

REQUEST FOR PROPOSALS
from
All Generation Sources

Puget Sound Energy, Inc.
10885 N.E. Fourth Street
Bellevue, WA 98004-5731

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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, 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.

having sufficient capacity resources to meet PSE's one-hour winter peak load at 16 degrees Fahrenheit. PSE's LCP strategy includes a target of serving 10 percent of its customers' energy needs with renewable resources by 2013.

2 PSE's Energy and Capacity Need

As defined in the LCP, PSE's energy need is approximately 233 aMW in the 2006/07 winter period increasing to over 1,500 aMW by the 2014/15 winter period.² Since a part of PSE's capacity need will be met with the winter generation of energy resources, PSE's capacity need is calculated as incremental to PSE's average energy requirements and is estimated to be nearly 1,000 MW in the winter of 2006/07 and growing to over 1,600 MW by 2015.

PSE's monthly energy and annual capacity needs for 2006-2015 are shown below and in Exhibit I.

Table 1 Energy and Capacity Need 2006-2015 defined in April 2005 Least Cost Plan (conservation not included)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Peak Deficit MW
	aMW												MW
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

3 RFP Schedule

July 15, 2005	Pre-Filing Workshop with Potential Respondents
July 29, 2005	Draft RFP Filed with WUTC
August 18, 2005	PSE Public Meeting on Draft RFP
September 28, 2005	End of Public Comment Period
October 28, 2005	WUTC Approval of RFP
November 1, 2005	Issue Final RFP

² A portion of this need is to be met through cost-effective energy resources.

December 2, 2005
January 13, 2006
April 14, 2006
July 17, 2006

Pre-Proposal Conference with Potential Respondents
Responses Due
Preliminary Short List Selected, Respondents Notified
Final Short List Selected, Respondents Notified
Post-Proposal Negotiations

The above schedule is subject to adjustment based on WUTC review and the actual pace of PSE's evaluation process.

4 PSE's Evaluation Process

PSE will follow a structured evaluation process in evaluating the merits of proposals with regard to meeting PSE's need. The evaluation process is intended to screen and rank individual proposals. PSE's evaluation process will include a number of quantitative and qualitative factors, designed to reasonably compare proposals with different attributes. Evaluation of proposals for individual resources will be based on compliance of the proposal with this RFP (including term sheet and contractual provisions exhibited to this RFP) and according to the following set of primary criteria:

- Compatibility with Resource Need
- Cost
- Risk Management
- Public Benefits
- Strategic and Financial Considerations

Each of these primary criteria is further delineated with sub-criteria as detailed in Exhibit II to this RFP. Proposals will initially be evaluated based on an individual proposal cost and on the qualitative criteria. After examining the individual proposals, PSE will determine a preliminary short list made up of the most attractive proposals to continue with portfolio evaluation and additional due diligence based on the same primary criteria. The portfolio evaluation will focus on the interaction and risk levels of the most promising resources and combinations of resources within PSE's power portfolio.

Those proposals that provide the greatest benefit to the PSE portfolio will be placed on the final short list for further discussion with the respondent(s) and may potentially move forward with negotiations of the terms and conditions of Definitive Agreements.

As part of the evaluation of proposals, PSE may require the final short-listed respondents to fund the fees and costs of a third party selected by PSE to perform "fatal flaw" analyses and initial due diligence of the selected projects. The maximum level of funding will be specified at the time of any such request.

5 Post-Proposal Negotiations and Awarding of Contracts

PSE may elect to negotiate both price and non-price factors during any post-proposal negotiations with a respondent whose proposal has been selected to the short list for further discussions. It is also PSE's intent to include any additional factors that may impact the total cost of a project and to update its economic and risk evaluation on an ongoing basis until such time as PSE and the respondent might execute Definitive Agreements.

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PSE has no obligation to enter into Definitive Agreements with any respondent to this RFP and may terminate or modify this RFP at any time without liability or obligation to any respondent. This RFP shall not be construed as preventing PSE from entering into any agreement that it deems appropriate at any time before, during, or after this RFP process is complete. PSE reserves the right to negotiate only with those respondents and other parties who propose transactions that PSE believes, in its sole opinion, to have a reasonable likelihood of being executed substantially as proposed.

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; 7x16; 7x24; or 6x16 product

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

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.

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) Exchange Agreements; and (3) ownership arrangements, including co-ownership arrangements in which PSE retains adequate dispatchability and rights of control.

When submitting proposals for either a PPA or ownership arrangement, PSE is interested in alternatives in which the respondent fully assumes the risk of fuel supply, fuel price, and environmental cost and which quantify the cost for assuming those risk factors.

2.1 Power Purchase Agreements

Any proposal for a Power Purchase Agreement must specify the generation asset or system assets underlying the agreement and provide assurances of its commercial availability on or before December 31, 2014. A prototype Power Purchase Agreement is included as Exhibit IX to this RFP.

In considering PPAs, PSE requires proposals pursuant to which the respondent owns and operates or would acquire, construct, own and operate the generation asset, with PSE purchasing the output (energy and capacity) at an agreed upon delivery point.

With regard to any proposal for the purchase and sale of power from a qualifying facility under PURPA, the respective rights and obligations of PSE and the seller of such power under any agreement that may be entered into by PSE and the respondent will be subject to any federal enactments (e.g., an energy bill passed in 2005) that will by their terms apply to the purchase and sale of such power.

2.2 Exchange Agreements

The Company's obligations under any such exchange will be subject to FERC acceptance. Any transmission service component of the exchange would be pursuant to the applicable transmission provider's Open Access Transmission Tariff or reciprocal agreement and would be payable by respondent. A prototype Exchange Agreement is included as Exhibit X to this RFP.

2.3 Ownership

The PSE ownership mechanism anticipates a proposal pursuant to which PSE would ultimately own the resource or a significant interest therein. This may be accomplished at various stages of development using a variety of approaches such as joint development by the respondent and PSE, development by the respondent and then transfer to PSE, initial purchase of power by PSE with transfer of ownership later, or other approaches that may be mutually beneficial and result in PSE's ownership of the resource. Although PSE is willing to consider a wide range of arrangements, the prototype term sheet included as Exhibit XI to this RFP presumes that PSE would acquire its ownership interest in the project prior to the commencement of construction and would fund its ownership share on a pro rata basis.

3 Eligible Respondents

This RFP will accept proposals from all third-party project developers or owners, marketing entities, or other utilities that meet the project requirements and comply with the process guidelines described herein. PSE believes that consideration of proposals from other utilities and/or their affiliates may increase the number of qualified respondents and thus increase the overall creativity and competitiveness of responses to this RFP. Affiliated generating companies of PSE are not eligible to respond to this RFP.

4 Proposal Requirements

The Confidentiality Agreement (Exhibit VII) must be submitted two weeks in advance of the proposal due date.

PSE is requesting that respondents conform to the following format for presenting their bid information:

- Project Summary Data Form (Please complete Exhibit II)
- Respondent's Requirements (Exhibit IV)
 - Project Description
 - Fuel Supply
 - Emissions
 - Interconnection and Transmission
 - Price
 - Legal and Financial
 - Accounting Regulation
 - Experience and Qualifications of the Project Team
 - Environmental Inspections, Orders, Suits, other
 - Development Status and Project Schedule
- Other Requirements (Part II, Section 5 hereto)

It is expected that respondents will provide complete information in their original submittals. Failure to provide all of the requested information will not disqualify the respondent but may result in lower prioritization during the evaluation process. If the respondent elects not to provide the requested information, PSE requests that an explanation be provided.

5 Other Requirements

5.1 Signatures and Certifications

The proposal must contain the signature of a duly authorized officer or agent of the respondent submitting the proposal.

The respondent's duly authorized officer or agent shall certify in writing that:

- The respondent's proposal is genuine; not made in the interest of, or on behalf of, any undisclosed person, firm, or corporation; and is submitted in conformity with any anti-competitive agreement or rules.
- The respondent has not directly or indirectly induced or solicited any other respondent to submit a false or sham proposal.
- The respondent has not solicited or induced any other person, firm, or corporation to refrain from proposing.
- The respondent has not sought by collusion to obtain for itself any advantage over any other respondent.

5.2 Production Tax Credit Risk and Environmental Attributes

All proposals shall acknowledge and state that PSE disclaims and shall not assume any risk associated with the potential expiration of the Federal Production Tax Credit (PTC) or the respondent or other project entity's ability to utilize the PTC, if applicable to the resource proposed.

All proposals must state that all Environmental Attributes⁴ associated with the project, if any, will accrue to the ownership and beneficial use of PSE.

5.3 No Assignment

All proposals shall state that there will be no assignment of proposals during the evaluation or negotiation stage and that in the event the respondent and PSE negotiate and execute Definitive Agreements based on the respondent's proposal, the Definitive Agreements and obligations thereunder shall not be sold, transferred or assigned or pledged as security or collateral for any obligation without the prior written permission of PSE. Any project lender who takes an assignment of the Definitive Agreements for security and exercises any rights under such agreements will be bound to perform such agreements to the same extent.

5.4 Conflict of Interest Disclosure

All respondents shall disclose in their proposals any and all relationships between themselves, the project and/or members of their project team and PSE or its employees.

5.5 Validity, Deadlines and Regulatory Approval

All proposals shall specify the date through which the proposal is valid. Proposals must also state the dates by which Definitive Agreements must be completed and approved by the boards of directors or other management bodies of PSE and the respondent, and applicable regulatory approvals must be provided to support the proposed project schedule. Respondents should note that Definitive Agreements and/or regulatory approvals for resources to be acquired may not be executed or obtained until some time after the second quarter of 2006 or later, depending on the specific type of resource. PSE may seek regulatory review of its anticipated resource purchases,

⁴ "Environmental Attributes" means generally credits, benefits, reductions, offsets and other beneficial allowances with respect to fuel, emissions, air quality, or other environmental characteristics, resulting from the use of certain resource generation or the avoidance of emissions.

exchanges, or acquisitions as a condition precedent to any transaction. Such regulatory review could include receipt by PSE from the WUTC of approvals and orders, as applicable (for example, through a power cost only rate proceeding), pertaining to and confirming the inclusion of the full amount of any asset purchase price plus PSE's transaction costs and other amounts allocable to the construction, start-up, testing and commissioning of the project, as applicable, in PSE's rate base; such approvals and/or orders to be in form and substance satisfactory to PSE in its sole discretion. In this regard, any proposed price may not be unilaterally changed by the respondent prior to the finalization of such agreements and approvals. It is preferred that the respondent provide proposals that remain valid for a period that allows for negotiation of Definitive Agreements and applicable management and regulatory approvals.

In addition to being subject to the jurisdiction of the Washington Utilities and Transportation Commission, PSE is also regulated by the Federal Energy Regulatory Commission (FERC). FERC's jurisdiction and authority over the activities of PSE are defined in the Federal Power Act and include certain aspects of the acquisition of electric power. In particular, Sections 203 and 205 of the Federal Power Act require: (1) approval by FERC prior to transferring FERC-jurisdictional assets; and (2) certain filings by PSE to support its authorization to sell power and related products at market-based rates.

Pursuant to Section 203 of the Federal Power Act, FERC has approval authority over any acquisition by PSE of public utility facilities subject to FERC jurisdiction. In reviewing filings under Section 203, FERC considers the effect on competition, rates and regulation. FERC's approval of such an acquisition will be based on a finding that it is "consistent with the public interest."

FERC has authorized PSE to sell power at market-based rates pursuant to Section 205 of the Federal Power Act. As a condition of its authority to sell power at market-based rates, PSE must demonstrate to FERC that it does not possess market power in the relevant markets. Acquisition by PSE of generation or power resources may require PSE to demonstrate that it continues to lack market power after the resource acquisition.

Accordingly, PSE will evaluate all proposals in light of the requirements of the Federal Power Act and the effect that such regulatory requirements and review may have on PSE's overall corporate position.

6 Credit Requirements

The respondent should be aware that PSE may require negative control provisions (covenants restricting respondent business practices that could jeopardize respondent's ability to perform its obligations) in the Definitive Agreements that the respondent and PSE might execute in connection with the respondent's proposal, in addition to any that may be included in the prototype Power Purchase Agreement (Exhibit IX), the prototype Exchange Agreement (Exhibit X) or the prototype ownership term sheet (XI).

6.1 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) 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 assurances may be required from a respondent, PSE reserves the right to request that the respondent reply in writing regarding its intent to provide such credit assurances prior to the beginning of negotiations of any Definitive Agreement.

Additionally, the credit terms explained above in *PPA Acquisitions (System Power Sales) and Power Exchanges* will apply to the wholesale energy portion of Project PPAs.

7 Confidentiality/Disclosure

Respondents are required to provide two (2) signed originals of the Mutual Confidentiality Agreement (Exhibit VII) at least two weeks prior to the proposal due date. PSE will countersign the Confidentiality Agreement and return one fully executed agreement to the respondent.

To the extent required by law or regulatory order, PSE will make available to the public a summary of all proposals received and the final ranking of all such proposals.

PSE may retain all information pertinent to this RFP process for a period of 7 years or until PSE concludes its next general electric rate case, whichever is later. PSE shall have no obligation under this RFP to provide the models and data used by PSE in its evaluation process to respondents or other third parties except to the extent required by law or regulatory order. PSE may provide such models and data to the extent consistent with its business needs.

8 Contact Information and Submission of Proposals

One sealed original, one electronic copy on CD-ROM and seven bound copies of the proposal, along with all attachments and electronic files shall be submitted via U.S. mail, courier service, or hand delivery to PSE at the address listed below.

All such proposals must be received no later than 5:00 PM Pacific Time on January 13, 2006. Respondents are to provide two signed originals of the Mutual Confidentiality Agreement (Exhibit VII) at least two weeks prior to the submittal due date (see Part II, Section 7).

All costs to participate in this RFP process, including preparation of proposals, negotiations, etc., are the responsibility of the respondent.

Contact for proposal submittals, questions and requests:

Mr. Roger Garratt, Director of Resource Acquisitions
425-462-3470
425-462-3175 Fax
Roger.Garratt@pse.com

Address for U.S. Mail:
Puget Sound Energy
P.O. Box 97034, PSE-11
Bellevue, WA 98009-9734

Address for courier or hand delivery:
Puget Sound Energy
10608 NE 4th Street, Mail Room
Bellevue, WA 98004

9 Exhibits

Exhibit I	PSE Monthly Resource Need 2006-2025
Exhibit II	Evaluation Criteria
Exhibit III	Project Summary Data Form
Exhibit IV	Proposal Requirements/Form of Respondent's Proposal
Exhibit V	12x24 Energy Schedule for Wind Resource
Exhibit VI	Template for Financial Pro Forma (suggested)
Exhibit VII	Mutual Confidentiality Agreement
Exhibit VIII	Avoided Cost Schedule
Exhibit IX	Prototype Power Purchase Agreement
Exhibit X	Prototype Exchange Agreement
Exhibit XI	Prototype Ownership Term Sheet