

Agenda Date: October 13, 2011
Item Number: A2

Docket: UE-111405

Company: Puget Sound Energy, Inc.
Staff: David Nightingale, Sr. Regulatory Engineering Specialist

Recommendation

Approve the proposed Request for Proposal (RFP) submitted by Puget Sound Energy, Inc. (PSE), in accordance with WAC 480-107-015(3)(b).

Background

On August 1, 2011, PSE filed an RFP from All Generation Sources as required in WAC 480-107-015.¹ The RFP requirement is triggered when a company's Integrated Resource Plan (IRP) shows a capacity need within three years.² The company's IRP was submitted timely on May 27, 2011 and showed capacity needs for a diverse set of additional resources within three years. This includes consideration of what is expected to be provided through demand-side conservation resources. The RFP addresses this need by soliciting a broad range of proposals from all source types from vendors as well as other utilities.

Discussion

RFP Requirements

When an electric Investor-Owned Utility determines through the development of their IRP that they have a capacity need within three years, "A utility must submit to the commission a proposed RFP and accompanying documentation no later than 135 days after the utility's IRP is due to be filed with the commission."³ PSE's August 1, 2011 Draft RFP filing met the filing deadline of 135 days after the due date of their IRP.

The specific requirements for the RFP process and content are found in WAC 480-107-015 and WAC 480-107-025. There is a 60-day written comment period from the date the RFP is filed.⁴ The RFP was filed on August 1, 2011, so the comment period ended on September 30, 2011. The commission then has 30 days after the close of the comment period to approve or suspend the proposed RFP.⁵

¹ UE-111405, Request for Proposals for All Generation Sources.

² WAC 480-107-015(3)(a)

³ WAC 480-107-015(3)(b)

⁴ Id.

⁵ Id.

The RFP contents must include:⁶

- The amount and duration of power being solicited within the range estimated in the IRP for new resources
- An initial estimate of avoided cost schedule
- Additional information necessary for potential bidders to make a complete bid
- A general explanation of the evaluation and ranking procedure to be used that is consistent with the Project ranking procedure at WAC 480-107-035
- Minimum criteria for bidders to be considered eligible for ranking
- Timing of the solicitation, ranking and selection processes
- Identification of all security requirements and rationale for same

PSE's RFP solicits small and large new resources available from 2012 through 2016 from any outside sources and any fuel types, including renewables. The RFP identifies the capacity needs for each year as follows:

<u>Year</u>	<u>MW (capacity)</u>
2012	917
2013	1,050
2014	1,203
2015	1,362
2016	1,478

All the requirements listed above are included and clearly identified in the proposed RFP document submitted on August 1, 2011. The company will update the data assumptions and modeling as needed prior to issuing the final RFP.

Customer Comments

Puget Sound Energy provided notice of its filing to approximately 300 power marketing companies, utilities, energy efficiency companies and other entities involved in development or provision of electric energy resources, including representatives of stakeholders who participated in PSE's 2010 Request for Proposal (RFP) process. PSE hosted a public meeting to discuss this filing and the proposed All-Source RFP on August 16.

The commission received seven customer comments on this filing. Consumer Protection staff advised customers that they may access company documents about this filing at www.utc.wa.gov, and that they may contact Roger Kouchi at 1-888-333-9882.

⁶ WAC 480-107-025

General Comments

- Customers want the commission to require PSE to give priority to renewable energy providers.

Staff Response

Customers were advised about the procedures and criteria the utility will use in its RFP to evaluate and rank project proposals, and were referred to PSE's checklist in Exhibit A of its RFP to show that its proposal satisfies the requirements set forth in commission rule WAC 480-107.

Comments to the Docket

The commission issued a Notice for Comment to all interested persons on August 15, 2011. The sixty-day comment period, starting from the filing date, for PSE's proposed RFPs closed on September 30, 2011. During the sixty-day comment period, the commission received three comments on the All Sources RFP which were posted to the docket.

Written comments entered into the docket by the September 30, 2011 deadline included letters from three interested parties: Everpower Wind Holding Company, Renewable Northwest Project/NW Energy Coalition, and TransAlta Corporation. Those comments are addressed in order in the following paragraphs.

Everpower Wind Holding Company Comments

Everpower Wind Holding Company (Everpower) suggests that the proposed RFP would be improved by providing what PSE considers the most valuable preference criteria by which proposals will be ranked. This comment suggests that certain evaluation criteria should be weighted more heavily than others.

After reviewing PSE's ranking process, Staff believes that PSE's ranking and evaluation process is quite complex and includes dozens of factors and multiple screens. The complexity of the process does not lend itself to establishment of fixed weighting of evaluation criteria. This non-weighted evaluation process actually provides a less biased approach to the outcomes than predetermined weightings. In addition, many of the criteria used to rank proposals are not readily translated into a numeric criteria, such as impacts to the community and project construction risk. The company is wise to avoid providing predetermined weighting of criteria or identifying which criteria is most important or most valuable.

Everpower also suggests that a restructuring of the selection criteria would provide a more "balanced" opportunity for PSE to acquire west-side renewable resources and less favor to winter-peaking resources as projected to meet energy demands in the IRP analysis.

The RFP rule requires that “[t]he ranking process must complement power acquisition goals identified in the utility’s integrated resource plan.”⁷ To the extent that there may be a bias towards resources preferred by the IRP within the RFP, it is appropriate because it is required by rule. Nonetheless, the PSE RFP process is open to all outside bidders, so all sources and parties are able to compete to supply the needed resources.

Renewable Northwest Project/NW Energy Coalition Comments

Renewable Northwest Project/NW Energy Coalition comments suggest that the RFP could be improved by 1) ranking the preference criteria, 2) encouraging renewable resources that provide winter capacity, and 3) preferring flexible capacity resources.

The first comment by Renewable Northwest Project/NW Energy Coalition reflects Everpower’s comment to provide indications of which ranking criteria is more valuable and weight those criteria heavier. Staff’s comments in reply to Everpower’s comments regarding the prospect of PSE weighting evaluation criteria apply equally to this comment from the Renewable Northwest Project/NW Energy Coalition letter.

The Renewable Northwest Project/NW Energy Coalition’s second comment is partially addressed in Staff’s discussion above regarding the requirement of the RFP rule to be complementary to the IRP. In addition, we note that PSE has acquired a number of renewable resources in Western Washington as the result of recent acquisition processes. It is anticipated that the company will continue to evaluate similar opportunities and selectively acquire resources that become available at favorable terms and conditions and meet the needs of their customers as part of this RFP process or at other times. Staff sees nothing in the proposed RFP that would preclude the company from acquiring renewable resources as they become available.

The Renewable Northwest Project/NW Energy Coalition’s third suggestion is that the company should prefer flexible capacity resources. Based on the IRP and RFP this appears to be the direction the company is already pursuing. Winter-peaking resources are most likely to provide the energy demand for the seasonal capacity need in the near- and medium-terms. However, once the bids received are evaluated the nature of actual resources acquired might be different than anticipated which were gas-fired combustion turbines.

It is possible that a particular peaking resource with a fuel other than natural gas might emerge as the best choice during the bid evaluation and contracting or purchase process. While the IRP sets the direction for future acquisitions based on projected needs, the RFP process provides the sounding board of the current market for final acquisition decisions. In addition, market conditions are always changing and the company needs to respond to those changes as they

⁷ WAC 480-107-035(2)

occur. This may reasonably lead to acquisition of a different mix of resources than anticipated at the time the IRP or the proposed RFP was completed. Therefore, staff believes that PSE's acquisition process provides flexibility to acquire least cost resources and that the RFP does not restrict the company from procuring resources other than gas-fired combustion turbines.

TransAlta Comments

TransAlta Corporation provided comments that focused to a large extent on suggestions on how PSE might numerically quantify the benefits of the recent legislated public policy on coal transition power.⁸ The legislative findings identified the transition from coal to non-coal power to include: greenhouse gas reductions, stability and reliability of the electrical transmission grid, availability and affordability of power, economic health of the affected community, proper clean-up and site restoration, and an orderly transition to cleaner fuels.⁹

The commission recognizes these public policy goals as well as the requirement in rule for the Company to include in its ranking "public policies regarding resource preferences adopted by Washington State."¹⁰ However, not all policies can be directly applied to the acquisition process. Some of these policy goals have been accounted for in other state and federal laws regarding greenhouse gas emissions, mine reclamation, federal electricity reliability standards, and others. For those, the financial ramifications are assumed to be embedded in the market prices paid for resources. In other instances the company's IRP addresses the financial impact of potential CO2 emissions legislation and various market scenarios.

In the 2011 legislation there was no direction to, or requirements for, the commission to modify the RFP approval process that is the subject of this proceeding. There is new statutory language regarding the commission's review and approval of any power purchase agreements for coal transition power.¹¹ This commission obligation would occur only if an electric utility regulated by the commission was to enter into a long-term power purchase agreement for coal transition power. Consequently, there does not appear to be any new requirements at this time to modify the PSE proposed RFP to meet the requirements of the new law.

⁸ WA Engrossed Second Substitute Senate Bill 5769, Coal-Fired Electric Generation Facilities, Chapter 180, Laws of 2011, signed April 29, 2011.

⁹ UE-111405 Comments by TransAlta, 9/30/2011, page 2 and WA ESSSB 5769, section 101, Chapter 180 Laws of 2011.

¹⁰ WAC 480-107-035(2)

¹¹ WA ESSSB 5769, section 304.

Conclusion

PSE has met all the requirements for timely submission of a complete proposed RFP pursuant to WAC 480-107 and staff recommends approval by the commission.

Recommendation

Approve the proposed Request for Proposal (RFP) submitted by Puget Sound Energy, Inc. (PSE), in accordance with WAC 480-107-015(3)(b).