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September 23, 2005

Carole J. Washburn, Secretary  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504

RE: Puget Sound Energy ("PSE"), WAC 480-107 WAC Compliance Filings  
Docket No. UE-051162  
Comments of PPM Energy, Inc. on PSE's draft Request for Proposals ("RFP")

Dear Secretary Washburn:

PPM Energy, Inc. ("PPM Energy") is a power marketer that participates in a number of wholesale power markets throughout the United States. PPM Energy has obtained authorization from the Federal Energy Regulatory Commission to make wholesale sales of electricity at market-based rates. PPM Energy is an active participant in the Pacific Northwest markets and has an interest in bidding into PSE's RFP.

PPM Energy notes that the RFP is open to all generation sources, whether existing or yet to be constructed. PSE, in its filing, has identified a significant energy and capacity need for the next 10 years. PSE should be encouraged to consider and the RFP should explicitly recognize the lower risk and greater value associated with existing versus potential generation. Additionally, when considering potential generation, PGE should consider whether the facility is fully permitted and the record of bringing projects to completion of the bidder when evaluating proposals.

PPM Energy also requests PSE to clarify certain provisions of Section 2.1 of the Draft RFP ("Power Purchase Agreements"). PSE needs to clarify what is meant by "system assets" as that term is used in the first sentence of the first paragraph of Section 2.1. Furthermore, the first sentence of second paragraph of Section 2.1 requires respondents to "own and operate the generation asset." PPM Energy requests that PSE also consider generation assets that are under the respondent's control (as opposed to ownership) through a long term power purchase agreement with a third party.

Under Section 6.1 ("Investment-Grade Respondents"), PPM Energy requests that under "Adequate Assurance Clause" the "two (2) business days" time frame be replaced with the industry standard of "three (3) business days."

PPM Energy also notes that under Section 6.1 ("Investment-Grade Respondents"), the last sentence currently reads "Other credit terms, including but not limited to collateral thresholds, rating triggers and/or similar financial covenants will not apply to PSE but may apply to the Investment-Grade Counter Respondent." PPM Energy believes that this unilateral position is unfair and unreasonable as well as contrary to industry practice. From the viewpoint of PSE's ratepayers, this provision could

substantially reduce the participation by Investment-Grade counterparties like PPM Energy (whose parent is PacifiCorp Holdings, Inc.), and defeat the RFP's stated goal of "broad participation."

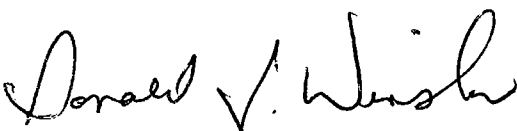
The definition of "Investment Grade" in the Prototype Power Purchase Agreement ("PPA"), found in Exhibit IX, needs to be broadened to include corporate credit ratings from S&P or Moody's and not just a rating on Long-Term Debt Rating. Once the "Investment Grade" definition incorporates corporate credit ratings as well as long-term debt ratings, this standard can be applied as the threshold for issuances of guaranties required by the PPA. This would alleviate the need for a balance sheet Earnings-to-Interest Ratio test that Seller Guarantor's is required to meet under Article 7.4.1 and the financial statements under Article 7.5 of the PPA.

Article 6.3.3 of the PPA requires the Seller to provide a Letter of Credit to PSE upon execution of the PPA for drawing upon by PSE if Seller default in its obligation to pay Delay Payments. This requirement places an additional cost which is not necessary. PSE retains its rights to file suit for breach of contract if Seller defaults on any its contractual obligations. If the Commission believe that some form of security is required for default of Delay Payments, PPM Energy recommends that a guaranty from an credit worthy entity should be satisfactory to PSE.

Finally, Article 6.2 of the Proposal Requirements document (Exhibit IV) discusses the methodology for the imputed cost of debt for PPAs. PSE is using the Standard & Poor's framework in this context. PPM Energy believes that the decision for imputing debt should be determined by the Commission and not left to the sole discretion of PSE. The Commission needs to decide on whether debt should be imputed to PPAs and if so, the specific calculation to be used so as to equitable to both PSE and respondents of the RFP. Note that in June 1994 the Energy Information Administration issued a study titled "Financial Impacts of Nonutility Power Purchases on Investor-Owned Electric Utilities." That study suggested that PPAs did not raise a utility's cost of capital and that to the contrary, the construction of plants by utilities raised the utilities cost of capital more than power purchases did. This issue will be critical in establishing whether respondents to the RFP will be competitive versus the self-build option that PSE may be considering. PPM Energy requests that the Commission specifically offer guidance on how imputed debt should be assigned to PPAs rather than deferring this decision to PSE and credit rating agencies.

PPM Energy respectfully requests the Commission to adopt PPM Energy's recommended changes to PSE's RFP and PPA.

Respectfully submitted,



Donald Winslow

Vice President, Policy & Regulatory Affairs