



The PSE Building
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
PHONE: 425-635-1400
FAX: 425-635-2400
www.perkinscoie.com

Jason T. Kuzma
PHONE: (425) 635-1416
FAX: (425) 635-2416
EMAIL: JKuzma@perkinscoie.com

October 12, 2011

VIA OVERNIGHT MAIL

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Puget Sound Energy, Inc.
Draft Request for Proposals for Program Design and Implementation Services for
Demand-Side Capacity Reductions from Targeted Commercial-Industrial
Customers Pursuant to WAC 480-107-015**

Dear Mr. Danner:

Enclosed for filing are the original and twelve (12) copies of a Request for Proposals for Program Design and Implementation Services for Demand-Side Capacity Reductions from Targeted Commercial-Industrial Customers (the "Demand Response RFP") submitted by Puget Sound Energy, Inc. ("PSE") pursuant to WAC 480-107-015, along with an electronic copy of this filing on the enclosed CD-ROM.

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

The Commission established WAC Chapter 480-107 to comply with provisions of 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 Elec. Utils. in the Face of Change in the Elec. Indus., Docket No. UE-940932, 184 P.U.R. 4th 409 (Wash. U.T.C. April 22, 1998). In addition, the rules are meant to ensure that utilities compare opportunities in competitive wholesale markets with the cost of utility owned projects. *Id.*

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 no later than one hundred thirty-five days after the utility’s “no later than one hundred thirty-five days after the utility’s integrated resource plan is due to be filed with the [C]ommission.” WAC 480-107-015(3)(b). 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. *See* WAC 480-107-015(3).

B. PSE’s Integrated Resource Plan, All-Source RFP, and Demand Response RFP

On May 27, 2011, PSE filed its most recent Integrated Resource Plan (the “2011 IRP”) with the Commission, pursuant to WAC 480-100-238. Among other things, the 2011 IRP finds that PSE has needs for new electric and gas resources over the next twenty years, some of which can be met through acquisition of cost-effective demand-side resources. Like PSE’s 2005 Least Cost Plan, the 2007 IRP, and the 2009 IRP, the 2011 IRP concludes that PSE has needs for a diverse range of resource types. 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.

On August 1, 2011, PSE filed a draft Request for Proposals from All Generation Sources (“All-Source RFP”) in Docket No. UE-111405. In the All-Source RFP, PSE requested solicited ownership opportunities (e.g., a transfer of development assets, a build-and-transfer, or sale of an existing asset), power purchase agreements of varying contract lengths, temporal exchange agreements (e.g., seasonal), as well as transmission-only products from Bonneville Power Administration’s system (BPA’s system) to PSE’s system to meet PSE’s winter peak requirements.

Consistent with WAC 480-107-015 and the 2011 IRP, PSE is filing herewith the draft Demand Response RFP. Although PSE believes that the Demand Response RFP is substantially complete and ready for public comment and Commission action, PSE reserves the right to correct or supplement the draft Demand Response RFP if it discovers any errors or omissions. This draft Demand Response RFP is substantially similar to previous RFPs that this Commission has approved for PSE.

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Please note that pursuant to WAC 480-107-055, PSE provides as Exhibit G to its draft Demand Response RFP a schedule of estimated avoided cost to provide general information to potential bidders about the cost of new power supplies. PSE reserves the right to provide bidders with an updated avoided cost when the final RFP is issued. WAC 480-107-055(3) allows utilities to revise their schedule of avoided cost at any time, if filed with the Commission along with documentation.

PSE will not accept responses from any PSE affiliates or subsidiaries.

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

C. Efforts to Promote Public Awareness of Filing

To broaden awareness of the draft Demand Response RFP among persons who may be interested, PSE will provide notice of its filing to demand response service providers and other entities involved in development or provision of demand response capacity resources. Email notification included the website location of the draft RFP at <http://pse.com/aboutpse/EnergySupply/Pages/Acquiring-Energy.aspx>. PSE will also be providing notice of the filing to a variety of trade publications.

PSE invites comments on its draft Demand Response 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 the undersigned. Questions regarding the draft Demand Response RFP should be addressed to Shannon McCormick, Energy Efficiency Services, at 425-456-2399.

Thank you for your assistance.

Very truly yours,



Jason T. Kuzma

JTK:JK:jk
Attachments

EXHIBIT A

WAC CHAPTER 480-107 REQUIREMENTS CHECKLIST

Requirement and Citation	Location in Demand Response Service Provider 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 480-107-025(1).	Part I, Section 2
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 IRP. WAC 480-107-025(2).	Part I, Sections 1 and 2
Explain the general evaluation and ranking procedures to be used in accordance with WAC 480-107-035 and specify any minimum criteria that bidders must satisfy to be eligible for consideration in the ranking procedure. WAC 480-107-025(3).	Part I, Section 4 and Exhibit A; Parts IV and V and Exhibit B
Specify the timing of the process including the solicitation period, the ranking period and the expected selection period. WAC 480-107-025(4).	Part I, Section 3
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 480-107-025(5).	No security requirement
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 480-107-035(1)-(6).	Part I, Section 4 and Exhibit A
Determine the avoided costs for the energy and capacity associated with the resource block calculated per WAC 480-107-025 on an annual basis. The avoided cost schedule and its supporting documentation shall be filed with the RFP. WAC 480-107-055 and 480-107-025(1).	Exhibit G

Requirement and Citation	Location in Demand Response Service Provider RFP
<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 480-107-135.</p>	<p>Part V, Section 3</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 480-107-015(2) and 480-107-065(1).</p>	<p>Part V, Section 3</p>