

2020 All-Source RFP for Peak Capacity Resources:

Exhibit A. Evaluation Criteria

EXHIBIT A. EVALUATION CRITERIA

Evaluation Criteria

PSE's evaluation of new long-term electric generation resources is based on an assessment of five primary criteria:

- Compatibility with resource need
- Cost minimization
- Risk management
- Public benefits
- Strategic and financial

PSE delineates each criterion into more detailed criteria elements, as described in the following tables. PSE applies the sub-criteria to its evaluation of proposals as applicable based on the resource need(s) established in the All-Source RFP document and the resource characteristics necessary to meet that need(s). See also Section 4 (Proposal Requirements) of the All-Source RFP document, which specifies certain minimum criteria required to qualify for this All-Source RFP and PSE's preferences for characteristics and attributes of particular value in this All-Source RFP.

1. Compatibility with Resource Need

Criteria Element	Description
1. Timing	<p>PSE prefers proposals for resources that offer:</p> <ul style="list-style-type: none"> • energy and/or capacity in a time frame consistent with PSE's needs, as define in Section 1 of the All-Source RFP • substantial assurance of being commercially available according to the schedule proposed • flexibility in development schedule and/or contract start date to accommodate PSE's timing needs
2. Alignment with capacity need – ownership and contracts.	<p>PSE prefers proposals for resources that offer (i) generation from an underlying asset that closely matches or that is shaped to closely match PSE's annual capacity requirements or (ii) output that can be controlled.</p>

EXHIBIT A. EVALUATION CRITERIA

Criteria Element	Description
3. Alignment with capacity need – contracts.	<p>PSE prefers proposals for resources that provide a fixed annual price and closely match or are shaped to match PSE’s annual capacity requirements.</p> <p>PSE strongly prefers proposals for resources that (i) either directly interconnect to or provide firm transmission capacity to PSE's contiguous system (west of Cascades) and (ii) closely match or are shaped to match PSE's annual capacity requirements.</p>
4. Alignment with renewable resource needs	<p>PSE prefers proposals for qualified renewable generation and/or RECs that closely align with PSE's renewable need as mandated by the Energy Independence Act, Chapter 19.285 RCW.</p> <p>PSE prefers proposals for qualified renewable and non-emitting generation and/or RECs that closely align with PSE's renewable need as mandated by the Clean Energy Transformation Act, Chapter 19.405 RCW.</p>
5. Operational flexibility	<p>PSE prefers proposals for resources that offer control of project output, whereby PSE may respond to seasonal and real-time fluctuations in load/resource balance and system reliability events. This includes, for example, dispatch or displacement of the project in real time and, for jointly-owned projects, the ability for PSE to elect to use generation output that would otherwise be displaced by the other owner for reliability purposes.</p> <p>Additionally, PSE prefers proposals for resources that provide the ability to carry operating reserves.</p>
6. Performance within existing PSE generation portfolio	<p>Analyses will include such factors as:</p> <ul style="list-style-type: none"> • impact on system reliability • system dispatch and displacement • location with respect to the regional transmission system and PSE's electric system • impacts on system reserves, load following, integration costs and other factors

EXHIBIT A. EVALUATION CRITERIA

Criteria Element	Description
7. Resource mix/diversity	<p>PSE will consider the diversity of resource technology and fuel types in a manner consistent with PSE's <i>Integrated Resource Plan</i>.¹ Specific considerations shall include:</p> <ul style="list-style-type: none">• technology type• fuel supply type• fuel supply source• fuel supply reliability, including control and deliverability

¹ PSE's most recent *Integrated Resource Plan* can be found at www.pse.com/irp.

EXHIBIT A. EVALUATION CRITERIA

2. *Cost Minimization*

Criteria Element	Description
1. Resource cost	<p>PSE prefers proposals for resources that provide the lowest reasonable cost throughout the project life, taking into account the price of the proposal and other factors that impact PSE's overall cost.</p> <p>Such factors include, but are not limited to:</p> <ul style="list-style-type: none"> • capital cost • financing cost • operation and maintenance cost • expected or potential carbon control or mitigation costs • fuel and fuel transportation cost • fixed and variable power purchase agreement cost • transmission cost • ancillary services • integration costs • transmission system upgrades • cost to rebalance debt/equity ratio for imputed debt and consolidated debt • cost of credit facilities • transaction costs and other management costs, etc. • cost to meet environmental compliance, including capital improvements and/or capacity limitations and restrictions • CETA provision allowing utilities to earn a return on PPAs • renewable energy credits or other environmental attributes
2. Transmission	<p>PSE strongly prefers long-term firm delivery of energy to its service area. In the absence of the assurance of firm delivery at the time of the proposal, PSE prefers proposals for resources that provide a high likelihood of acquiring adequate transmission rights.</p> <p>Proposals that do not include long-term firm transmission to PSE's service area, that would produce congestion or increase PSE's transmission costs will be compared unfavorably with other proposals and/or will be assessed the additional cost to PSE as part of the evaluation process.</p>

EXHIBIT A. EVALUATION CRITERIA

Criteria Element	Description
3. Portfolio cost impact	PSE prefers proposals for resources and combinations of proposals for resources that result in the lowest impact on PSE's revenue requirements and rates when included in PSE's existing generation resource portfolio.

EXHIBIT A. EVALUATION CRITERIA

3. Risk Management

Criteria Element	Description
1. Status and schedule	<p>All else being equal, PSE prefers operating projects first, projects under construction second, and development projects third.</p> <p>With respect to development projects, PSE prefers proposals for resources from respondents with the experience and financial resources to complete the project that have made significant progress in securing necessary permits, property rights, equipment, regulatory approvals, water rights, wastewater and disposal rights, project agreements and all other rights or arrangements necessary for a completely commercially operational project within the time frame proposed for commercial operation.</p>
2. Price volatility	PSE prefers proposals for resources that provide significant long-term control of fixed and variable costs.
3. Resource flexibility and stability	<p>PSE prefers proposals for resources that provide flexibility for expansion to meet PSE's growing needs, as required.</p> <p>PSE prefers proposals for resources that include project agreements and all other rights and arrangements coterminous with power purchase delivery periods or project life.</p>
4. Resource Technology	<p>PSE prefers proposals for resources based on commercially-proven technology with demonstrated long-term reliability and performance history.</p> <p>PSE prefers proposals for resources based on technologies with controllable or dispatchable output.</p>
5. Long-term flexibility	PSE prefers proposals for resources that offer the flexibility to adjust its position in a resource long term, up to and including termination.
6. Project risk	<p>PSE prefers proposals for resources that minimize risk for timely plant completion within cost projections.</p> <p>PSE prefers proposals for resources that minimize exposure to environmental risk or other potential liability, including expected or potential carbon control or mitigation costs.</p>

EXHIBIT A. EVALUATION CRITERIA

Criteria Element	Description
7. Impact on PSE's overall risk position	<p>PSE will evaluate proposals and combinations of proposals to determine the impact of the proposal(s) on PSE's overall risk position with respect to its generation portfolio.</p> <p>Risk scenarios will include factors such as hydroelectric production variation, wind generation variability, fuel price volatility, carbon control costs, and power market price volatility.</p> <p>Additional risk scenarios will examine the correlation between fuel prices and power market prices, and alternative market price scenarios. Other considerations will include exposure to transmission congestion and costs.</p> <p>All else being equal, PSE prefers proposals for resources that result in lower generation portfolio performance risk.</p>
8. Environmental and permitting risk	<p>PSE's evaluation process will include an assessment of the following criteria:</p> <ul style="list-style-type: none"> • status in acquiring needed permits • risk associated with future environmental regulation and taxes, including greenhouse gas emissions • compliance with state RPS • compliance with the state's CETA • compliance with regional generator performance standards and import standards
9. Respondent risk	<p>PSE will consider information requested in Section 4 of the All-Resources RFP document and Exhibit B in determining the risk associated with the financial condition and performance of a respondent and any third parties relied upon by the respondent. PSE prefers proposals for resources from lower-risk respondents.</p>
10. Ability to deliver as proposed	<p>PSE will use the information provided in response to Exhibit B to evaluate the experience and qualifications of the project team, an important consideration when judging a respondent's ability to deliver a commercially operable project in the time frame proposed. PSE prefers respondents with proven track records.</p>

EXHIBIT A. EVALUATION CRITERIA

Criteria Element	Description
	PSE will use information submitted in response to Exhibit B, which addresses project development status and schedule, to evaluate the respondent's ability to meet the proposed commercial operation date.
11. Status of transmission rights	<p>PSE requires that proposals have the ability to transmit power from the project site to one or more points on PSE's electric system (particularly to points on the system where the deliveries may be used to serve load with limited or no transmission congestion).</p> <p>PSE will use information provided in Exhibit B and, if necessary, the PowerWorld software tools, to assess whether and to what extent the required transmission will be available, and whether and to what extent the necessary transmission paths are constrained.</p>
12. Security and control	<p>PSE prefers proposals for resources with a firm, fixed price fuel supply.</p> <p>PSE prefers proposals for resources that offer alternative methods of managing price volatility.</p> <p>PSE prefers proposals for resources that supply firm energy and capacity.</p>
13. Federal regulatory approvals	PSE will consider the effect of any federal regulatory approvals that would result from accepting the proposal, including, but not limited to, requirements under Sections 203 and 205 of the Federal Power Act. PSE prefers proposals for resources that eliminate or minimize the effect of any such federal regulatory approvals.

EXHIBIT A. EVALUATION CRITERIA

4. *Public Benefits*

Criteria Element	Description
1. Environmental impacts	<p>PSE prefers proposals for resources that minimize environmental impacts. Environmental impacts refer to the full range of issues evaluated in an environmental impact statement or environmental assessment.</p> <p>PSE will consider information supplied in response to Exhibit B in its evaluation of the environmental impacts of a proposed acquisition.</p>
2. Resource location	<p>PSE prefers proposals for resources located such that they provide benefits to the regional and PSE transmission systems, or require minimal or no transmission upgrades.</p> <p>PSE prefers proposals for resources that are not dependent upon constrained transmission or fuel transportation paths.</p> <p>PSE prefers proposals for resources located within PSE’s service territory.</p>
3. Community impacts	<p>PSE prefers proposals for resources that demonstrate support from public, local, state, and federal government entities and Native American Tribes, if applicable, as well as other stakeholders.</p>
4. Labor	<p>For construction projects, PSE prefers projects that utilize a Project Labor Agreement or Community Workforce Agreement for major construction activities associated with the construction of the project. PSE prefers that such labor agreements are eligible to be certified by the Washington Department of Labor and Industries under the standards of the Washington State Clean Energy Transformation Act (RCW 19.405).</p> <p>PSE prefers projects that utilize apprenticeship labor during the construction phase of the project. For renewable projects that qualify for a one and two-tenths (1.2) multiplier of the environmental attributes generated from project resulting from the use of apprenticeship labor, PSE prefers proposals that state that these additional environmental attribute will accrue throughout the term of the PPA at the offer price specified in the proposal.</p>

EXHIBIT A. EVALUATION CRITERIA

5. *Strategic and Financial*

Criteria Element	Description
1. Capital structure impacts	<p>PSE's quantitative analysis will impute the anticipated equity cost needed to offset any adverse effects on its capital structure associated with accounting requirements (e.g., FASB ASC 810) that may require PSE to consolidate the respondent's balance sheet.</p> <p>All else being equal, PSE prefers proposals for resources that avoid risks associated with a requirement to consolidate a respondent's financials with PSE's financials (e.g., pursuant to FASB ASC 810).</p> <p>All else being equal, PSE prefers proposals for resources that would not increase PSE's exposure to adverse impacts on its financial position (e.g., by requiring PSE to impute debt, to account for the transaction as a capital lease (e.g., under FASB ASC 840), to account for or report the transaction as a financial derivative transaction (e.g., pursuant to FASB ASC 815), by otherwise adversely affecting PSE's financial leverage, operating leverage, credit rating, cash flow, income statement or balance sheet, or by imposing credit requirements or increasing liquidity risk).</p>
2. Future exposure to environmental regulations and/or taxes	<p>PSE prefers proposals for resources with lower potential exposure to future environmental regulations and/or taxes.</p>
3. Guarantees and security	<p>PSE will consider information provided in response to Exhibit B to determine whether it will require any additional guarantees or credit support pursuant to Section 5 of the All-Source RFP document.</p> <p>PSE's credit risk department may require the respondent to provide performance assurance. PSE will expect respondents with sub-investment-grade credit ratings (or being of similar creditworthiness) to provide performance assurance acceptable to PSE.</p> <p>PSE will not accept collateral thresholds, credit ratings triggers, general adequate assurances language, or similar language that might require PSE to provide performance assurance.</p>