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October 13, 2005

VIA OVERNIGHT MAIL & EMAIL

Carole J. Washburn
Office of the Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Docket No. UE-051162
PSE's Response to Comments on its Draft RFP**

Dear Ms. Washburn:

Enclosed for filing are an original and 12 copies of the response of Puget Sound Energy, Inc. ("PSE") to comments that have been submitted in this docket on PSE's draft Request for Proposals from All Generation Sources ("All-Source RFP").¹ An electronic copy is being provided to the Commission records center by email.

PSE is submitting as Attachment A to this letter a number of proposed changes to its draft All-Source RFP. These are in blackline formatting to show the revisions PSE suggests be made to the form of the draft All-Source RFP that PSE filed with the Commission on July 29, 2005. Several of the proposed changes resulted from PSE's consideration of comments that have been provided in response to the draft All-Source RFP. Several others represent "clean up" revisions that PSE discovered after the July 29, 2005 filing and wishes to clarify for the final version of the All-Source RFP that is issued as a result of this proceeding.

¹ PSE notes that no comments were submitted on PSE's draft Request for Proposals for Electric and Gas Demand-Side Resources.

[07772-1208/BA052730.021]

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PSE is also providing for the Commission's information as Attachment B to this letter a copy of the Frequently Asked Questions pages of PSE's website in which PSE has responded to questions about its draft RFPs from potential respondents or others interested in the RFP. A number of these questions were raised at the public meeting PSE held regarding its draft RFPs on August 18, 2005 in Bellevue, Washington.

Generally, PSE believes that its draft All-Source RFP is consistent with sound industry resource acquisition and development practices and with Commission precedent and regulations. However, some aspects of PSE's All-Source RFP involve broader public policy or contested economic or business issues. PSE recognizes that, ultimately, the RFP and its evaluation criteria are subject to Commission approval. WAC 480-107-070.

Comments of Calpine Corporation

1. Funding for third-party analyses

Calpine objects to PSE's statement that it may require project proposers to fund the fees and costs of a third party selected by PSE to perform "fatal flaw" analyses and initial due diligence of projects selected to the short list.

PSE cannot know until it reviews the responses to its proposals what analyses might be reasonable to conduct, and whether it seems more fair to require respondents to fund such analyses or PSE's electric ratepayers as a whole. PSE notes that in its 2003 RFP process, no respondents were required to fund such analyses. However, PSE prefers to retain the ability to charge respondents for such analyses. Among other things, this might tend to incent respondents to submit proposals with realistic and sound information and projections.

2. Independent Evaluator

Calpine proposes that the Commission hire a third party Independent Evaluator ("IE") to oversee PSE's RFP process and report directly to the Commission, with the costs to be shared by "all parties to the process."

PSE does not believe that an IE is warranted in a case such as this, where PSE will not permit any of its subsidiaries or affiliates to submit responses to the RFP. *See All-Source RFP, page 7 (Part II, Section 3).* PSE notes that the Commission's proposed new WAC 480-107-035(6) in Docket No. UE-030423 provides:

(6) When the utility, the utility's subsidiary or an affiliated interest submits a bid in response to an RFP, a competing bidder may request the commission to appoint an independent third party to assist commission staff in its review of the bid. Should the commission grant such a request, the fees charged by the independent third party will be paid by the party requesting the independent review.

In the event the Commission were to retain an IE, it would be important to retain someone who is truly independent and has no potential to make anti-competitive use of the information contained in responses to the RFP to which they would be privy.

3. Credit terms

Calpine objects to PSE's proposal to apply credit terms to respondents but not to PSE. In making this proposal in its draft RFP, PSE had in mind sentiments expressed in PSE's 2004 general rate case that other entities ought not require PSE to post collateral or satisfy other credit terms because PSE is a regulated utility. This proposal also reflects PSE's preference that its limited credit be available to meet other needs (such as ongoing wholesale market hedging efforts) if not required for long-term resource acquisitions.

Respondents to PSE's RFP are free to propose terms other than those proposed by PSE. As stated in the draft RFP, PSE requests in that case that an explanation be provided. *See* All-Source RFP, page 8 (Part II, Section 4). Respondents might also provide alternative responses, such as a variation that imposes credit terms and a variation that does not impose such terms. Such responses might provide insight into the costs that the market associates with taking on any credit risk related to PSE.

4. Debt Imputed to PPAs

Calpine recommends that the Commission direct PSE "to exclude any and all equity adjustments for possible debt equivalence of PPAs in PSE's 2005 All Source RFP evaluation process," or alternatively conduct a proceeding to examine this issue. In support of this recommendation, Calpine submits excerpts of testimony it submitted in a proceeding in which the Georgia Public Service Commission considered the imputed debt issue.

PSE notes that according to Calpine, the Georgia proceeding was undertaken when two utilities requested a waiver from the Georgia PSC's rule *prohibiting* any adjustment to resource bids based upon the expected impacts to the utility's cost of capital.

By contrast, the existing Washington rule appears to require consideration of such costs in evaluating resource alternatives. Specifically, WAC 480-107-070 requires that the criteria used to rank project proposals "must at a minimum address...risks imposed on ratepayers" and "recognize differences in relative amounts of risk inherent among different...financing arrangements, and contract provisions." In its 1994 order in PSE's prudence review case, the Commission's 1994 prudence order expressly instructed the Company to consider "rating agencies' views of purchased power" and "to quantify the impact of future resource acquisitions on capital cost and capital structure."² Imputed debt represents a significant risk because of its negative impact on the Company's credit quality. PSE addressed this topic in greater detail in its 2005 Least Cost Plan, Section IV.E.

The appropriate proceeding in which to reconsider the Commission's prior direction on this issue has been underway at the Commission for some time: Docket No. UE-030423, in which the Commission is conducting a rulemaking on potential revisions to WAC Chapter 480-107. Commission Staff recently confirmed its view in that Docket that the consideration of imputed debt is an important part of the resource acquisition process. In Staff's September 28, 2005 Open Meeting Memorandum, Staff directly addressed the concern expressed by some stakeholders on this issue:

7. Should utilities be able to consider the effect potential resources would have on their financial ratios?

Response: Yes. It is reasonable for utilities to have the discretion to consider the effect of a potential resource on its finances. The proposed WAC 480-107-035(2) states that ranking criteria to evaluate and rank project proposals must address, among other items, the credit and financial risks to the utility.

² *WUTC v. Puget Sound Power & Light Co.*, Docket No. UE-921262, *et al.*, Nineteenth Supplemental Order (September 27, 1994) at 35-36.

5. Financial Interpretation No. 46R

Finally, Calpine objects to providing much of the information requested by PSE related to FIN 46R. Under current accounting regulation, PSE is required to obtain specific information for new purchased power contracts. Respondents that do not provide the requested information will not be rejected from the RFP process, but have been requested to explain why they are not providing the information. *See All-Source RFP, page 8 (Part II, Section 4).*

Comments of Cogeneration Coalition of Washington ("CCW")

CCW states that PSE's proposed criteria for evaluating various resource alternatives are not sufficient because they fail to provide for adequate consideration of the environmental benefits of cogeneration, the advantages of acquiring or contracting with existing facilities, or the community benefits associated with cogeneration such as payroll and property taxes. CCW also objects to any consideration of imputed debt, "at least as to purchase agreements with QFs."

1. Existing versus new facilities

PSE's resource acquisition criteria, as set forth in its proposed RFP, will take into account costs, benefits and risks associated with existing facilities versus proposed facilities. *See generally All-Source RFP, Exhibit II.* Projects of each technology type that compare favorably to others will be run through PSE's portfolio screening model ("PSM"), which models the impact of acquisition of a particular resource or slate of resources on the costs of PSE's electric portfolio as a whole. The PSM includes consideration of transmission costs associated with a potential project or slate of projects as they are projected to impact PSE. This modeling effectively captures any cost "savings" to PSE associated with acquisition of resources on the PSE side of transmission constraints.

2. Environmental and societal benefits

As CCW recognizes, PSE's evaluation criteria include consideration of environmental impacts and costs. CCW proposes that PSE should consider, in addition, the energy that would be consumed by other industrial processes absent a cogeneration facility and the industrial emissions that are supplanted by the cogeneration process. CCW also recognizes that the RFP proposes to consider community impacts, but CCW

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states that PSE should "fully and rigorously" quantify and consider community impacts associated with potential projects.

PSE does not believe it would be appropriate for PSE to attempt to quantify financial benefits to a community or to the environment generally that might result from a proposed project and then credit that benefit to the project in evaluating the various responses to its RFP. PSE's All-Source RFP is designed to help identify the most attractive resource options that are available to PSE to meet the resource needs of its electric customers. PSE's evaluation criteria take into account costs and risks that ratepayers are likely to have to bear associated with a potential resource. They are not designed to take into account broader societal costs, risks or benefits.

This Commission has, in the past, rejected the proposition that a company's ratepayers should have to pay for benefits that flow to society as a whole. In rejecting a Washington Natural Gas proposal to fund construction of compressed natural gas vehicle refueling facilities to "jump start" development of fleets of natural gas-fueled vehicles, the Commission stated:

The company cites, and we recognize, public policies that proclaim various public benefits from natural gas vehicles, including reduced carbon emissions and reduced dependence on imported oil. The company proposes a transfer of funds from ratepayers to benefit a small group of users, although to support a public purpose. It may be more appropriate to spread the burden of supporting that public purpose among all the body politic, who all receive the social benefit, than to impose it on those who happen to be company ratepayers, who are a small group of that larger body politic. That is a task for the legislature, not for the Commission.

WUTC v. Washington Natural Gas Co., Docket No. UG-920840, Third Supp. Order, 1993 Wash. UTC LEXIS 28 at *7-8, 142 PUR4th 298 (Mar. 1993).

With respect to resource acquisitions, the recent federal Energy Policy Act of 2005 ("EPAAct 2005") contains provisions that represent the United States Legislatures' consideration of competing views regarding the broader societal benefits and costs associated with energy resources. Among other things, EPAAct 2005 includes tax credits for certain technologies. To the extent PSE's ratepayers would see a cost savings associated with a potential resource from such tax credits, PSE will include

such savings in its evaluations. However, absent Commission direction to the contrary, PSE does not intend to attempt to quantify or include in its evaluations broader societal benefits that might be associated with various potential resource acquisitions.

3. Imputed debt

CCW claims that there should be no debt equivalence imputed to QF contracts because: (1) EPAct 2005 "requires that utilities be provided with the opportunity for full cost recovery of the costs of contracts with QFs"; and (2) PSE's Power Cost Adjustment ("PCA") Mechanism provides it with the opportunity to recover "actual power costs incurred, including purchase power costs."

EPAct 2005 Section 1253(a) amended PURPA (16 U.S.C. § 824a-3) to require that the FERC issue and enforce

such regulations as are necessary to ensure that an electric utility that purchases electric energy or capacity from a qualifying cogeneration facility or qualifying small power production facility *in accordance with any legally enforceable obligation entered into or imposed under this section* recovers all *prudently incurred* costs associated with the purchase.

(Emphasis added). FERC has not yet issued any regulations under this section, thus it is unclear whether and to what extent the debt imputation issues discussed earlier in this letter will be addressed by such regulations. It is unclear how any such regulations could fully do so, since FERC does not have authority over retail electric rates of utilities such as PSE. In addition, this new law raises at least two other questions:

- (1) Since this Commission has implemented PSE's PURPA purchase obligations through WAC Chapter 480-107, which requires a competitive bidding process in which all potential resources compete against each other, how can a process that excuses QF PPAs from debt imputation consequences that are assumed for non-QF PPAs produce a "legally enforceable obligation" to purchase such QF PPA resources?
- (2) If recovery of costs associated with QF PPAs is limited to "prudently incurred" costs, would it be considered prudent to assume away the

costs and risks associated with debt that credit rating agencies will assign to such PPAs?

With respect to PSE's PCA Mechanism, that mechanism permits PSE to true up on an annual basis its actual variable power costs. The difference between these actual variable power costs and power costs collected in rates is subject to the sharing bands and (soon to expire) cap in the PCA Mechanism, with any excess or deficit placed into a deferral account for future recovery or refund. The costs and risks associated with imputed debt are not captured in the PCA Mechanism. Even if they were, it is incorrect to state that PSE would recover such costs as that would depend on where the Company's actual power costs were with respect to the PCA Mechanism sharing bands.

Comments of PPM Energy

1. Existing versus potential generation

As noted above, PSE's evaluation criteria already include consideration of the potential benefits and reduced risks of generation that has already been permitted and constructed. *See All-Source RFP, Exhibit II.*

2. Assets underlying PPAs

PPM Energy requests that PSE clarify the term "system assets" as that term is used in the following: "Any proposal for a Power Purchase Agreement must specify the generation asset or system assets underlying the agreement." All-Source RFP, page 6 (Part II, Section 2.1). Generally, PSE wishes to obtain information about the contracts or resources that will back PPAs that are proposed to PSE in response to the All-Source RFP. This information will help inform PSE's evaluation of the potential reliability of and risks associated with various potential PPAs. By including the term "system assets", PSE acknowledged that some proposed PPAs may not be backed by a single generating facility but rather by a portfolio of generating facilities. If that is the case, PSE wishes to be informed about the nature of such assets.

PPM Energy also requests that PSE consider PPAs backed by generation assets that are under the respondent's control (as opposed to ownership) through long term PPAs with a third party. PSE will consider such proposals, as long as such control is described and traced back to generation assets such that PSE can evaluate the underlying reliability and risks associated with the PPA.

3. PPA security terms

PSE does not agree with PPM Energy's assertion that "three (3) business days" is "the industry standard" for Adequate Assurance Clauses rather than "two (2) business days." In PSE's experience, there is no such "industry standard" in such clauses. However, PSE is willing to revise its prototype PPA to provide the three business days timing. That change is included in the blacklined RFP submitted with these comments.

Other than this change, PSE believes that its prototype PPA should remain as proposed. Respondents are free to propose other terms as part of their responses.

PPM Energy's objection to unilateral credit terms echoes Calpine's objection, and is addressed above.

PSE believes long-term debt ratings are preferable to corporate credit ratings for purposes of credit requirements in a PPA, and thus does not believe that the definition of "Investment Grade" needs to be broadened per PPM Energy's request. Additionally, the balance sheet test and financial statements requirements should not be replaced by third-party credit ratings, regardless of what type of credit rating is used.

Finally, PPM Energy proposes that sellers should not be required to provide a Letter of Credit because "PSE retains its rights to file suit for breach of contract if Seller defaults" on its obligations. The ability to file a suit for breach of contract is meaningless if the defaulting entity is judgment proof due to financial failure or otherwise. In the alternative, PPM Energy argues that sellers should be permitted to provide a guaranty from a credit worthy entity rather than a Letter of Credit. Such guaranties raise many issues that cannot be resolved quickly enough to provide timely, adequate security in the event of default.

4. Imputed debt

Like Calpine and CCW, PPM Energy objects to consideration of imputed debt. This topic is addressed above. PSE notes that PPM Energy cites a 1994 article in support of its argument, with no showing that the article has any relevance to current credit or financial risks or to PSE's particular credit rating or coverage ratios.

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PSE's Proposed Revisions to Draft All-Source RFP

All-Source RFP, page 3: PSE is concerned that some responders may view this RFP as calling for only large-scale generation projects or PPAs. PSE proposes to clarify the Introduction and Process section of the All-Source RFP to state that the Company encourages responses of all fuel types and technologies, including "small scale as well as large scale projects."

All-Source RFP, page 6: PSE has expanded its request for proposed exchanges during "heavy load hours only" to proposals for 7x16, 7x24, or 6x16 product.

All-Source RFP, page 11: PSE has corrected typos in its subsection heading numbering.

Exhibit I, page 1: PSE has clarified the table title.

Exhibit II, page 1: PSE has replaced the reference to proposals which "are available early in the acquisition time period are preferred" with a criteria calling for proposals which "offer energy and/or capacity in a time frame consistent with PSE's needs." The proposed revision is more accurate, as PSE has significant resource needs that grow over time, thus is open to potential resource alternatives with a variety of timing. PSE hopes that the revision will avoid discouraging responses that might be available further out in time than other potential projects.

Exhibit II, page 4: PSE has clarified that its consideration of risk associated with future environmental regulation and taxes will include consideration of greenhouse gas emissions.

Exhibit III, Capacity Information, and Exhibit IV, page 3: PSE has added to its request for startup information a request for the ramp rates for cold, warm and hot starts, as well as associated fuel consumption.

Thank you for your assistance.

Very truly yours,



Kirstin S. Dodge

ATTACHMENT A

**Proposed Changes to
Form of All-Source RFP Filed on July 29, 2005**

I Introduction and Process

This document constitutes a Request for Proposals (RFP) from qualified third parties (respondents) to supply electric resources to Puget Sound Energy, Inc. (PSE or Company). It is an "All Generation Sources" RFP¹ in that any electric generation source will be considered, consistent with the requirements of this RFP. PSE's RFP may be found on its web site at <http://www.PSE.com/About/Supply/AllSourceRFP>.

In this RFP, the Company is seeking the following resources:

- Energy generation resources and
- Capacity generation resources

The Company will consider existing and yet-to-be constructed generation resources with commercial operation dates up to 2015, thereby allowing for proposals for long lead-time resources and associated potential transmission solutions.

This RFP solicitation includes requests for power purchase agreements of varying contract lengths, exchange agreements (e.g., locational and seasonal), and capacity products (including operating reserves) to meet PSE's winter peak requirements. PSE also plans to solicit more broadly among northwest utilities and others to look for arrangements that may accommodate partners.

The Company desires to continue to build a well diversified portfolio of resources, and encourages qualified respondents of all fuel types and ~~technologies~~ technologies, small scale as well as large scale projects, to participate in this RFP.

1 PSE's Resource Strategy

This RFP is intended to be consistent with the guidance provided by PSE's most recent Least Cost Plan (LCP). PSE filed its LCP with the Washington Utilities and Transportation Commission (WUTC) on May 2, 2005. (A complete version of the LCP may be found on the PSE web site at <http://www.pse.com/account/rates/rates.html>.)

The Least Cost Plan examines PSE's electric and gas resource needs over the next 20 years, and analyzes the mix of conservation programs and supply resources that might best meet electric or gas resource needs. PSE's LCP provides the strategic direction guiding the Company's long-term resource acquisition process. The LCP identifies key factors related to various resource decisions and provides a method for evaluating a resource acquisition in terms of cost, risk, and other factors at the time a decision needs to be made. The LCP does not commit to or preclude the acquisition of a specific resource type, project or facility.

The overall strategy for least cost resource planning at PSE is to develop a diversified, balanced electric resource portfolio that meets customer needs, results in reasonable energy supply costs and mitigates market risks. PSE's planning standards call for adequate energy resources to meet PSE's highest deficit month (with the highest deficit month generally occurring in December) and

¹ PSE is also issuing an Energy Efficiency RFP at the same time as this All Generation Source RFP.

II Information Requested from Respondents

1 Energy and Capacity Resources Requested

This All Generation Sources RFP seeks electric generation proposals from a wide variety of technologies and fuel sources consistent with this RFP's requirements and Evaluation Criteria (Exhibit II).

PSE's energy and capacity needs are greatest in the winter. Therefore, both energy and capacity resources will be shaped through various means to fill winter deficits, while minimizing summer surpluses. PSE will consider the seasonality of the basic electric energy resource's production, the ability of PSE to control the output of the project to match PSE's needs (up to and including real-time dispatch and displacement), and contractual mechanisms to shape project output to need.

As identified in Table 2 and Table 3, PSE is looking for a diverse mix of energy and capacity resource products to meet its requirements.

Table 2

ENERGY RESOURCE	Delivery Description
As Produced	e.g. wind, run-of-river hydro
Baseload	7x24, delivered as firm or unit contingent
Intermediate	Dispatchable
On Peak or Heavy Load Hours	6x16 (Mon-Sat) (HE 0600-2200)
Exchanges	Seasonal or year round; location exchange with delivery to PSE on west side of Cascades

Table 3

CAPACITY RESOURCE	Delivery Description
Dispatchable/On Peak or Heavy Load Hours	6x16 (Mon-Sat) (HE0600-HE2200); winter only Nov-Feb
Operating Reserves (regulating or contingency)	Spinning reserves, load following capability, ten-minute start
Exchanges	November-February; heavy-load hours only <u>7x16; 7x24; or 6x16 product</u>

This All Generation Sources RFP process may result in multiple acquisitions by PSE.³

2 Proposals/Contract Type

PSE will consider the acquisition of generation from proposals under the following mechanisms: (1) Power Purchase Agreements of varying lengths (>2 years), including Power Bridging Agreements, defined as short-term "bridges" to long-lead resources, (collectively, "PPAs"); (2)

³ Use of the term "acquisition" or terms of similar import in this RFP, unless the context otherwise indicates, refers interchangeably to power purchase agreements and the acquisition of interests in generating facilities.

1.16.1 PPA Acquisitions (System Power Sales) and Power Exchanges

Investment-Grade Respondents

Respondents with senior unsecured credit ratings of at least BBB- and Baa3 by Standard & Poor's and Moody's Investor Services, respectively, or, alternatively, that receive a credit rating from PSE's credit department equivalent to at least BBB+, or that provide a parent or affiliate guarantee in form and substance acceptable to PSE from a guarantor with senior unsecured credit ratings of at least BBB- and Baa3 by Standard & Poor's and Moody's Investor Services, respectively, or, alternatively, from a guarantor that is assigned a credit rating equivalent to at least BBB+ by PSE's credit department will be considered Investment-Grade Respondents. Reciprocal credit terms in the Definitive Agreements will include an adequate assurance clause similar to that set forth below.

Adequate Assurance Clause

When reasonable grounds for insecurity arise with respect to the performance of either party (First Party), the other party (Second Party) may in writing demand adequate assurance of the due performance under the Definitive Agreement by the First Party, and the failure of the First Party to provide to the Second Party such adequate assurance of due performance within ~~three (3) two (2)~~ business days following the First Party's receipt of the demand shall be deemed to be a material breach of, and an Event of Default under, the Definitive Agreement by the First Party.

Other credit terms, including but not limited to collateral thresholds, ratings triggers and/or similar financial covenants will not apply to PSE but may apply to the Investment-Grade Respondent.

Speculative-Grade Respondents

Respondents with a senior unsecured credit rating equal to or below BB+ and Ba1 by Standard & Poor's and Moody's Investor Services, respectively, or, alternatively, that receive a credit rating from PSE's credit department equivalent to or below BB+, or that provide a parent or affiliate guarantee in form and substance acceptable to PSE from a guarantor with senior unsecured credit ratings equal to or below BB+ and Ba1 by Standard & Poor's and Moody's Investor Services, respectively, or, alternatively, from a guarantor that is assigned a credit rating of BB+ or below by PSE's credit department will be considered Speculative-Grade Respondents.

Other credit terms, including but not limited to collateral thresholds, ratings triggers and/or similar financial covenants will not apply to PSE but will apply to the party-Respondent.

6.2 Generation Project Acquisitions and Project PPA Acquisitions

PSE prefers acquisitions that do not impose credit support requirements on PSE. If any respondent intends to propose that PSE provide credit support (e.g., in the form of a letter of credit or otherwise), the respondent must describe in its proposal all desired terms and conditions regarding such credit support.

PSE reserves the right to require adequate credit assurances that provide security for, among other things, the value associated with market-based damages for failure to perform, delays in construction, failure to meet minimum availability levels and/or other forms of default or non-performance. Such assurances may include, without limitation, a parent or affiliate guaranty and/or a letter of credit, each in form and substance, for a term and from a parent, affiliate or a financial institution, acceptable to PSE. In the event PSE anticipates that adequate credit

Exhibit I, All Generation Source RFP – PSE Monthly Energy Need

Monthly Energy Need and Peak Deficit

The table below provides the company's monthly energy needs for twenty years. These values are based on PSE's April 2005 Least Cost Plan. Additionally, the 16° Fahrenheit peak capacity deficit is displayed for each year. This is the deficit remaining after assumed generation additions have been made to meet the most energy deficient month in each year.

Table E1.1 PSE's 20-Year Monthly Projections of Energy and Capacity Need Projections

Energy Need (MMW)	January	February	March	April	May	June	July	August	September	October	November	December	16° Peak Deficit (MMW)
2006	185	233	124	90	3	0	0	0	155	64	94	208	988
2007	236	283	124	102	0	0	0	19	174	88	117	263	1,044
2008	274	260	159	0	47	0	0	52	216	125	158	305	1,083
2009	316	362	197	14	90	0	0	91	255	165	201	360	1,114
2010	393	439	285	95	170	0	0	150	322	234	285	457	1,277
2011	553	596	425	230	300	113	15	288	453	368	551	739	1,452
2012	1,151	1,137	1,028	829	677	807	710	962	1,060	1,000	1,091	1,275	1,545
2013	1,303	1,344	1,178	1,043	960	1,011	897	1,147	1,243	1,185	1,284	1,471	1,567
2014	1,496	1,536	1,366	1,161	1,007	1,060	944	1,190	1,297	1,235	1,343	1,527	1,572
2015	1,551	1,591	1,418	1,207	1,048	1,106	986	1,233	1,340	1,281	1,395	1,583	1,604
2016	1,607	1,594	1,473	1,256	1,093	1,151	1,023	1,283	1,386	1,328	1,448	1,641	1,576
2017	1,665	1,706	1,526	1,304	1,140	1,198	1,069	1,331	1,433	1,376	1,612	1,810	1,515
2018	1,831	1,872	1,634	1,408	1,186	1,246	1,115	1,378	1,470	1,426	1,669	1,871	1,621
2019	1,959	1,999	1,759	1,534	1,319	1,379	1,247	1,498	1,563	1,526	1,786	1,996	1,700
2020	2,021	2,014	1,817	1,587	1,366	1,432	1,295	1,543	1,618	1,578	1,848	2,057	1,746
2021	2,088	2,125	1,877	1,642	1,416	1,484	1,346	1,595	1,670	1,630	1,908	2,124	1,748
2022	2,154	2,191	1,939	1,698	1,468	1,538	1,392	1,655	1,723	1,685	1,972	2,192	1,778
2023	2,222	2,259	2,002	1,755	1,522	1,593	1,446	1,710	1,778	1,742	2,038	2,266	1,833
2024	2,290	2,283	2,066	1,816	1,577	1,647	1,506	1,768	1,829	1,802	2,106	2,337	1,863
2025	2,365	2,403	2,139	1,888	1,648	1,718	1,568	1,821	1,893	1,865	2,188	2,421	1,884

Exhibit II, All Generation Source RFP – Evaluation Criteria

Evaluation Criteria	Explanation of Criteria
Compatibility with PSE Resource Need	
1) Timing	<p>Proposals which are available early in the acquisition time period are preferred <u>offer energy and/or capacity in a time frame consistent with PSE's needs.</u></p> <p>Proposals which provide substantial assurances of being commercially available in the time schedule proposed are preferred.</p> <p>Proposals which individually and in combination best meet PSE's need for energy and capacity are preferred.</p> <p>Proposals that provide flexibility in their development timeline to accommodate PSE's timing needs are preferred.</p>
2) Resource match to monthly need	Proposals where generation from the underlying generation asset closely match PSE's monthly energy requirements or annual capacity requirements or whose output can be controlled by PSE are preferred over those which rely on shaping through short- or long-term arrangements.
3) Match to monthly need through contract	Proposals that provide a fixed annual price and shape the underlying generation asset output to PSE monthly energy requirements are preferred.
4) Operational Flexibility	<p>Proposals which provide PSE control of project output acceptable to PSE to respond to seasonal and real-time fluctuations in load/resource balance and system reliability events are preferred. 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 for reliability purposes generation output that would otherwise have been displaced by the other owner.</p> <p>Additionally, PSE prefers proposals that provide the ability to carry spinning or non-spinning reserves.</p>
5) 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 - termination rights - location with respect to the regional transmission system and PSE's electric system - impacts on system reserves, load following, integration costs and other factors
6) Resource Mix/Diversity	<p>The diversity of resource technology and fuel types will be considered consistent with PSE's Least Cost Plan and the RFP. Specific considerations include:</p> <ul style="list-style-type: none"> - technology type - fuel supply type - fuel supply source - fuel supply reliability including control and deliverability

Exhibit II, All Generation Source RFP – Evaluation Criteria

Evaluation Criteria	Explanation of Criteria
Risk Management (Cont'd)	
<p>7) Impact on PSE's Overall Risk Position (for proposals that make the preliminary shortlist only)</p>	<p>Proposals and combinations of proposals will be evaluated to determine the impact of the proposal(s) on PSE's overall risk position with respect to PSE's generation portfolio.</p> <p>Risk scenarios will include such factors as hydroelectric production variation, wind generation variability, fuel price volatility, 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 other factors being equal, PSE prefers proposals that result in lower generation portfolio performance risk.</p>
<p>8) Environmental and Permitting Risk</p>	<p>Proposals will be evaluated considering their status in acquiring needed permits and the risk associated with <u>future</u>future environmental regulation and taxes, <u>including greenhouse gas emissions</u>.</p>
<p>9) Respondent Risk</p>	<p>PSE will consider the information received in response to RFP Part II, Section 5 and Exhibit IV, Sections 6, 7 and 8 in determining risk associated with the financial condition of and performance by a respondent and any third parties depended upon by respondent. Lower-risk respondents are preferred.</p>
<p>10) Ability to Deliver as Proposed (Development Status & Schedule)</p>	<p>Information submitted by respondents in response to Exhibit IV, Section 9 will be used to evaluate the ability of the respondent to meet the commercial operation date proposed.</p>
<p>11) Ability to Deliver as Proposed (Experience & Qualification of the Project Team)</p>	<p>An important consideration in judging the ability of a respondent to provide a commercially operable project in the time frame proposed is the experience and qualifications of the entire project team as further detailed in Exhibit IV, Section 10. PSE will use the information that is provided in response to Exhibit IV, Section 10 to evaluate the respondent team for this criterion. PSE prefers providers that have proven track records.</p>
<p>12) Status of Transmission Rights</p>	<p>The ability to transmit power from the project site to one or more points on PSE's electric system is a requirement (particularly to points on its system at which the deliveries may be effected and used to serve load with no or limited transmission congestion).</p> <p>PSE will use information provided in Exhibit IV, Section 5 of the RFP, 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 subject to constraint.</p>
<p>13) Managerial Control</p>	<p>PSE prefers proposals that provide control of key elements of the value chain.</p>

Exhibit III, All Generation Source RFP -- Summary Data

Technical Information	
Proposal Technology Type (e.g. gas turbine combined cycle, hydro,	
Nominal Capacity (in MWs) of Generation Source; number and size of units	
Incremental capacity (e.g. duct fire) in 10 minutes, if applicable	
Estimated Annual Energy (aMW)	
Capacity Factor (%)	
Winter (Nov-Feb) Energy Production (aMW)	
Heat Rate (Btu/kWh, HHV) at ISO conditions	
Expected Equivalent Availability Factor (%)	
Expected Annual Forced Outage Rate (%) (This should include only forced outages and unplanned maintenance)	
Expected Average Annual Planned Maintenance Requirements (days/ year)	

Capacity Information			
Start up time for hot, warm and cold starts (hours)	Hot		
		Warm	Cold
Minimum on-line time (hours)			
Minimum down time (hours)			
Minimum operating load (MW)			
Heat rate (Btu/kWh)	Minimum		
		Baseload	w/ Duct Fire
Ten-minute start capability? (Yes/No) If yes, please complete below.			

Exhibit III, All Generation Source RFP -- Summary Data

10 Minute Reserve Capability			
Time (Minutes)	Fuel Rate (MMBtu/s)	Heat Rate (Btu/kWh)	Power (MWs)
0:00			
0:01			
0:02			
0:03			
0:04			
0:05			
0:06			
0:07			
0:08			
0:09			
0:10			

Fuel Supply			
Fuel Requirements at Nominal Capacity			
	MMBtu/hr	MMBtu/s	cfs
Fuel Type (primary fuel and backup, if any)			
Fuel Transportation (e.g. pipeline, rail, truck, etc)			
Is Transportation Secured? %?			

Interconnection and Transmission	
Interconnection Point	
Point of Delivery	
Transmission Provider(s)	
Transmission Secured?	

Exhibit IV, All Generation Source RFP – Proposal Requirements

1 Summary Data Form (Exhibit III)

2 Project Description

The proposal should include a detailed description of the project including the project's features and development work completed to date. Include the following information, as applicable, or indicate if requested information is not known:

2.1 Project Location and Size

- Identify the site where the project will be located. Provide a map showing the location of key facilities. Show anticipated placement of all project facilities. Include a map that indicates the location of the transmission line with which the project will be interconnected.
- Describe the project size (in acreage) and the land area controlled relative to the project facilities. If the project can be expanded, please describe the potential scope and conditions for additional development at the site.
- Provide a list of leases, easements, and/or other ownership documents that demonstrate that the respondent has control of the intended project properties and the legal rights to construct, interconnect, operate and maintain the project as described.

2.2 Site Description

Provide a description of the site, including flora and fauna, proximity to inhabited structures, proximity to areas that may be sensitive from an environmental, cultural, commercial, security and any other perspective.

2.3 Project Capability, Availability and Heat Rate

- Provide the nameplate capacity and net capacity (in MW). If the project can be expanded, please describe the potential scope and conditions.
- Provide the net capability rating and net heat rates at full load, 90%, 80%, 75%, 50% and minimum sustainable load. If output will vary with ambient temperature, respondents shall specify the net capacities and net heat rates at average annual site conditions and 95°F, 80°F, 40°F, and 20°F. Include any must run information as appropriate.
- Include the estimated annual unit availability and any guaranteed minimum annual availability and level of production.
- In an Excel spreadsheet and graph, show the distribution of the expected annual and monthly output of the project (in MWh) including heavy load hour and light load hour production.
- As applicable, provide typical hourly energy production from the project for a one-year period in electronic format. This will be used to evaluate the hourly variability of the resource.

2.4 Operating Limits

- Describe any limits imposed on the number of startups that may be performed per year or per unit of time, any limits on the number of hours that a unit may be operated per year or unit of time, and any minimum run times or ramp rates. Regulatory constraints must also be stated, including operating constraints that are either implicitly or explicitly embedded in the permit application or final permit conditions.
- Provide any existing or proposed procedures for, or limitations on, dispatching or displacing the project (or individual units, if applicable), on a prescheduled basis or in real time, throughout its full operating range, for economic reasons or for system reliability.
- Provide State the startup time for cold, warm, and hot starts including respondent's definition of those terms. Include in tabular format, the ramp profile for each of these cases. Respondent shall also specify any specific costs associated with unit startups.

ATTACHMENT B

**PSE's Responses to
Frequently Asked Questions Regarding Its Draft RFPs**



October 13, 2005

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Quick Facts

Energy Supply

Q: What is the difference between PSE's average energy need and PSE's capacity need?

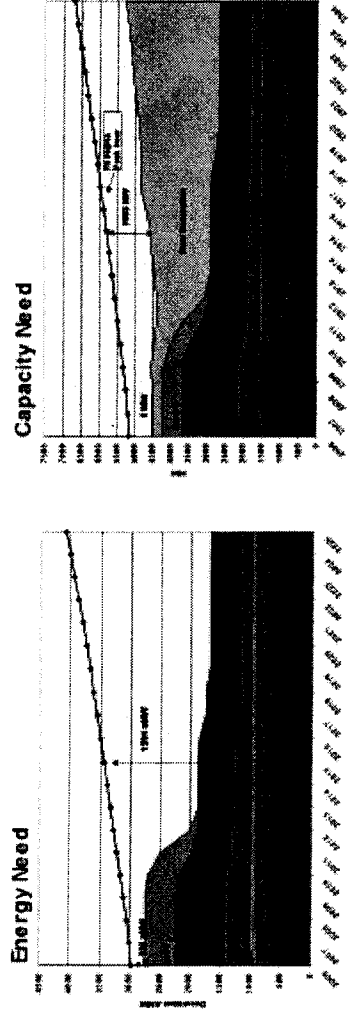
Becoming a Vendor

A: PSE's average energy need is represented in terms of average megawatts (aMW) and is the highest monthly energy deficit, generally occurring in the coldest winter month. The need is calculated as the difference between the average load and average generation in the month. Average megawatts (aMW) are calculated by dividing either monthly load or generation (expressed in MWh), as the case may be, and dividing it by the hours in the month. In 2006, PSE's highest energy deficit month is expected to be February with a shortfall of 233 aMW growing to over 1,500 aMW by winter 2014/15.

Retiree Information

After meeting PSE's average energy need, PSE requires approximately 1000 MW of capacity in the winter of 2006 growing to 1600 by 2015. PSE's capacity need is the amount of additional electrical capacity necessary to meet PSE's estimated one-hour peak load, assuming 16 degrees Fahrenheit. PSE currently meets its capacity need with short-term capacity purchases and exchanges. However, as this need continues to grow, PSE seeks long-term resources to meet this need.

Provided below is a representation of PSE's growing average energy and capacity need.



Q: Does PSE have a preference for owning assets vs purchasing power?

A: PSE's prefers least-cost resources that mitigate risk and provide rate stability for its customers. With PSE's most recent RFP (2003), PSE's short list consisted of ownership and purchased power options. Further, PSE is interested in evaluating the widest range of possible opportunities in this RFP process.

Q: What is PSE's cost of capital?

A: In the most recent General Rate Case order from the Washington Utilities And Transportation Commission, dated February 18, 2005, the Commission set PSE's allowed cost of capital. In that order PSE is allowed to earn 10.3% return on 43% of total capitalization. The overall weighted average cost of capital of 8.4% will be used in the quantitative evaluation of resource offers.

Q: Would PSE be willing to provide its levelized cost/screening models?

A: PSE cannot provide its models to a respondent. The logic used in PSE's models is proprietary and is more than just project specific. Further, the portfolio screening model takes PSE's existing resources into account, which has associated confidentiality issues.

Electric and Gas Demand-Side Resource RFP:

Q: Does PSE prefer turnkey proposals to internal implementation?

A: We prefer turnkey proposals. Respondents will be expected to coordinate their efforts closely with PSE's existing program efforts but will consider other alternatives on a case by case basis.

Q: Will the providers be held to the measure life in any way? Will there be some kind of check down the road to see that they are still working?

A: No. We're basing this on the best information available at the time. A table of expected average measure lives is included in Exhibit III of the Demand Side Resources RFP. For measure lives not in Exhibit III, respondents are expected to provide documentation of their assumptions.

Q: Will PSE be evaluating the shortlists with or without the cost of direct/or indirect debt?

A: PSE will evaluate RFP proposals inclusive of costs associated with debt related to a project or PPA, including debt that would be imputed for power purchase agreements. Consideration of imputed debt is important if the Company is to maintain or improve its current credit rating. In addition, the Washington Utilities and Transportation Commission has expressly instructed the Company to consider rating agencies' views of purchased power and to quantify the impact of future resource acquisitions on the Company's capital cost and capital structure.

Q: Are you going to fill the full amount under the all source?

A: The goal of this All-Source RFP process is to acquire least cost resources that match PSE's need over time. The RFP process provides a robust environment in which to evaluate proposals, however, it is not the only forum in which PSE may acquire resources. PSE views the acquisition of resources as an ongoing process and evaluates proposals submitted outside of the process as well.

It is not likely that PSE will fill all of its need in this All-Source RFP process. PSE recognizes that resource constraints (such as transmission) preclude certain low cost resources such as wind and coal from reaching PSE's load center. Further, in certain circumstances, PSE recognizes that codevelopment may be necessary. PSE will continue to monitor these projects on an ongoing basis for future viability as further development occurs and potential transmission solutions are identified.

Q: Are you going to issue individual resources under one all source?

A: The All-Source RFP is meant to be inclusive of all technologies. Therefore, it is not contemplated that PSE would issue separate RFPs for individual technologies.

Q: Can an entity submit more than one proposal in response to PSE's RFP?

A: Yes.

Q: Based on the RFP, it appears that PSE is accepting development proposals. Is that true?

A: The All-Source RFP is meant to be inclusive of all technologies. Therefore, it is not contemplated that PSE would issue separate RFPs for individual technologies.

Q: If so, what are your requirements for solid contracts, in particular fuel contracts and interconnection agreements, vs. indicative numbers for long-lead resources?

A: For a long-lead resource, PSE would expect the respondent to provide the best numbers available and to describe the nature of those numbers.

Q: Are knowledge and good faith numbers based on solid due diligence studies sufficient?

A: Generally, yes. All other things being equal, PSE would prefer more certainty around the numbers; however, we recognize that for long-lead resources this may not be possible.

Q: Your draft RFP states a requirement to post collateral. What happens if this requirement is not met?

A: The collateral requirements are part of the post-deal stage. For a PPA there might be collateral posted when the PPA has been executed. For an ownership structure, collateral might be posted upon closing the transaction. PSE is not requesting any kind of bid collateral.

Q: What are the scoring and weighting percentages for your proposal primary evaluation criteria (Section I, part 5, page 5 of the Draft RFP)?

A: PSE does not apply scoring and weighting percentages. Criteria are evaluated using a holistic approach.

Q: What is PSE's opinion of an ownership structure that has multiple company owners?

A: Generally speaking, PSE would be less comfortable with a multiple ownership structure. It is PSE's experience that multiple owners add additional complexity; however, other factors could outweigh this concern.

PSE's August 18, 2005 RFP Public Meeting Frequently Asked Questions

Q. Is PSE looking at a self-build option?

- A. Under the Washington Administrative Code, PSE has an obligation to compare resources in our solicitation process with a self-build option. As a practical business matter, we expect to rely upon resources acquired via the competitive marketplace. We do not envision doing front-end project development.

Q. Will PSE define characteristics in a self-build option?

- A. We do not intend to define the self-build characteristics; however, we expect the self-build option for comparison purposes to be a new CCCT or simple-cycle CT, since PSE does not have the internal expertise to do a self-build for many of the other technologies for which we would expect to receive proposals.

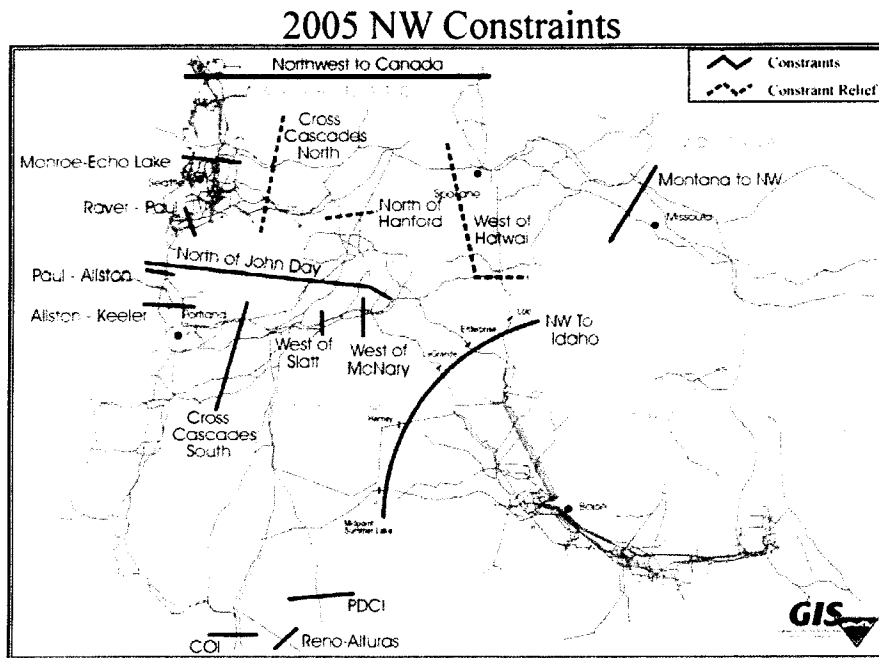
Q. How will PSE deal with new vs. old technology?

- A. Emerging technologies are always a challenge. Generally speaking, PSE does not want to acquire prototype technology. However, the time horizon under consideration in this RFP allows PSE to continue to evaluate emerging technologies that show promise and engage in dialogue with such respondents.

Q. Can PSE provide additional information, such as load duration curves, so respondents may better understand PSE's capacity need?

- A. PSE is looking into what information it can provide that would be helpful to respondents. A response will be posted to this site.

Q. Can PSE provide a map showing transmission constraints?



PSE's August 18, 2005 RFP Public Meeting Frequently Asked Questions

Note: The Western Electricity Coordinating Council's (WECC) web site can provide additional transmission information such as path ratings, study reports and transmission maps. Click on the following link to be taken directly to the WECC site: <http://www.wecc.biz>.

Q. Are you going to fill the full amount under the all source?

- A. The goal of this All-Source RFP process is to acquire least cost resources that match PSE's need over time. The RFP process provides a robust environment in which to evaluate proposals, however, it is not the only forum in which PSE may acquire resources. PSE views the acquisition of resources as an ongoing process and invites proposals to be submitted outside of the process as well.

It is not likely that PSE will fill all of its need in this All-Source RFP process. PSE recognizes that resource constraints (such as transmission) preclude certain low cost resources such as wind and coal from reaching PSE's load center. Further, in certain circumstances, PSE recognizes that codevelopment may be necessary. PSE will continue to monitor these projects on an ongoing basis for future viability as further development occurs and potential transmission solutions are identified.

Q. Is there a preference for renewables? Or is this evaluated through the public benefit criteria?

- A. Renewables are evaluated using the same methodology as other projects. Renewables receive the benefit of production tax credits (PTC) and accelerated depreciation, where applicable. Generally speaking, renewables also evaluate better than other projects with respect to criteria related to environmental risks and public benefits.

Q. Are bidders expected to make proposals for transmission or upgrades to transmission?

- A. If the project is outside PSE's service area, then a transmission component, including an OASIS request, is desired. If transmission from the project area is constrained, PSE would want the proposal to indicate how, from the respondent's perspective, this could be addressed. PSE has provided a list of preferred transmission delivery points in the RFP and is always open to discussion about solutions.

Q. Are proposals required to provide a fuel supply?

- A. If a project doesn't come with a fuel supply as part of the proposal, PSE will make assumptions based on its market forecasts.

Q. If PSE's model is only a 20-year evaluation, how are longer-lived ownership projects evaluated?

- A. PSE's portfolio screening model ("PSM") model computes end effects to take into account the value of the project at the end of the 20-year life.

Q. Are projects evaluated individually or as part of a portfolio?

- A. In Phase I, projects are evaluated based on their individual performance and their performance within PSE's portfolio. In Phase II, combinations of projects are evaluated in the portfolio.

Q. Where does locational congestion/stability evaluation take place? At what stage does this take place?

- A. The PSM is based on PSE's portfolio and control area and treats transmission as a cost adder. The analysis of transmission congestion will occur through the qualitative evaluation, which is contemporaneous with the quantitative process. As a whole, it is a thorough evaluation in which no

**PSE's August 18, 2005 RFP Public Meeting
Frequently Asked Questions**

one criterion, quantitative or qualitative, can determine whether a project is carried forward to the next stage of the evaluation process.

- Q. What is PSE's perspective on baseload resources? Will PSE be looking at baseload and capacity separately or differently? Does PSE have a preference?**
- A. PSE does not have a preference for any one type of resource. The Company is looking for a combination of resources that are shaped to meet its resource needs.

**PSE's August 18, 2005 RFP Public Meeting
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Q. Is there a greenhouse gas cost adder? Has PSE established a fixed adder?

A. There is not an established greenhouse gas ("GHG") cost adder, but PSE intends to utilize scenarios along the lines established in PSE's 2005 Least Cost Plan for its evaluation of environmental regulation. The scenarios will be updated based on current and proposed legislation and any current analyses of GHG regulation at the time of the RFP.

Q. What confidence can bidders have that their confidential information will be kept confidential, in light of attempts by third parties to challenge this in the WUTC proceeding regarding PSE's last RFP (the "2005 PCORC")?

A. Under the Confidentiality Agreement for this RFP, PSE will seek a "highly confidential" level of protection for such information from the WUTC. As in the 2005 PCORC (WUTC Docket No. UE-050870), PSE expects to ask that the WUTC restrict persons from *having access to* that information who are in a position to make competitive use of the information because of their work within the energy industry. (Note that PSE is not requesting that this restriction apply to internal employees of the Washington Attorney General's office – at the WUTC or the Office of Public Counsel – because of the WUTC's roles as auditors and regulators and because of legal restrictions on their disclosure of information they obtain through their employment with the Attorney General.) However, as in the 2005 PCORC, some parties may argue that their attorneys and experts should be given *access* to the information and only restricted from *using* the information for other purposes. The WUTC administrative law judge and Commissioners are the ones who would make the ultimate decision regarding what will be kept confidential and what the level of that confidentiality should be.

This dispute about an "access" versus "use" restriction has not yet been resolved in the 2005 PCORC. The parties have been trying to find ways to answer questions raised by persons who do not have access to the highly confidential materials without revealing any highly confidential information. The WUTC permitted representatives of developers to participate in the pre-hearing conference in the proceeding to voice their concerns, and several developers have submitted written comments to the WUTC on this issue. Further information regarding the 2005 PCORC can be found at the WUTC's website, www.wutc.wa.gov, by clicking on the news item on the first page about the "Puget power cost only rate increase" and then clicking on the link to the Document list at the end of that article.

Entities concerned about the level of confidentiality that will be provided for materials submitted in PSE's new RFP may wish to submit comments on the issue to the WUTC in Docket No. UE-051162 prior to September 28, 2005. Instructions for doing so are found in the WUTC's Notice in that docket dated August 10, 2005.

Q. Part of the RFP requires permitting information, etc. Does this apply only to projects in development or to completed projects as well? And why?

A. PSE requires that permitting information be included for both development and completed projects. This is used in PSE's evaluation process, particularly in its evaluation of risk management issues.

If you would like to submit additional questions, please e-mail Sheri Maynard (PSE Resource Coordinator) at sheri.maynard@pse.com.

Certificate of Service

I hereby certify that I served a true and correct copy of PSE's Response to Comments on its Draft RFP to each of the individuals on the service list below in the following manner:

Via Over Night Mail and Email to:

Carole J. Washburn
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Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

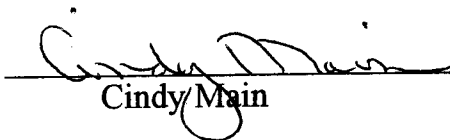
Via First-Class Mail to:

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Dated 10/13/05


Cindy Main