



PUGET SOUND ENERGY

The Energy To Do Great Things

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

October 12, 2011

VIA WEB PORTAL & OVERNIGHT MAIL

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

**Re: Docket No. UE-111405
Puget Sound Energy, Inc.'s Response to Comments on its Draft All-Source RFP**

Dear Mr. Danner:

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 (the "Draft All-Source RFP"). PSE believes that the Draft All-Source RFP is consistent with sound industry resource acquisition and development practices and with Commission precedent and regulations.

1. It Would Be Inappropriate To Rank Evaluation Criteria in the Draft All-Source RFP

The Comments of Everpower Wind Holdings Company (the "Everpower Comments") suggest that "[t]he final RFP should elaborate on how proposed projects will be ranked and scored." (Everpower Comments at 1.) Similarly, the Comments of Renewable Northwest Project and the NW Energy Coalition (the "RNP and NWECC Comments") suggest that it would be "quite useful for [PSE] to identify the resource characteristics it considers most valuable versus those that are valuable." (RNP and NWECC Comments at 1.) Both the Everpower Comments and the RNP and NWECC Comments submit that a relative rank of PSE's evaluation criteria would aid bidders in crafting competitive bids. (Everpower Comments at 1. RNP and NWECC Comments at 1.)

PSE does not believe it would be appropriate to rank evaluation criteria in the Draft All-Source RFP. Exhibit A to the Draft All-Source RFP identifies multiple evaluation criteria that cover a broad range of PSE needs. PSE has categorized primary and sub-primary evaluation criteria as follows:

- A. Compatibility with Resource Need
 - 1. Timing
 - 2. Match to need through ownership
- 3. Match to need through contract
 - 4. RPS requirement
 - 5. Operational flexibility
 - 6. Performance within existing PSE generation portfolio
 - 7. Resource mix / diversity
- B. Cost Minimization
 - 1. Resource cost
 - 2. Transmission
 - 3. Portfolio cost impact
- C. Risk Management
 - 1. Status and schedule
 - 2. Price volatility
 - 3. Resource flexibility and stability
 - 4. Resource technology
 - 5. Long-term flexibility
 - 6. Project risk
 - 7. Impact on PSE's overall risk position
 - 8. Environmental and permitting risk
 - 9. Respondent risk
 - 10. Ability to deliver as proposed
 - 11. Status of transmission rights
 - 12. Managerial control
 - 13. Security and control
 - 14. Federal regulatory approvals
- D. Public Benefits
 - 1. Environmental impacts
 - 2. Resource location
 - 3. Community impacts
- E. Strategic and Financial
 - 1. Capital structure impacts

2. Future exposure to environmental regulations and/or taxes
3. Guarantees and security

Draft All-Source RFP, Exh. A. Each evaluation criterion listed on Exhibit A to the Draft All-Source RFP is an important factor in considering proposals because each proposal is unique and will have relative strengths and weaknesses with respect to the evaluation criteria. PSE will consider each proposal individually and rank the proposals based on a balancing of PSE's assessment of the relative strengths and weaknesses of each proposal. In so doing, no one criterion is more important to another, and each contributes to the relative ranking of the proposal. For example, a proposal may be a low-cost resource but lack sufficient transmission to PSE's load centers, whereas another proposal may perform well within PSE's existing generation portfolio but face significant community opposition and legal challenges. The creation of a relative ranking of the evaluation criteria could inappropriately bias the consideration of proposals by emphasizing certain characteristics while downplaying others.

In short, PSE will consider and rank all proposals submitted in response to the All-Source RFP on a holistic basis and in light of the evaluation criteria listed on Exhibit A to the Draft All-Source RFP. If and to the extent bidders would like to understand how PSE will use the evaluation criteria in evaluating proposals, they should refer to the following excerpt from, page 8 of the Draft All-Source RFP:

Initially, proposals will be evaluated based on the proposal cost, on a portfolio evaluation designed to assess the interaction of the resource within PSE's power portfolio, and on the qualitative criteria described in Exhibit A. The most favorable proposals identified from an initial screening will advance to a more thorough due diligence evaluation process. This process may require additional interaction with the respondents and requests for additional information. The evaluation process will include an in-depth due diligence based on the same five primary criteria as well as individual and portfolio risk evaluation. The portfolio risk evaluation is designed to assess the interaction and risk levels of the most favorable resources and combinations of resources within PSE's power portfolio. PSE's RFP evaluation process and analytic tools are consistent with the process and tools used in the 2011 IRP.

Proposals that provide the lowest reasonable cost and least risk to the company will be placed on the final short list for further discussion with the respondent(s). Such proposals may potentially move forward to negotiations of the terms and conditions of Definitive Agreements.

(Draft All-Source RFP at 8.)

2. PSE Will Consider All Resource Proposals Submitted in Response to the All-Source RFP

The RNP and NWEAC Comments states that the “RFP process should encourage exploration of resources with the most system benefits” and that PSE “should also request low minimum generating levels, high efficiencies at partial loads, fast start-up times, and responsive ramp rates.” (RNP and NWEAC Comments at 2.) As stated above, PSE will consider and rank all proposals submitted in response to the All-Source RFP on a holistic basis and in light of the evaluation criteria listed on Exhibit A to the Draft All-Source RFP. The results of this ranking process will influence the types of resources that PSE will pursue, and PSE will pursue those projects that evaluate best. In short, PSE will consider all resource proposals submitted in response to the All-Source RFP, and the Draft All-Source RFP does not reflect any bias in favor of any generation type (e.g., baseload resources, peaking resources) or fuel source (e.g., wind, hydroelectric, solar, geothermal, fossil fuel).

3. The Draft All-Source RFP Evaluation Criteria Already Recognize, Among Other Things, Public Policies Regarding Resource Preference Adopted by Washington State or the Federal Government

The Comments of TransAlta Corporation (the “TransAlta Comments”) request that the Commission approve the Draft All-Source RFP subject to four conditions, the first of which is as follows:

The [Draft All-Source] RFP’s “public benefits” criteria should be expanded and revised to include recognition of public benefits legislatively established to be associated with the resource preferences of the State, including the policies set forth in Laws 2011, ch 180, § 101.

(TransAlta Comments at 5.) The Commission’s regulations already require the Draft All-Source RFP evaluation criteria to recognize, among other things, public policies regarding resource preference adopted by Washington state or the federal government:

At a minimum, the ranking criteria must recognize resource cost, market-volatility risks, demand-side resource uncertainties, resource dispatchability, resource effect on system operation, credit and financial risks to the utility, the risks imposed on ratepayers, *public policies regarding resource preference adopted by Washington state or the federal government* and environmental effects including those associated with resources that emit carbon dioxide. The ranking criteria must recognize differences in relative amounts of risk inherent among different technologies, fuel sources, financing arrangements, and contract provisions. The ranking process must complement power acquisition goals identified in the utility's integrated resource plan

WAC 480-107-035(2) (emphasis added). Consistent with this regulation, PSE will consider each proposal submitted in response to the Draft All-Source RFP in light of all public policies regarding resource preference adopted by Washington state or the federal government. Therefore, the first condition requested by the TransAlta Comments is unnecessary.

4. It Would be Inappropriate to Require PSE to Quantify Qualitative Factors to Determine a “Fair Value Adjusted Price” for Each Proposal

The second condition recommended by the TransAlta Comments would require PSE to quantify certain qualitative evaluation criteria listed on Exhibit A to the Draft All-Source RFP to determine a “fair value adjusted price” for each proposal. (TransAlta Comments at 6.) The TransAlta Comments specifically identify the following three qualitative factors for quantification to determine a “fair value adjusted price” for each proposal:

- a. Include financial quantification of the legislatively established benefits the proposals provide through meeting the State’s resource preference policies.
- b. Expand the concept of portfolio to include consideration of PSE’s full asset and cost portfolio including not only generation but also PSE’s existing and future needs for transmission resources and gas transportation and storage resources.
- c. Quantify different types and levels of risk to establish the value adjusted price; do not limit consideration of risk to proposals that are otherwise equal.

(Id.)

PSE believe it would be inappropriate for PSE to attempt to quantify financial benefits associated with qualitative factors of a proposal (including but not limited to potential financial benefits to a community or to the environment generally that might result from a proposal) and then credit that benefit to the project in evaluating the various responses to its RFP. The RFP process 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 utility’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.

Wash. Utils. & Transportation Comm'n v. Wash. Natural Gas Co., Docket No. UG-920840, Third Supp. Order at 4 (Mar. 12, 1993).

With respect to resource acquisitions, certain tax credits exist and may continue to exist that reflect public policies regarding resource preference adopted by Washington state or the federal government. To the extent PSE's ratepayers would see a quantifiable cost savings from tax credits associated with a proposal, PSE will include such savings in its evaluations. Furthermore, PSE compares all proposals on an "as-delivered" and integrated basis. Thus, to the extent proposals avoid third-party wheeling, such proposals would enjoys a quantitative advantage over a competing proposal that requires wheeling. Accordingly, PSE has not historically, and does not intend to attempt in this process, to quantify qualitative evaluation criteria or include in its evaluations quantifiable projections of broader societal benefits that might be associated with various proposals.

5. PSE Already Considers Asset Retirement Obligations of Proposals in Its RFP Processes

The third condition recommended by the TransAlta Comments would require PSE to "include a request regarding the anticipated costs of and plans for project decommissioning, site restoration, and programs to be put in place to insure that these costs are covered." (TransAlta Comments at 6.) To the extent that a proposal is a power purchase agreement, the third party owner of the project would be responsible for any asset retirement obligations of the project, and these third parties presumably include all or a portion of the costs in the price proposal. To the extent that a proposal is a sale of a project to PSE, PSE would be responsible for any asset retirement obligations of the project, and PSE will include assumptions about such costs in its analysis. Therefore, it is unclear what, if anything, the third condition recommended by the TransAlta Comments would add to PSE's RFP and resource acquisition processes.

6. The Commission Has the Authority to Approve or Suspend the Draft All-Source RFP

The final condition recommended by the TransAlta Comments is for the Commission to "retain jurisdiction to effectuate the provisions of its order." (TransAlta Comments at 6.) The Commission has the authority to approve or suspend the Draft All-Source RFP within thirty days after the close of the comment period. WAC 480-107-015(3)(b). Therefore, it is unclear what, if anything, the final condition recommended by the TransAlta Comments would add.

Mr. David Danner

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7. Conclusion

PSE respectfully requests that the Commission approve the Draft All-Source RFP as filed by PSE on August 1, 2011, in Docket No. UE-111405.

Thank you for your assistance.

Sincerely,



Tom DeBoer
Director – Federal & State Regulatory Affairs
Puget Sound Energy

cc: Jason Kuzma, Perkins Coie
David Nightingale, WUTC
David McClain, Everpower Wind
Brenda Marshall, TransAlta
Danielle Dixon, NW Energy Coalition
Jimmy Lindsay, RNP