

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Puget Sound Energy, WAC 480-107) Docket No. UE-051162
WAC Compliance Filings)
)
) COMMENTS OF CALPINE
) CORPORATION ON
) PUGET SOUND ENERGY'S REQUEST
) FOR PROPOSALS
)

1. Pursuant to the Washington Utilities and Transportation Commission's ("WUTC") August 10, 2005 Notice, Calpine Corporation ("Calpine") submits these comments on the draft Request for Proposals ("RFP") filed by Puget Sound Energy ("PSE") on July 29, 2005.

A. Section I, SS 4 -- PSE's Evaluation Process

2. PSE indicates in this section that it ". . . may require the final short-listed respondents to fund the fees and costs of a third party selected by PSE to perform 'fatal flaw' analyses and initial due diligence of the selected projects."

3. Calpine considers the potential costs of such an analysis as an unwarranted burden upon the short-listed respondents. PSE has not indicated the scope of the analysis to be conducted by a third party nor has it indicated what such an analysis might cost. In any case, evaluation of all proposals is part of PSE's corporate due diligence process and in the interest of its customers and in its own self-interest. Consequently the cost of the proposed analysis should be borne entirely by PSE.

4. However, Calpine is of the opinion that a third party Independent Evaluator ("IE") to oversee the entire RFP process and reporting directly to the WUTC would be highly beneficial. Cost sharing of the expenses of the IE by all parties to the process is something that

Calpine would support provided the scope of work of the IE is well defined, and provided further that the scope and costs of the IE are approved by the WUTC.

B. Section I, SS 6.1 -- PPA Acquisitions and Power Exchanges

5. In this section PSE states: “Other credit terms . . . will not apply to PSE but will apply to the party-Respondent”. This approach is one sided, and does not place PSE on a fair and equitable basis with the respondents.

6. Rather than have the credit terms be imposed solely on the respondents, Calpine recommends that PSE and the respondents share the credit burden on a fair and equitable basis that reduces the credit burden to both. The unfair and inequitable allocation of credit risk prejudices the procurement process and unnecessarily increases costs for customers.

C. Exhibit IV, Section 6.2 -- Power Purchase Agreements

7. This section states that an imputed debt component will be calculated for all Power Purchase Agreements (“PPA”). PSE has indicated in the documents issued that the imputed debt issue could increase the levelized cost of a PPA by approximately 3.3% to 12.5% depending on the duration of the PPA based on its assumptions.

8. The matter of imputed debt is one that has been of broad concern nationally. Calpine would like to share with the WUTC a recent experience it had in Georgia, where the two local utilities, Georgia Power Company and Savannah Electric and Power Company (the “Companies”), sought waiver from Georgia’s Integrated Resource Plan Rule 515-3-4-.04(3)¹, (the “Rule”). By seeking this waiver, the Companies were asking permission to add an imputed

¹ Commission Rule 515-3-4-.04(3)(h)(1) prohibits a soliciting entity from adding any adjustments to a bid based upon the expected impacts to the utility’s cost of capital. Specifically, Commission Rule 515-3-4-.04(3)(h)(1) provides:

(h) In conducting evaluation of the bids received in the RFP process, the utility shall not:
1. add any adjustments on the basis of expected impacts to the utility’s cost of capital;

debt/debt equivalency penalty on long-term PPA bids for an RFP process they currently have underway.

9. A full hearing on the matter was heard before the Georgia Public Service Commission (the “Commission”) on August 2, 2005. NewSouth Energy LLC, a subsidiary of Calpine participated in these proceedings, both by written testimony filed by two expert witnesses² prior to the hearing, and by direct examination at the hearings.³

10. Key points made in the testimony of Calpine’s expert witnesses included the following:

- “There is no agreement between the three major U.S. credit rating agencies as to how to treat any debt equivalence aspects of PPAs in the debt rating process. All three credit rating agencies have different perspectives on the risk aspects of PPAs; they do not consistently include debt equivalence obligations for PPAs in their evaluation of credit ratings of electric utility companies; and only one uses a formulaic approach to impute debt obligations for PPAs.”
- “Although the purpose of including debt equivalence of PPAs in the bond rating process may make sense because bond ratings focus on liquidity risk issues of concern to bondholders, the debt equivalence of PPAs alone does not accurately or fairly measure the full benefits and risk of PPAs to the Companies or to their ratepayers.”
- “Including an equity adjustment could bias the RFP evaluation process, potentially resulting in fewer PPA bids from independent parties and reducing competition in the power procurement process in Georgia. This reduction of competition could ultimately lead to higher power costs and higher electric rates for Georgia ratepayers.”
- “The proposed equity adjustment would advantage shorter term PPA bids and disadvantage longer term PPA bids.”
- “Standard & Poor’s (‘S&P’) is the only one of the three major credit rating agencies to use a specific, quantifiable ‘Debt Equivalent’ (DE) approach to assist in determining the risk of utility bonds under review but makes no statement as to whether this method can or should be extended for RFP purposes as the

² Pursuant to the Commission’s May 17, 2005 Procedural and Scheduling Order, testimony was filed by Richard W. Cuthbert and Jamshed K. Madan on behalf of NewSouth

³ All documents associated with the Georgia Power proceeding can be found on the Georgia PSC’s website, <http://www.psc.state.ga.us/>, under Docket #19225.

Companies have done. The two other major credit rating agencies, Mood's Investors Service ('Moody's') and Fitch Ratings ('Fitch'), do not use such a formulaic approach for the risk evaluation of bonds, and make no indication that a DE approach would be appropriate for RFP evaluation purposes. Indeed, they leave open the possibility that PPAs can actually reduce a utility's risk"

- "There is no evidence to suggest that S&P intended its DE methodology to be used for purposes of evaluation PPA bids. It is simply a tool used by S&P for risk evaluation of bonds. The Companies' proposed methodology in the RFP evaluation contest is therefore inconsistent with the contest in which S&P uses the DE methodology."
- "If the Commission were to determine that some form of debt equivalence associated with PPAs should be considered, then the Commission should first determine all of the factors that impact the cost of capital and overall revenue requirements and how these issues should be addressed as part of a general rate case."
- "Although the Companies' current RFP does not initially include a comparison of PPAs with self-build options, the Companies' draft RFP allows for this possibility. In order to maintain a fair and impartial RFP bid process, the Commission must define a parallel equity adjustment and revenue requirement process associated with the risks of self-build alternatives if an equity adjustment for PPAs is adopted."

11. Subsequent to the August 2, 2005 hearings, the Staff of the Georgia Public Service Commission (the "Staff") recommended that the Commission deny the Companies request to use imputed debt equivalency in the evaluation of long-term PPAs. Very shortly thereafter, the Companies withdrew their request.

12. Calpine believes one of the most important considerations articulated by the Staff in their recommendation to deny the Companies' request was that:

"That longer-term PPAs offer real benefits to Georgia consumers is undisputed. Longer-term PPAs offer Georgia consumers the benefit of price stability and reduced exposure to short-term price fluctuation. (Tr. at 74). These and other real benefits of longer-term PPAs would be denied to consumers if the Joint Petitioners' request for waiver is granted." ⁴

⁴ IBID, (C), page 7-8

13. In consideration of the above, Calpine recommends :
- That the WUTC direct PSE to exclude any and all equity adjustments for possible debt equivalence of PPAs in PSE's 2005 All Source RFP evaluation process.
 - If the WUTC believes that there may be a significant and relevant cost of capital impact from entering into new PPAs, then the WUTC should first undertake a proceeding to determine not only what those negative impacts could be, but also to determine what potential positive benefits PPAs can bring to Washington's electricity consumers. Furthermore, the WUTC should also examine the potential ratepayer risks associated with utility ownership options.

D. Exhibit IV, Section 8.1, FIN 46R

14. Calpine is of the opinion much of the information requested by PSE is confidential and by corporate policy Calpine would not and could not comply with all or most of the request for information. A bulk of the information requested is considered non-public.

15. Calpine's recommendation is that either the request be deleted from the RFP or be made a preferred item, but not required. The rules do require counterparties to make an attempt to get the information necessary for their evaluation of FIN 46; however, there are allowances for the fact that many companies would not provide the information requested.

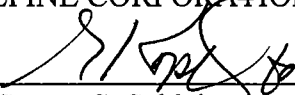
E. Conclusion

16. Calpine appreciates the opportunity to provide these comments on PSE's RFP and looks forward to working with the WUTC and other stakeholders in this matter.

Respectfully submitted this 28th day of September, 2005.

CALPINE CORPORATION

By: _____


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CERTIFICATE OF SERVICE
Docket No. UE-051162

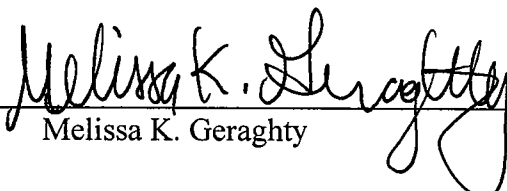
I hereby certify that on the date given below, in the above referenced docket, the original and 10 true and correct copies of Comments of Calpine Corporation on Puget Sound Energy's Request for Proposals were sent by Federal Express and filed via email to:

Ms. Carole J. Washburn, Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250
Email: <http://www.wutc.wa.gov/efilingpilot>

On the same date, a true and correct copy was sent by regular U.S. Mail, postage prepaid, and by email to:

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DATED this 28th day of September, 2005.

By: 
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