution and (ii) attributes consistent with CETA needs will receive the benefit of both value streams in PSE's analysis.

1. PSE's Need for CETA-Compliant Resources

Washington state has two renewable energy requirements. The first is the state's renewable portfolio standard (the "RPS"),² which requires PSE to meet specific percentages of its load with renewable resources or renewable energy credits ("RECs") by specific dates. Under the RPS statute, Washington utilities must meet 15 percent of retail sales with renewable resources by 2020. PSE forecasts that it has acquired sufficient qualifying renewable resources to meet its RPS obligations through the 2021 All-Source RFP period, including the ability to bank RECs. Existing hydroelectric resources may not be counted towards RPS goals except under certain circumstances for new run-of-river plants and efficiency upgrades to existing hydroelectric plants. Given the size of the CETA need presented below, PSE does not expect to have an RPS need in addition to the CETA need.

The second renewable energy requirement is Washington state's Clean Energy Transformation Act.³ CETA requires that at least 80 percent of electric sales in Washington be met by non-emitting or renewable resources by 2030, and 100 percent by 2045. Whereas hydroelectric resources and other non-emitting resources do not qualify as renewable resources for the purpose of meeting the requirements of Washington's RPS, certain hydroelectric resources and other non-emitting resources do count toward meeting the compliance requirements of CETA. For a full definition of CETA-compliant resources see Chapter 19.405 RCW.

² Energy Independence Act, codified at Chapter 19.285 RCW.

³ Clean Energy Transformation Act, codified at Chapter 19.405 RCW.

Figure 1. Projected Renewable Resource Need

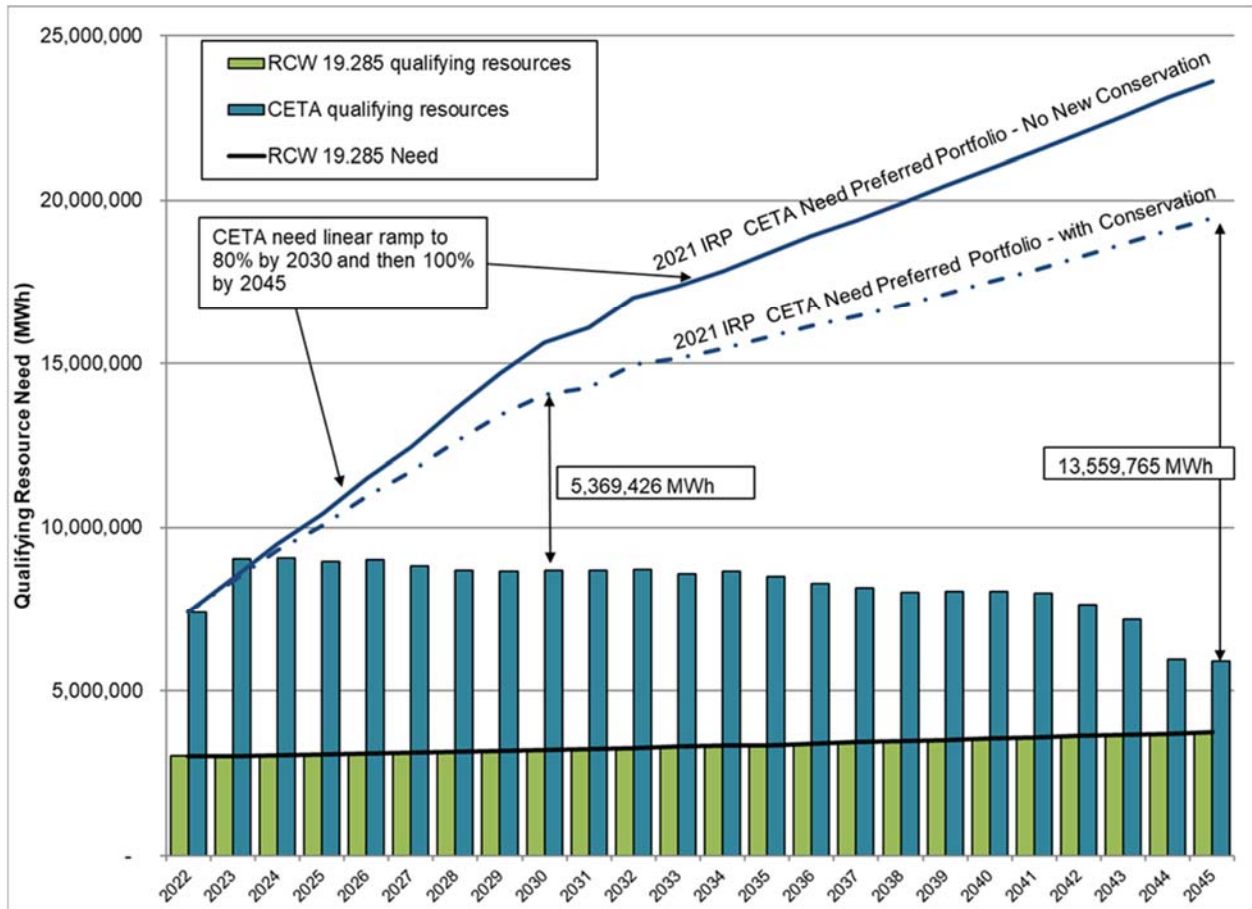


Table 1. CETA Need by Year⁴

CETA Need in GWhs	2022	2023	2024	2025	2026
CETA qualifying resources	7,398	9,045	9,087	8,963	9,016
2021 IRP Draft CETA Energy Target - Mid with Conservation	7,398	8,345	9,297	10,059	10,958
CETA Need/(Surplus)	0	(699)	210	1,096	1,942
Need Assuming 36% Capacity Factor (WA Wind)			67	348	616
Need Assuming 24% Capacity Factor (East WA Solar)			100	522	924

⁴ Please note that the “glide path” identified in Table 1 above is non-binding and provided for informational purposes only. PSE may select resources with different proposed timing, if those resources can help meet the need and reduce costs.

To align PSE's procurement approach with the IRP's ramping strategy to meet the 2030 CETA requirement, PSE prefers to acquire enough CETA-eligible resources by the end of 2025 to meet the 2021 IRP's 2026 target. The total need for CETA-eligible clean energy resources is 1,942 GWh by 2026 growing to 5,369 GWh by 2030. Table 1 above provides an approximate strategy, or "glide path," for meeting the CETA needs identified in the 2021 IRP by 2026. All eligible resource types, such as wind, solar, demand response, distributed energy resources, and other CETA-eligible resources will be evaluated based on their ability to help meet this and the capacity need identified. The Draft 2021 All-Source RFP does not include resource-specific targets.

2. PSE's Need for Capacity Resources

PSE's demand forecast demonstrates a need for 369 MW of new electric resources in 2026 that is expected to increase to 527 MW in 2027. This forecast reflects PSE's F2020 normal peak load forecast. It also includes the impact of (i) the removal of PSE's interests in Colstrip Unit 3 and Unit 4 from PSE's portfolio after 2025; (ii) the expiration of the Centralia Power Purchase Agreement ("PPA"); and (iii) the addition of the resources PSE acquired through the 2018 All-Resources RFP.

PSE's current transmission portfolio includes approximately 1,500 MW of firm transmission rights that deliver energy from the Mid-C trading hub to the PSE load center. The 2021 IRP included a market risk assessment that evaluated the ongoing availability of the short-term power contracts associated with the transmission rights.

As a result, PSE proposes to address market risk by gradually reducing the short-term market purchase limit, associated with the transmission rights from the Mid-C trading hub, from approximately 1,500 MW to about 500 MW by the year 2027. This reduction in market risk increases the capacity need. To replace those short-term contracts, PSE will seek firm resource adequacy qualifying capacity contracts, compliant with CETA. Numerous regional entities, including PSE, are collaborating on the development of a regional resource adequacy ("RA") program.⁵ Should PSE determine the program meets the needs of PSE customers, it will be incorporated into future planning activities and operation. PSE will work with successful bidders to be designated as participating RA resources in the RA program, if appropriate. Table 2 outlines a strategy, or glide path, to address the capacity need.

⁵ See *Resource Adequacy Program*, Northwest Power Pool, <https://www.nwpp.org/about/workgroups/12>.

Figure 2. Projected Capacity Resource Need

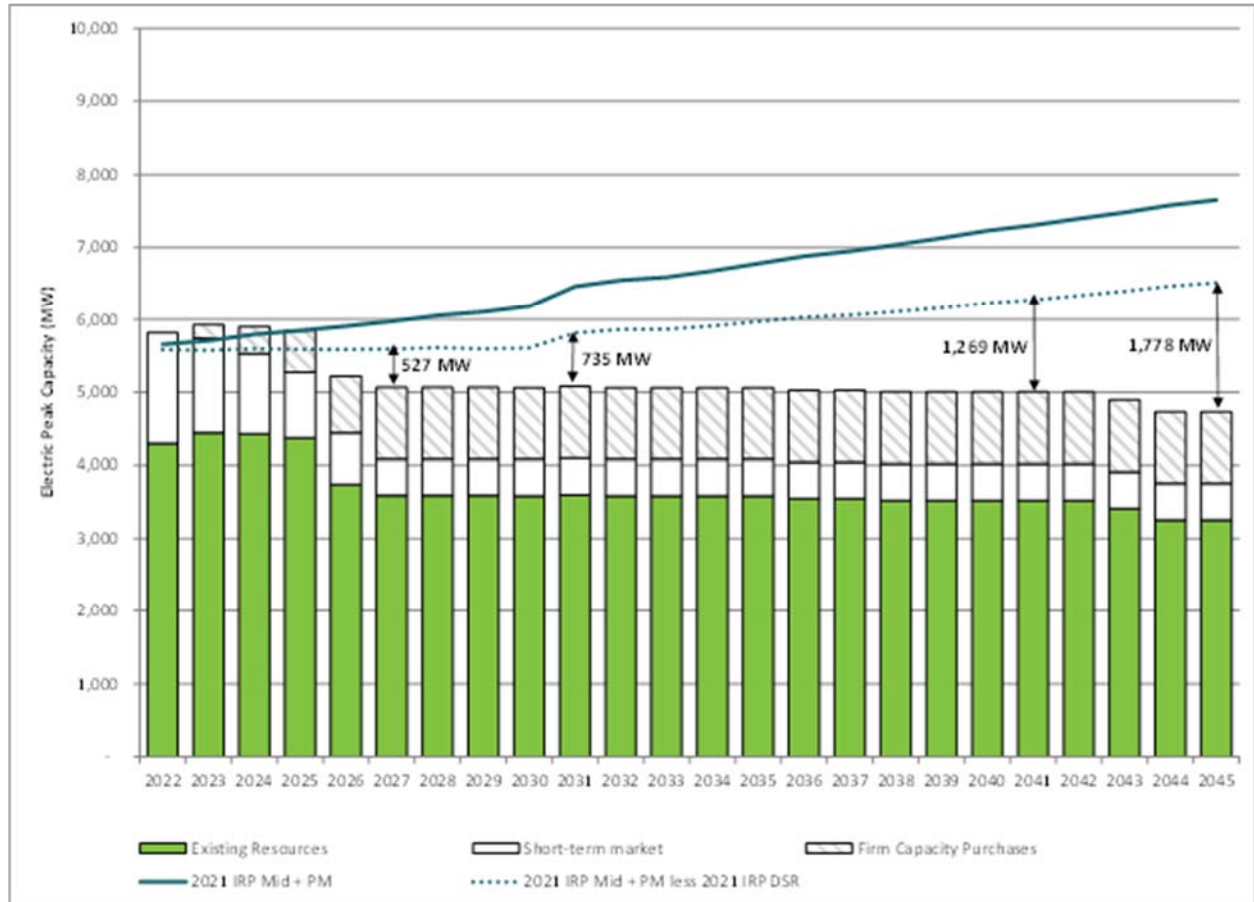


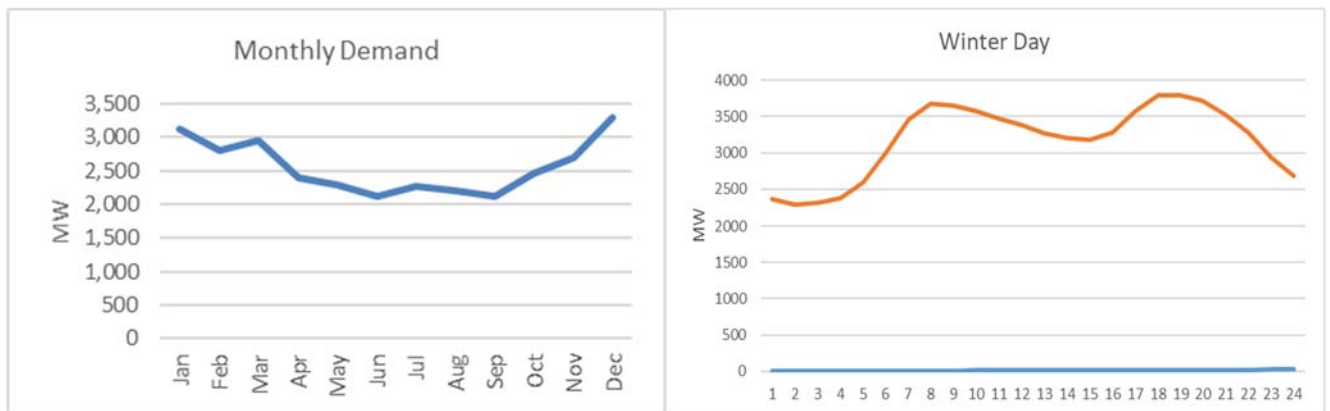
Table 2. Cumulative Capacity Need by Year⁶

Need/(Surplus) and Additions in MW	2022	2023	2024	2025	2026	2027
2021 Draft IRP Need/(Surplus)	(230)	(350)	(306)	(257)	369	527
Reduced Market Reliance Need		185	372	574	776	979
Total Resource Need/(Surplus)	(230)	(165)	66	317	1,145	1,506
Estimated Glide Path of Resource additions		300	300	300	300	306

⁶ Please note that the “glide path” identified in Table 2 above is non-binding and provided for informational purposes only. PSE may select resources with different proposed timing, if those resources can help meet the need and reduce costs.

Although PSE resource need is expressed as a winter peak (see Figure 2 above), PSE also has seasonal and daily capacity needs. PSE's effective load carrying capability quantitative analysis will favor resources with production shapes that align well with PSE's load or that offer the ability to dispatch to meet load. Proposals that can help meet seasonal (November-February, December-February, or November-March), heavy load hour (hours ending 0700-2200), and super peak (hours ending 0700-1000 and 1800-2100, November-January) needs, while reducing surpluses off peak, will benefit in PSE's quantitative analysis. Figure 3 illustrates PSE's typical monthly load shape and its hourly load shape for a typical winter day.

Figure 3. PSE's Typical Monthly and Hourly Shapes



B. Evaluation Process

PSE will follow a structured evaluation process designed to screen and rank individual proposals based on an evaluation of costs, risks, and benefits. These include resource cost, market-volatility risks, demand-side uncertainties and benefits, resource dispatchability, effects on system operation, credit and financial risks to the utility, the risks to ratepayers, public policy, and Washington state and federal government requirements. PSE will consider a number of quantitative and qualitative factors to compare proposals with diverse attributes. PSE will evaluate each proposal based on its compliance with the 2021 All-Source RFP and according to the criteria described in Section 4 (Minimum Requirements) and Exhibit A (Evaluation Criteria and Scoring) to the Draft 2021 All-Source RFP.

1. Intake Process

PSE's evaluation process will begin with the automated intake of proposals through a newly designed web platform. Bidders will download the forms from PSE's RFP web site (www.pse.com/rfp), and submit the completed forms and attachments through the platform. The

platform will be accessible by a link from the RFP web site when the final 2021 All-Source RFP is issued.

Proposals will be tested for completeness and adherence to minimum criteria requirements (described in Section 4 of the Draft 2021 All-Source RFP) in two ways during the intake process. First, the automation process will perform a real-time validation of proposal completeness and adherence to certain minimum criteria. If the automated system determines that a proposal is incomplete or fails to meet required criteria, it will generate an error-specific response, allowing the bidder to adjust the proposal and resubmit it by the due date. Second, because certain minimum criteria may be difficult to confirm with a simple algorithm, PSE's resource acquisition team will perform a preliminary eligibility screening to verify that all proposals accepted by the system appear to meet the minimum requirements. If a proposal is determined to be ineligible based on the screening, PSE will notify the bidder and the bidder will be given three business days to remedy the proposal (the "cure period").

2. Phase 1: Screening Phase

Once the intake process is complete, PSE will divide its evaluation into two phases. In Phase 1, PSE will conduct a preliminary cost analysis and qualitative risk screening to produce a list of the most promising resources for further consideration. PSE will use its proprietary portfolio screening model ("PSM") and the scoring approach for price and non-price factors presented in Exhibit A (Evaluation Criteria and Scoring) to the Draft 2021 All-Source RFP to screen and rank proposals based on the bidder's responses to Exhibit B (Proposal Requirements Forms) to the Draft 2021 All-Source RFP. The qualitative review will include an assessment of the risks, benefits and viability factors set forth in the qualitative evaluation rubric provided in Exhibit A (Evaluation Criteria and Scoring) to the Draft 2021 All-Source RFP, including: counterparty and project viability, status of site control, status of permitting, deliverability (interconnection and transmission), and contribution to CETA equity considerations. PSE will score proposals based on the information provided by bidders and any further due diligence required to verify that the information provided is accurate and complete. In conducting due diligence and risk assessment, the resource acquisition team will consult as necessary with subject matter experts from specific functional areas throughout the company. Upon completing its evaluation, the resource acquisition team will combine its quantitative and qualitative screening results to produce a Phase 1 ranking for each proposal. See Exhibit A (Evaluation Criteria and Scoring) to the Draft 2021 All-Source RFP for the ranks and weights associated with price and non-price factors considered by PSE, and a description of PSE's approach to scoring individual proposals.

At the end of Phase 1, PSE will select a candidate list of proposals that will proceed to Phase 2 for portfolio optimization analysis (the "Candidate List"). PSE will seek to include in its portfolio optimization analysis representation from different resource types and/or technologies to test the performance of combinations of resources toward achieving a lowest reasonable cost

portfolio. PSE will stack resources by type and advance proposals to Phase 2 that are price-competitive within each resource stack. In determining price-competitiveness, PSE will look for scoring gaps and establish cut-off points, such that the resources included in Phase 2 amount to at least 150 percent of the resource need. PSE may also hold in reserve a certain number of proposals that fall short of the cut-off point, in the event that one or more of the selected proposals are subsequently withdrawn or eliminated for any reason, including unacceptable risks or fatal flaws identified during the course of additional due diligence.

Proposals that fail to substantiate a viable resource, lack credible detail, involve unacceptable risks or prohibitive costs, or otherwise fail to meet the minimum proposal requirements defined in Section 4 of the Draft 2021 All-Source RFP will not be further considered. Any proposal that does not meet the minimum requirements of this RFP in the preliminary eligibility screen will be disqualified and will not receive a Phase 1 price or non-price score.

All bidders will be notified of their selection status at the end of Phase 1. Bidders whose proposals have been selected to proceed to Phase 2 will be given an opportunity to submit an updated best and final offer price. The updated best and final offer price may not be higher than the original price, and no other aspect of the proposal may be changed. If no updated best and final offer price is submitted, the original bid price will be used in Phase 2.

2. Phase 2: Optimization Phase

During Phase 2 of the evaluation process, PSE will continue to use its PSM financial model to analyze combinations of proposals to determine the best resource solution to meet PSE's capacity need at the lowest reasonable cost, subject to certain modeling constraints (e.g., transmission constraints). PSE will compare different portfolio mixes to determine how each portfolio performs in a range of potential future pricing scenarios. The model creates optimal, integrated portfolios for each scenario considered in the analysis.

In Phase 2, PSE reserves the right to conduct additional due diligence, as necessary, on the Candidate List proposals. This may include engaging with respondents regarding various aspects of the proposals to verify proposal claims with supporting data and documents from the respondent, engaging third-party consultants to independently verify resource performance, or using other publicly available information. PSE will assess proposed edits to the term sheets submitted from bidders by screening for terms and conditions that present unreasonable or excessive risk to PSE or its customers. PSE will assess such risk on a pass/fail basis. If PSE determines that a proposal contains such unacceptable terms or conditions, the bidder will be given three business days to remedy the matter, which is consistent with the three business-day cure period allowed for the correction of other non-conforming criteria or fatal flaws. Term sheet redlines that pass the screening should not be deemed as having been accepted by PSE in any subsequent negotiation with a shortlisted bidder; final terms will be determined through

negotiations with selected counterparties. PSE reserves the right to suspend negotiations with any bidder and initiate discussions with an alternate Phase 2 candidate at its sole discretion and in the best interests of PSE and its customers.

At the end of Phase 2, PSE will place on a short list proposals that best align with PSE's overall objective to select a resource or portfolio of resources that best meet PSE's resource needs and can be delivered to its system at the lowest reasonable cost and least risk, in compliance with all applicable laws and regulations, and consistent with the public interest. Short list proposals are those identified for further discussions, which may lead to negotiations of the terms and conditions of definitive agreements. Proposals that PSE determines present unacceptable risks, or that otherwise fail to meet the minimum proposal requirements defined in Section 4 of the Draft 2021 All-Source RFP will not be selected for the short list. Proposals that are not cost-competitive with other alternatives will not be selected for the short list. All bidders will be notified of their selection status at the end of Phase 2.

C. Role of the Independent Evaluator

In early February 2021, subsequent to receiving approval from the Commission in Docket UE-210037, PSE hired Bates White LLC ("Bates White") to provide independent evaluator services for the 2021 All-Source RFP. For information about PSE's IE selection process and the qualifications of Bates White, please see PSE's petition dated January 19, 2021 in Docket UE-210037.

The function of the independent evaluator is to consult with PSE, as needed, on the procurement activities in the 2021 All-Source RFP to ensure that PSE's 2021 All-Source RFP process is conducted fairly, transparently, and properly. To that end, the independent evaluator has participated in the design of the Draft 2021 All-Source RFP. Additionally, the independent evaluator will:

- evaluate the unique risks, burdens, and benefits of each bid;
- provide to PSE the independent evaluator's minutes of meetings and the full text of written communications between the independent evaluator and PSE and any third-party related to the independent evaluator's execution of its duties;
- verify that PSE's inputs and assumptions, including capacity factors and capital costs, are reasonable;
- assess whether PSE's process of scoring the bids and selection of the initial and final shortlists is reasonable;

- prepare a final report to the Commission after reconciling rankings with PSE in accordance with WAC 480-107-035(3) that must:
 - include an evaluation of the competitive bidding process in selecting the lowest reasonable cost acquisition or action to satisfy the identified resource need, including the adequacy of communication with stakeholders and bidders; and
 - explain ranking differences and why the independent evaluator and PSE were or were not able to reconcile the differences.
- participate in meetings with the Commission and PSE, on an as-needed basis, to discuss its findings
- serve as an expert witness in proceedings, if called upon to testify.

PSE will give the independent evaluator reasonable access to information, meetings and communications related to offers submitted by all respondents. The independent evaluator will immediately report to PSE and the Commission any perceived attempt by any individual or party, including any PSE self-build or affiliate bidders, to improperly influence any findings determined by the independent evaluator, or to challenge or interfere with their independent role in the solicitation process.

D. Negotiations and Contracts

PSE may elect to negotiate price and non-price factors with any bidder whose proposal has been shortlisted. During negotiations, PSE will continue to update its economic and risk analysis on an as-needed basis to reflect any additional or revised factors that may impact the total cost of a proposed resource.

PSE has no obligation to enter into definitive agreements with any respondent to the 2021 All-Source RFP and may terminate or modify the 2021 All-Source RFP at any time without liability or obligation to any bidder. The 2021 All-Source RFP shall not be construed as preventing PSE from entering into any agreement that it deems appropriate at any time before, during, or after the 2021 All-Source RFP process is complete. PSE reserves the right to negotiate only with those bidders and other parties who propose transactions that PSE believes, in its sole opinion, to have a reasonable likelihood of being executed substantially as proposed.

E. Schedule for the 2021 All-Source RFP

The following schedule is subject to adjustment based on Commission review and the actual pace of the evaluation process. Updates will be posted online at <http://www.pse.com/RFP>.

Table 3. 2021 All-Source RFP Schedule⁷

Date	Milestone
April 1, 2021	Draft 2021 All-Source RFP filed with WUTC
May 17, 2021	Public comment period ends ⁸
June 15, 2021	Commission review period ends; decision anticipated
June 30, 2021	PSE issues final 2021 All-Source RFP to bidders
July 2021	PSE hosts bidders' conference ⁹
September 1, 2021	Offers due to PSE
October 1, 2021	PSE posts to its RFP web site compliance report consistent with the requirements of WAC 480-107-035(5)
Q1 2022	PSE completes Phase 1 screening process and selects Phase 2 candidates, notifies bidders
Q2 2022	PSE selects 2021 All-Source RFP short list, notifies bidders
To follow	Post-proposal negotiations
To follow	PSE files with the Commission compliance report consistent with the requirements of WAC 480-107-145(2)

⁷ Consistent with the Final Order of the Commission in Docket UE-200413, PSE expects to file a draft targeted request for proposals for demand response and distributed energy resources by or before November 15, 2021. As explained in PSE's petition filed on March 15, 2021, in Docket No. UE-200413, the evaluation process for the targeted request for proposals for demand response and distributed energy resources is expected to be shorter than the evaluation process for the 2021 All-Source RFP. PSE anticipates that it would complete its evaluation of resources bid into the targeted request for proposals for demand response and distributed energy resource around the time that PSE expects to select the short list for 2021 All-Source RFP.

⁸ WAC 480-107-017(3) allows interested parties to submit comments within 45 days after a draft request for proposals is filed. Based on a filing date of April 1, 2021, this period would close on Sunday, May 16, 2021. Therefore, the comment period would close on the next business day, Monday, May 17, 2021.

⁹ The 2021 All-Source RFP bidders' conference details and registration instructions will be posted at <http://www.pse.com/rfp> as they become available.

F. Notice of the Draft 2021 All-Source RFP

To broaden awareness of the Draft 2021 All-Source RFP among persons who may be interested, PSE has provided notice of its filing to power marketing companies, utilities, energy efficiency companies and other entities involved in development or provision of electric energy resources, including representatives of stakeholders who participated in PSE's 2021 IRP process. PSE will also be providing notice of the filing to a variety of trade publications.

G. Conclusion

PSE invites comments on the Draft 2021 All-Source RFP and looks forward to working with Commission Staff, proposers and other interested parties to make the Draft 2021 All-Source RFP process successful. Questions regarding this filing should be addressed to the undersigned. Questions regarding the Draft 2021 All-Source RFP should be addressed to Sheri Maynard, Business Initiatives and Commercial Development Manager, at 425.462.3114 and sheri.maynard@pse.com.

Thank you for your assistance.

Very truly yours,



Jason Kuzma

Attachments

**Checklist Cross-Referencing Sections of the
Draft 2021 All-Source RFP with the Requirements
Set Forth in WAC Chapter 480-107**

WAC CHAPTER 480-107 REQUIREMENTS CHECKLIST

Requirement and Citation	Citation	Location in Draft 2021 All-Source RFP
The RFP must define the resource need, including specific attributes or characteristics the utility is soliciting, such as the amount and duration of power, time and locational attributes, operational attributes, the type of technology or fuel source necessary to meet a compliance requirement, and any additional information necessary for potential bidders to make a complete bid, including a copy or link to the complete assessment of avoided costs identified in WAC 480-100-615(12).	WAC 480-107-025(1)	<i>See</i> Sections 1 and 2
The RFP must request information identifying energy and non-energy benefits or burdens to highly impacted communities and vulnerable populations, short-term and long-term public health impacts, environmental impacts, resiliency and energy security impacts, or other information that may be relevant to identifying the costs and benefits of each bid, such as a bidder's past performance utilizing diverse businesses and a bidder's intent to comply with the labor standards in RCW 82.08.962 and 82.12.962.	WAC 480-107-025(2)	<i>See</i> Section 4, Exhibit A (Evaluation Criteria and Scoring) and Exhibit B (Proposal Requirements Forms)
The RFP must document that the size and operational attributes of the resource need requested are consistent with the range of estimated new resource needs identified in the utility's IRP.	WAC 480-107-025(3)	<i>See</i> Section 4 and Exhibit A (Evaluation Criteria and Scoring)

Requirement and Citation	Citation	Location in Draft 2021 All-Source RFP
The RFP must explain the specific ranking procedures and assumptions that the utility will use in accordance with WAC 480-107-035.	WAC 480-107-025(4)	<i>See</i> Section 4 and Exhibit A (Evaluation Criteria and Scoring)
The RFP must include a sample evaluation rubric that quantifies, where possible, the weight the utility will give each criterion during the bid ranking procedure, and provides a detailed explanation of the aspects of each criterion that would result in the bid receiving higher priority.	WAC 480-107-025(4)	<i>See</i> Section 4 and Exhibit A (Evaluation Criteria and Scoring)
The RFP must specify a detailed timeline for each stage of the RFP process including solicitation, ranking, and selection, as well as the utility's schedule of planned informational activities and contact information for the RFP.	WAC 480-107-025(5)	<i>See</i> Section 3
The RFP must generally identify any utility-owned assets, including merchant-side assets that the utility has available, for the purpose of receiving bids that assist the utility in meeting its resource need at the lowest reasonable cost. The utility must make reasonable efforts to provide bidders with necessary technical details they request and to allow bidders to design their bids for use in conjunction with utility-owned assets.	WAC 480-107-025(6)	<i>See</i> Section 2 and Exhibit H (PSE Transmission Available for Bidder Proposals in this RFP)
The RFP must identify any minimum bidder requirements, including for financial security requirements and the rationale for such requirements, such as proof of a bidder's industry experience and capabilities.	WAC 480-107-025(7)	<i>See</i> Section 4 and Exhibit A (Evaluation Criteria and Scoring)

Requirement and Citation	Citation	Location in Draft 2021 All-Source RFP
The RFP must include standard form contracts to be used in acquisition of resources.	WAC 480-107-025(8)	<i>See</i> Exhibit E (Prototype Ownership Agreement Term Sheet), Exhibit F (Prototype Capacity and/or Energy Agreement Term Sheet), and Exhibit G (Prototype Clean Energy Power Purchase Agreement Term Sheet)
All RFPs must discuss the impact of any applicable multistate regulation on RFP development including the requirements imposed by other states for the RFP process.	WAC 480-107-025(9)	<i>See</i> Section 2
The RFP must clearly state the scope of the solicitation and the types of bids that the utility will accept consistent with WAC 480-107-024.	WAC 480-107-025(10)	<i>See</i> Sections 2 and 4 and Exhibit A (Evaluation Criteria and Scoring)