

**EXHIBIT NO. \_\_\_(RG-7HC)  
DOCKET NO. UE-06\_\_\_/UG-06\_\_\_  
2006 PSE GENERAL RATE CASE  
WITNESS: ROGER GARRATT**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-06\_\_\_  
Docket No. UG-06\_\_\_**

**SIXTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
ROGER GARRATT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED  
VERSION**

**FEBRUARY 15, 2006**

# **Wind RFP Stage 2 Evaluation Process & Review**

Puget Sound Energy  
Resource Planning  
& Acquisition

March 26, 2004 DRAFT Rev02

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### “Short-List” Proposal Review Process

#### I. Stage 1 Review

##### A. The Wind RFP

PSE issued a request for proposal (RFP) for wind power on November 19, 2003. The RFP called for approximately 150 megawatts of wind-power capacity and sought proposals for long-term purchase-power agreements or PSE ownership of wind-power projects. PSE expects the RFP will result in one or more projects that will come online by the end of 2005. Proposals in response to the RFP were due on January 16, 2004.

See Attachment 1: 11-13-2003 Request for Proposals for Wind Power Resources for the Wind RFP document and its exhibits.

See Attachment 2: 12-03-2003 Wind RFP Pre-Bid Meeting Presentation for the presentation given at the pre-bid conference.

In response to the RFP, the following proposals were received:

**Table 1A.1**

Code	Developer	Project
W01		
W02		
W03		
W04		
W05		
W06		
W07		
W08		
W09	RES	Hopkins Ridge Wind Project
W10	Oi	
W11		

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See Attachment 3: 01-23-2004 Summary of Wind RFP Responses for the detail list of RFP responses.

**B. The Evaluation Criteria**

The general evaluation criteria stated in the RFP which was used to review and select the best proposals are shown below:

**Compatibility with Need**

- Meet short and long term energy and capacity requirements
- Balance capacity and energy needs without risk of excess capacity
- Provide shaped resource to balance seasonality of load

**Cost Minimization**

- Provide lowest cost alternative to meet energy and capacity needs
- Balance potential future exposure to power sales risk

**Risk Management**

- Balance potential future exposure to power purchase risk
- Balance potential future exposure to power sales risk
- Reasonable exposure to counterparty risk

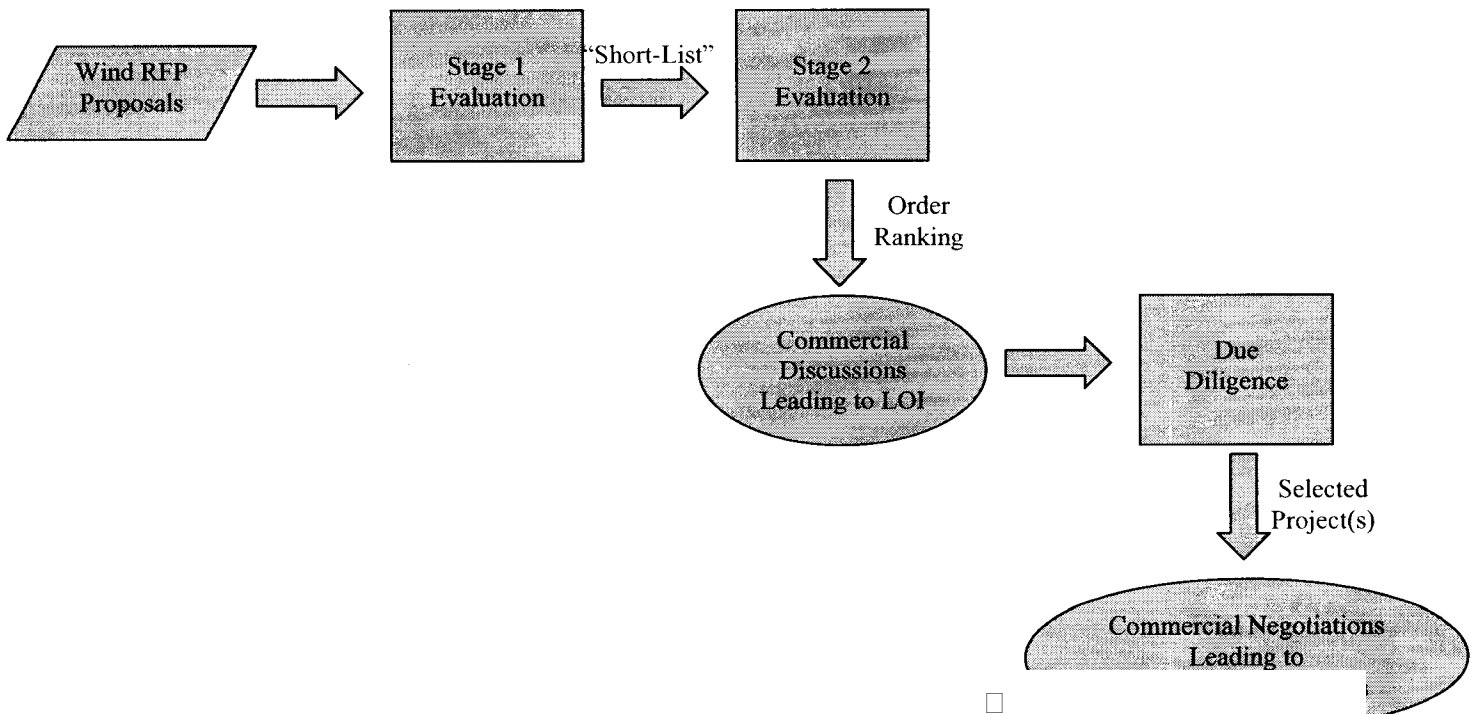
**Public Benefits**

- Lower portfolio emission levels
- Contribute to regional energy adequacy
- Support renewable energy development objectives
- Promote energy efficiency (conservation and demand response)

**Strategic & Financial**

- Reasonable exposure to future environmental regulations
- Reasonable exposure to future state wholesale market restructuring trends
- Contribute to regional energy needs
- Limits balance sheet impact of imputed debt from PPAs

The criteria were used to screen the proposals through a two-stage process. The process is shown in the below:



*Figure 1B.1*

### **C. The Stage 1 Evaluation Process**

The first stage began after the proposals were received on January 16, 2004. In the first stage, proposals were screened to identify the most desirable wind resources on a stand-alone basis as measured against specific criteria taken from the generalized list above. In addition to PSE's internal evaluation review, Garrad Hassan, an outside wind energy consultant, assisted in the assessment of the proposals during the first stage evaluation.

See Attachment 4: Wind RFP Stage 1 Evaluation Criteria for the detail explanations of the evaluation criteria and the listings of the evaluation teams.

The quantitative analysis in the first stage review was based the respondents' data provided in the proposals. PSE utilized its proprietary Acquisition Screening Model (ASM) to evaluate and compare the proposals on an equivalent basis. The ASM is a spreadsheet model which accounts for all costs that a project would incur over a twenty year period. The primary comparative metric was the levelized cost of generation per megawatt hour based on PSE's currently authorized financing and tax laws. The ASM evaluated projects individually and included a risk assessment for annual wind variability. A secondary metric included end effects and adjusted load to match the size of the resource. Important aspects of the model include:

- Pro Forma w/ Dispatch
- 20-yr Levelized Cost
- Revenue Requirements
- Mark-to-Model
- PPA Imputed Debt
- Transmission Costs, including ancillary services
- Integration Costs
- End-effects

Some of the key qualitative factors in the evaluation criteria include:

- Reasonableness of Wind Data
- Transmission Availability
- Maturity of Development
- Permitting and Construction timeline
- Developer Experience
- Location and Community Benefits
- Environmental Assessments

Combining the review and ratings of each internal PSE evaluation team and the Garrad Hassan's review, a summary matrix was created in order to examine the proposals and to identify those that received the most favorable ratings.

See Attachment 5: 02-13-2004 Wind RFP Stage 1 Evaluation Summary Matrix for the summary ratings of each evaluation criteria.

See Attachment 6: 03-10-2004 Wind RFP Stage 1 Garrad Hassan Report for Garrad Hassan's stage 1 evaluation and analysis of the Wind proposals.

The "Short-List" resulted from simultaneously applying all of the evaluation criteria. The process worked as follows: The team performing the quantitative evaluation ranked all the proposal alternatives based on a 20-year levelized cost. Other evaluation teams assessed each proposal on the basis of the qualitative

evaluation criteria. The qualitative assessment resulted in the dropping of two projects. Garrad Hassan assessed the financial viability of each project on the strength of its wind resource. The Garrad Hassan assessment resulted in the dropping of seven projects due to poor or insufficient wind data. As a result four projects remained.

On February 13, 2004, these remaining four projects were named as the “Short-List” and would be further evaluated in the second stage evaluation. Four developers and four projects with proposals alternatives of PPAs, Asset Ownerships and Hybrid PPA/Ownerships would be considered for the second stage evaluation:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- RES - Hopkins Ridge

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See Attachment 7: Wind RFP Stage 1 Evaluation Process Flow Chart for a flow chart illustrating the Stage 1 evaluation process.

Shortly after the decision of the Stage 1 evaluation and the selection of the “Short-List”, a short narrative was written on the evaluation process and the decision. The purpose of the narrative was to provide an outline of the decision making process for documentation purposes.

See Attachment 8: 02-13-2004 Wind RFP Stage 1 Proposal Review Process for the narrative on the Stage 1 evaluation review process and “Short-List” decision.

On March 10, 2004, PSE met with WUTC Staff to review the Stage 1 evaluation process and the “Short-List” selection.

See Attachment 9: 03-10-2004 Wind RFP Stage 1 WUTC Staff Meeting Agenda for the agenda outline.

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**II. STAGE 2 PROCESS & REVIEW**

**A. “Short-List” Proposals**

The “Short-List” selection identified in the first stage evaluation of four developers and four projects is a combination with proposals alternatives of PPAs, Asset Ownerships and Hybrid PPA/Ownerships. See the table below for the “Short-List” selection and the proposal options offered:

**Table 2A.1**

No.	Developer	Project	Location	Size (MW)	COD (Proposed)	Proposal Options		
						PPA	Ownership	
W04	[REDACTED]							
W05	[REDACTED]							
W06	[REDACTED]							
W08	[REDACTED]							
W09	RES	Hopkins Ridge	Columbia Co, WA	150	Dec 2004	X	100%	
<b>Totals</b>						<b>2</b>	<b>3</b>	<b>2</b>

**B. Stage 2 Evaluation Criteria**

The most beneficial proposals identified in the first stage were further evaluated in the second stage using the Portfolio Screening Model (PSM). The PSM is used to evaluate each proposal within the PSE portfolio

because resources will vary in their impact on the total cost of PSE's portfolio to meet its load, although the resources may have similar stand-alone costs under the ASM. As with the ASM the PSM's financial evaluation is based on revenue requirements, including market sales and purchases, as that is ultimately the cost to customers. The PSM also allows for multiple resource choices to be evaluated together, along with the risk analysis for the key uncertainty factors: power prices; gas prices; hydro availability; and wind availability. In the PSM the new resources being evaluated may not meet the company's growing need over the study period. Additional generic resources are assumed into the portfolio based on the strategy in the Least Cost Plan Update (August, 2003, Chapter IX) to meet the remaining need.

In Stage 2, PSE evaluated proposals within PSE's portfolio of existing and anticipated future resources. The Stage 2 quantitative evaluation used the Portfolio Screening Model (PSM) in addition to the Acquisition Screening Model (ASM) to determine and compare cost variability and risk. Other qualitative factors for the Stage 2 review included:

- Separate analysis for Transmission and Integration alternatives
- Appropriate comparison of PPA's and ownership alternatives
- Ability to Deliver
- Experience of Developers
- Guarantees and Security
- Public Benefit
- Comparison with All-Source responses

The proposals were subject to the second stage evaluation process. In stage two, the proposals were examined and evaluated by PSE according to the following criteria:

- [A] Portfolio Analysis
- [A1] Portfolio Analysis – Transmission
- [B] Risk Management – Quantitative
- [B1] Risk Management – Qualitative
- [C] Ability of Project to Deliver as Proposed
- [D] Experience of the Project Team
- [E] Guarantees, Security and Credit Worthiness
- [F] Environmental and Public Purpose

See Attachment 10: Wind RFP Stage 2 Evaluation Criteria for the detail explanations of the evaluation criteria and the listings of the evaluation teams.

Evaluation teams from different areas of specialty and expertise reviewed the proposals using one or more of the criteria listed above. The evaluation teams areas are listed below:

- Quantitative
- Business / Commercial
- Transmission
- Environmental
- Real Estate / Land Planning
- Legal
- Community Relations
- Risk
- Marketing

### **C. Stage 2 Information Requests**

After completing the Stage 1 evaluation and selecting the "Short-List", additional information was needed to further evaluate the proposals through Stage 2. On February 20, additional information requests were made to the "Short-Listed" proposers. On March 1, the responses to the additional information request were received. Please refer to the project files for the responses to the additional information request from each project.



Using the responses to the additional information requests and the original proposal information, the evaluation teams further evaluated the “Short-List” using the Stage 2 evaluation criteria.

**D. Stage 2 Evaluation Ratings**

After completing their second stage assessments, the evaluation teams rated the proposals with a rating system of LOW-MEDIUM-HIGH. HIGH being considered more favorable and LOW being considered less favorable. Unlike the first stage rating process which the ratings were compared to all projects, the ratings for the second stage are relative to only the “Short-Listed” projects in order to better differentiate the projects.

In addition to PSE’s internal evaluation teams, Garrad Hassan, an outside wind energy consultant, assisted in the assessment of the proposals and in the rating and ranking of the “Short-List”. Garrad Hassan’s major contribution to the second stage evaluation was reviewing the documentation of the wind data and energy assessment and their technical evaluation of the wind turbine technology proposed in each proposal.

Evaluation meetings were held each week where a progress report was drafted to update the evaluation teams’ review of the projects and to discuss any items concerning the proposals.

See the below table for a listing of the weekly evaluation reviews from Stage 1 to Stage 2:

**Table 2D.1**

Attachment 15l	<u>03-05-2004 RFP Evaluation Review</u>
Attachment 15n	<u>03-12-2004 RFP Evaluation Review</u>
Attachment 15o	<u>03-19-2004 RFP Evaluation Review</u>
Attachment 15p	<u>03-26-2004 RFP Evaluation Review</u>
Attachment 15q	<u>04-02-2004 RFP Evaluation Review</u>

The table below is a complete listing of all the Wind RFP weekly evaluation review reports and meeting notes through April 22, 2004:

**Table 2D.2**

Attachment 15a	<u>01-13-2004 RFP Evaluation Kickoff</u>
Attachment 15b	<u>01-23-2004 RFP Evaluation Review</u>
Attachment 15c	<u>01-27-2004 RFP Evaluation Review</u>
Attachment 15d	<u>01-30-2004 RFP Evaluation Review</u>
Attachment 15e	<u>02-11-04 Garrad Hassan Meeting Notes DRAFT</u>
Attachment 15f	<u>02-12-04 Garrad Hassan Meeting Notes DRAFT</u>
Attachment 15g	<u>02-13-04 RFP Evaluation Meeting Notes DRAFT</u>
Attachment 15h	<u>02-26-04 Commercial Strategy Meeting Notes DRAFT</u>
Attachment 15i	<u>02-27-04 RFP Evaluation Meeting Notes DRAFT</u>
Attachment 15j	<u>03-05-04 Commercial Strategy Meeting Notes DRAFT</u>
Attachment 15k	<u>03-05-04 RFP Evaluation Meeting Notes DRAFT</u>
Attachment 15l	<u>03-05-2004 RFP Evaluation Review</u>
Attachment 15m	<u>03-12-04 RFP Evaluation Meeting Notes DRAFT</u>
Attachment 15n	<u>03-12-2004 RFP Evaluation Review</u>
Attachment 15o	<u>03-19-2004 RFP Evaluation Review</u>
Attachment 15p	<u>03-26-2004 RFP Evaluation Review</u>
Attachment 15q	<u>04-02-2004 RFP Evaluation Review</u>
Attachment 15r	<u>04-08-2004 RFP Evaluation Review</u>
Attachment 15s	<u>04-15-2004 RFP Evaluation Review</u>
Attachment 15t	<u>04-22-2004 RFP Evaluation Review</u>

See Attachment 15: RFP Evaluation Review Reports & Notes for the reports and notes shown in the above table.

All the ratings from each evaluation team were pulled together in a summary matrix in order to examine the proposals and to assess those that received the most favorable ratings.

See Attachment 12: 03-31-2004 Wind RFP Stage 2 Summary Evaluation Matrix for the summary ratings of each evaluation criteria.

An overview of comments for each evaluation criteria is found on in the same spreadsheet workbook under different worksheets. A list of the worksheets are listed below:

**Table 2D.3**

<b>Workbook File Name: 03-31-2004 Wind RFP Stage 2 Summary Evaluation Matrix</b>	
<b>Worksheet Tab Name</b>	<b>Worksheet Description</b>
Summary Ranking	Summary of Ratings & Order Ranking of “Short-Listed” Projects
Cost Ranking	Order Ranking of Proposals using 3 different Quantitative Cost Analyses
Summary Detail	Summary Detail of Ratings from each Evaluation Criteria
Criteria A	Summary Matrix of Cost Analysis for each Proposal
Criteria A1	Summary Comments from Transmission Analysis
Criteria B	Quantitative Risk Cost Analysis – Refer to ‘Criteria A’ tab
Criteria B1	Qualitative Risk Analysis of each proposal
Criteria C	Summary Comments of Criteria C – Ability of Project to Deliver as Proposed
Criteria D	Summary Comments of Criteria D – Experience of Project Team
Criteria E	Summary Comments of Criteria E – Strategic & Financial
Criteria F	Summary Comments of Criteria F – Environmental & Public Purpose
Legal	Summary Comments of each proposal from Legal Team
Environmental	Summary Comments of each proposal from Environmental Team
Real Estate	Summary Comments of each proposal from Real Estate Team

The overviews of comments were derived from each evaluation teams’ detailed analysis and comments and from the review of the Garrad Hassan Report. For the detail analysis please refer to project files.

See Attachment 13: 05-07-2004 Wind RFP Stage 2 Garrad Hassan Report for Garrad Hassan’s stage 2 evaluation and analysis of the “Short-Listed” proposals.

**E. Stage 2 Order Ranking Process**

Through the more detailed Stage 2 evaluation, all the “Short-Listed” projects were affirmed as favorable projects and little distinction was made between the projects. The cost factors would help rule out the more expensive options from each proposal but would draw little distinction between the projects from which to continue through to the due diligence phase.

The below tables illustrate the order rankings of the proposal options by cost.

Table Order Ranking and Rating by Project Analysis (Acquisition Screening Model):

**Table 2E.1**

No.	Developer	Project	Offer Option	ASM5 Levelized Cost- Static (\$/MWh)
W05				
W09	RES	Hopkins Ridge	100%	\$41.93
W08				
W04				
W09				
W08				
W06				

Rating

HIGH



LOW

Order Ranking and Rating by Portfolio Analysis (Portfolio Screening Model):

**Table 2E.2**

No.	Developer	Project	Offer Option	PSM2 Static 20-Year Expected Cost (\$ MM)
W09	RES	Hopkins Ridge	100%	\$4,555.03
W05				
W08				
W04				
W08				
W09				
W06				

Rating

HIGH



LOW

Order Ranking and Rating by Project Risk (Portfolio Screening Model):

**Table 2E.3**

No.	Developer	Project	Offer Option	PSM2 Dynamic 5-Year Risk Factor (95%- 50%) (\$ MM)
W09	RES	Hopkins Ridge	100%	\$408.56
W09				
W08				
W08				
W06				
W05				
W04				

Rating

HIGH



LOW

Through weekly evaluation meetings and the updates to the reviewed proposals, the group began a to build a consensus on the order ranking of the “Short-List”. Instead of using only the cost to rank the projects, the qualitative evaluations were combined with the project cost analysis, portfolio cost analysis and the risk cost factors.

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The summary matrix of the ratings and the cost rankings were used to help determine the order ranking.

Table 2E.4

Evaluation Criteria <sup>1</sup>		[REDACTED]				W09 RES Hopkins Ridge
[A]	Project Analysis <sup>2</sup>	Medium	High	Low	Medium	High <sup>7</sup>
[A]	Portfolio Analysis <sup>3</sup>	Medium	High	Low	Medium	High
[A1]	Transmission	High	Medium	Medium	High	Low
[B]	Risk Management (Quantitative) <sup>4</sup>	Medium	Medium	Medium	Medium	Medium
[B1]	Risk Management (Qualitative)	Low	Medium	Medium	Medium	Medium
[C]	Ability to Deliver	Low	Medium	Medium	Medium	Medium
[D]	Experience	Medium	Medium	High	High	High
[E]	Strategic & Financial	Medium	Medium	High	Medium <sup>5</sup>	Medium
[F]	Environmental & Public Benefit	Low	Medium <sup>7</sup>	Medium <sup>7</sup>	Medium	High

Notes to the summary matrix:

1. Stage 2 Evaluation Ratings were relative to only the “Short-List” projects
2. For summary purposes, the number (in \$/MWh) equates to the project costs, 'ASM5 Levelized Cost - Static', for the lowest Offer Option.
3. For summary purposes, the number (in \$ MM) equates to the portfolio costs, 'PSM2 Static 20-Year Expected Cost', for the lowest Offer Option.
4. For summary purposes, the number (in \$ MM) equates to the cost risks, 'PSM2 Dynamic 5-Year Risk Factor (95%- 50%)'.
5. The levelized cost for a 50% PSE Ownership option would equate [REDACTED] /MWh.
6. This rating would trend to "High" if [REDACTED] were to provide guarantee [REDACTED]
7. Rating is trending to "Low" due to current likelihood of [REDACTED]
8. A “Low” rating represents high-risk obstacles.
9. A “High” rating on cost represents a low cost or best cost ranking, as a “Low” rating on cost represents a high cost or worst cost ranking.

When the costs are combined with the qualitative evaluations, the projects’ rankings begin to reorder in consideration of other risk potentials.

The [REDACTED] project rates “Medium” in the project cost, portfolio cost, and the cost risk rankings; however, the least cost [REDACTED] proposal option is still more costly than the least cost proposal options of the other projects. Moreover, the qualitative criteria confirm a lower rating of the project when compared to the other projects. The “Low” rating from the qualitative criteria is mostly related to [REDACTED]

Although RES Hopkins Ridge rates “High” in each of the cost analyses—it has the least portfolio costs and the lowest 5-year cost risks compared to the other projects—the transmission criterion pushes the project to a “Low” rating. The transmission issues are a major obstacle for the project to overcome. The Hopkins

REDACTED

Ridge Project sits on the wrong side of the ‘West of McNary’ cutplane. Also, the project is too low in the transmission queue to have any certainty of receiving firm transmission.

The [REDACTED] joint offer of [REDACTED] rates “Low” in the project costs and portfolio costs ranking. The project costs and the portfolio costs actually rank the lowest of the four projects. In considering the qualitative criteria, the Environmental and Public Benefit evaluation shows a “Medium” rating; however, the rating is trending to “Low” due to [REDACTED]

Unlike the joint offer by [REDACTED], the stand alone [REDACTED] rates “High” in the cost ranking. The [REDACTED] 100% PSE ownership option has the lowest project levelized costs and has the second to lowest 20-year expected costs compared to the all other proposals and options. The 5-year cost risk factor; however, rates “Medium” [REDACTED]. When looking at the other qualitative evaluation criteria, [REDACTED] appears to an overall favorable rating with “Medium” ratings in each of the evaluation categories. However, [REDACTED]

The [REDACTED] project rates “Medium” in the project cost, portfolio costs, and cost risk, which ranks third in each cost category. The qualitative criteria show that the project has a “High” rating for transmission and developer experience. In addition, the strategic and financial criteria rating would trend to “High” if [REDACTED] were to provide a corporate guarantee. The project has no “Low” ratings, which compares only to one other project with no “Low” ratings, [REDACTED]

After taking into consideration both the quantitative and qualitative factors, the “short-listed” projects were ranked in order of priority of beginning the commercial discussions and entering into the due diligence phase. The [REDACTED] would be ranked last due mostly to [REDACTED]. Although attractive from almost all the evaluation criteria, the RES Hopkins Ridge project would rank third due to transmission constraints. Although the [REDACTED] are ranked closely together, the decision was to rank the [REDACTED] second to [REDACTED] due to a greater [REDACTED]. The [REDACTED] project would rank first compared to the other projects based on price but more importantly the qualitative factors suggest the least acceptable risk.

Below is the order ranking of the “Short-Listed” projects:

1. [REDACTED]
2. [REDACTED]
3. RES - Hopkins Ridge
4. [REDACTED]

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**III. NEXT STEPS**

**A. Resource Acquisition Evaluation Process**

The order ranking of the “Short-Listed” projects provides the priority on which project to begin the commercial discussions and entering into the due diligence phase. As the process continues forward a continual assessment will occur that may allow another project to move up on the order ranking. The All-Source RFP will also provide an opportunity to continue to gather additional information and assess the projects going forward. The goal is to choose the project(s) that best fits PSE’s needs and provides the lowest cost resource(s).

Please see Attachment 14: Resource Acquisition Process Flow Chart for a flow chart that helps illustrate the combined Wind and All-Source RFP process and the continual assessment of proposals.

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**B. Wind RFP Milestone Schedule**

Listed below is the Wind RFP milestone schedule as of June 2, 2004:

- WUTC Approval of RFP November 12, 2003
- Issue Final RFP November 17, 2003
- Pre-Proposal Conference December 3, 2003
- Proposal Responses Due January 16, 2004
- Stage 1 Evaluation January 16 – February 13, 2004
- Short-List Selection February 13, 2004
- Stage 2 Evaluation February 13 – March 19, 2004
- WUTC Staff Review Meeting March 10, 2004
- Short-List Order Ranking March 23, 2004
- Due Diligence Begins May 24, 2004
- WUTC Staff Review Meeting June 4, 2004
- Execute Letter(s) of Intent June 14, 2004
- Board of Directors July 13, 2004
- Execute Definitive Transaction Agreements/PPA August 30, 2004
- Execute EPC/Procurement Agreements December 31, 2004
- Non-appealable Permit/Notice to Proceed April 1, 2005
- Commercial Operation Date December 30, 2005

**C. All-Source RFP Milestone Schedule**

Listed below is the All-Source RFP milestone schedule as of June 2, 2004:

- WUTC Approval of RFP January 28, 2004
- Final RFP Issued February 4, 2004
- Pre-Proposal Conference February 11, 2004
- Proposal Responses Due March 12, 2004
- Stage 1 Evaluation March 12 – May 13, 2004
- Short-List Selection May 13, 2004
- Stage 2 Evaluation May 13 – June 25, 2004
- Due Diligence Begins<sup>1</sup> June 7 – June 28, 2004
- Identification of Selected Project(s) June 25, 2004
- Execute Letter(s) of Intent July 9, 2004
- Execute Definitive Agreement(s)<sup>2</sup> June 28 – September 1, 2004

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<sup>1</sup> PPA due diligence will begin early due to nature of offer

<sup>2</sup> PPA agreements may occur early due to nature of offer