

Proposal Requirements

This exhibit outlines the minimum requirements for submitting a proposal in response to PSE's All Source RFP. This information will be used to screen incoming proposals using the evaluation criteria described in Exhibit A. The most favorable proposals identified in the initial screening will advance for further evaluation. At such time, PSE will request additional information, as needed, to provide a thorough due diligence review.

PSE is preparing a list of additional information likely to be requested from respondents whose proposals are selected for further evaluation. We will discuss this list in general terms at the RFP proposal conference on August 16, 2011. A copy of the list will thereafter be posted online at <http://www.pse.com/RFP> by or before the release of the final All Source RFP.

Mutual Confidentiality Agreement

Two signed copies of the Mutual Confidentiality Agreement (Exhibit C) must be submitted by October 21, 2011.

Proposal Requirements

PSE requests that respondents submit their proposals in the following format. Proposals are due to PSE by 5:00 p.m., November 1, 2011.



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Summary Data Form

Complete the Summary Data Form (Exhibit D) and return a live copy of the Excel form as part of your electronic proposal (on CD). This form is designed as an input to our proposal database and should not be altered. Attach a printed copy to your proposal submission. The downloadable form is available online at <http://www.pse.com/RFP>.

Proposal Data

Section 1. Description of offer

- Project name.
- Proposed commercial arrangement.
- Offer capacity.
- Offer timing. For all projects, identify energy delivery start date. For PPAs, and transmission-only offers, provide duration: beginning and end dates. For PPAs, include seasonal shape, as applicable.
- Project owner. Other projects completed to date.
- Project developer. Other projects completed to date.

Section 2. Capital costs, pricing and delivery

PSE Ownership

- For the purchase of an existing plant (in service), specify asset purchase price.
- For the purchase of development assets, specify development assets purchase price. Specify total capital cost to project build-out (exclude development assets). Please provide, separately, the financing costs if included in the total capital cost. PSE may prefer to finance the construction, provide the estimated payment schedule dates.
- Include major project capital and operating expenses, and documentation to support the reasonableness of the projections discussed below. This should include an itemized budget with a breakdown of projected capital costs, operating and maintenance costs, all costs associated with site acquisition and improvement, permitting, project construction, testing and commissioning, compliance with environmental and other applicable regulations (federal, state

and local), and security. Project costs must be provided in an electronic Excel spreadsheet with formulas intact (with detail generally in the form set forth in Exhibit F).

Purchased Power Agreements, or Agreements for Transmission

- Start and ends dates (as applicable)
- If a transmission-only offer, include price per kW/mo or per kW/yr, and capacity (MW).
- If a temporal exchange offer, include start and end dates for delivery to PSE, start and end dates for delivery returned by PSE, energy volume (MWh) and price per MWh. Indicate if price includes operating reserves, emission costs and/or transmission to PSE's system.

For power purchase agreements (PPAs) or tolling offers, respondents should provide the following information by month, at a minimum, as applicable.

- Provide a flat or escalating price per MWh for energy and environmental attributes produced.
- Include a fixed or escalating demand price in \$/kW month, start charges in \$/start, and contract heat rate, if applicable.
- State whether the price offer includes environmental attributes, operating reserves, and whether respondent assumes all environmental risk. If available as separate options, specify the price of each option.
- Attest that the proposal complies with existing local, state and federal environmental laws and regulations.
- State whether the price includes transmission to PSE's system. If a wind project, state whether the seller will provide all scheduling, and state whether the seller will be responsible for all balancing charges and/or all wind integration costs for the project.
- Include respondent's fixed annual or monthly payments associated with operation, maintenance and ownership costs.
- For project PPAs, state respondent's underlying fixed and variable cost of production.
- Propose a combination of the above or other suitable alternatives, as applicable.

- All other things being equal, PSE prefers a pricing structure that closely mirrors the actual cost structure of the project. In this way, the developer's and PSE's interests with respect to scheduling and dispatch would be aligned.
- PPA price offers must be provided in an electronic Excel spreadsheet with formulas intact. Respondents must provide a separate Excel spreadsheet for each offer, if multiple offers are proposed.

As an option, respondents are requested to include a proposal that requires the respondent to fully assume the present and future costs of continued compliance with existing or future local, state, or federal environmental law and regulation. If provided, such proposal should specify the environmental risks that the respondent is assuming and the cost for assuming each one. Failure to provide such an alternative will not disqualify the respondent; however, if the respondent elects not to provide a proposal for assuming such risks, PSE requests that an explanation as to the reason be provided. Also, any such environmental risk provisions should be optional, to be included at PSE's election.

Respondents should be aware that the quantitative cost screening of proposals received in response to the RFP will include costs associated with delivering the energy to PSE's system as well as the costs associated with financial and accounting regulations. An imputed debt component will be calculated for all PPAs pursuant to the methodology of Standard and Poor's rating agency, as described below:

Calculating Imputed Debt for PPAs

The debt rating agencies consider long-term take-or-pay and take-and-pay contracts debt-like in nature and have historically capitalized these obligations on a sliding scale known as a risk spectrum. Hence there is a cost associated with issuing equity to rebalance the Company's debt/equity ratio in response to imputed debt, if PSE is to maintain a current credit rating. Imputed debt in the Integrated Resource Plan and in the evaluation of responses to the RFP is calculated using a similar methodology to that applied by the Standard and Poor's ("S&P") rating agency. The calculation begins with the determination of the fixed obligations that are equal to the actual demand payments, if so defined in the contract, or 50% of the expected total contract payments. This yearly fixed obligation is then multiplied by a risk factor. PSE's current contracts have a factor of 25% along the S&P risk spectrum. Imputed debt is the sum of the present

value (using a 6.1% discount rate and a mid-year cash flow convention) of this risk-adjusted fixed obligation. The cost of imputed debt is the equity return on the amount of equity that would be required to offset the level of imputed debt to maintain the Company's capital and interest coverage ratios.

Sensitivity of Imputed Debt Cost

The cost impact of imputed debt on PPAs varies with the term of the contract, the proportion of the PPA associated with demand payment, and with the escalation of the PPA rate or demand payments. Assuming a flat, un-escalated PPA rate and PSE's allowed cost of capital, the imputed debt cost will increase the levelized cost of the PPA by approximately 1.2% on a 3-year PPA, 1.8% on a 5-year PPA, 3.1% on a 10-year PPA and 5.3% on a 20-year PPA.

Section 3. Summary commercial offer term sheet

General Terms and Conditions

Provide a summary commercial offer term sheet. See exhibits H, I and J for prototype ownership agreement, natural gas tolling and wind PPA term sheets. Respondents should be aware that the prototype term sheets may be the basis for any potential Definitive Agreement with PSE; however, the Company reserves the right to modify the outlined terms.

Include the following items, as applicable:

- Description: structure, product, type of service, underlying facility, etc.
- Seller
- Term and delivery periods
- Transmission: interconnection, delivery point, ancillary services, line losses, etc.
- Capacity / Quantity
- Price
- Fuel supply arrangements: supplier, delivery point, etc.
- Operating characteristics and limits: minimum run time, maximum starts, planned outages, etc.
- Scheduling coordinator/ Imbalance charges
- Guaranteed heat rate



- Guaranteed availability / Volume
- Force majeure
- Credit support

Section 4. Description of the project and project status

- Project location: city, county and state.
- Provide general description of project and project site, and describe key project components. Provide a map showing the project area and neighboring parcels. Show anticipated layout of all project facilities including transmission tie lines and natural gas laterals, solar arrays or turbine strings (if applicable), substations, roads, collection systems, met towers (for wind) and service buildings. Indicate the location of the transmission line with which the project will interconnect.
- Describe the project size (in acreage) and the land area controlled relative to project facilities. If the project can be expanded, describe the potential scope and conditions for additional development at the site.
- Provide a list of leases, easements, and /or other ownership documents demonstrating that the respondent has control of the intended project properties and the legal rights to construct, interconnect, operate and maintain the project as described throughout the life of the project.
- Project status: construction, development or operating, and status of all development and construction work completed to date. Provide commercial online date. Provide construction start date, as applicable. Development status should include the following information:
 - List of permits obtained and status of permits in progress
 - Identify transmission and integration secured, or pending requests
 - Fuel supply agreements in place
 - Studies completed or in progress
- Facility nameplate capacity and any incremental capacity new and clean at ISO conditions, or specify temperature and elevation.

Section 5. Technical and operations

- Identify resource and technology type. Specify make, model, number of units and MW/unit.

- Identify facility and unit nameplate capacity and project heat rate (HHV) at ISO conditions, or specify temperature and elevation.
- Identify average December temperature for project location and the corresponding capacity rating [MW] at that temperature.
- Facility generation information for must-run and must-take resources, and intermittent resources (including biomass, wind, hydro, solar and geothermal proposals):
 - Estimated net annual capacity factor (%)
 - Provide the projected average net output in MWh in an Excel 12x24 matrix (Exhibit E); that is, for each hour of each month, indicate the number of MWh expected to be generated in a typical hour.
- Facility outage/availability information: expected annual forced outage rate (forced outages excluding planned maintenance) (%), expected average annual planned maintenance requirements (days per year). Include the estimated annual unit availability, and any guaranteed minimum annual availability and level of production.
- Facility operating characteristics: minimum online time (hours), minimum down time (hours), minimum operating load (MW), minimum operating load allowable by permits (if applicable), heat rate when operating at minimum load or minimum load allowable by permits (if applicable), and indicate whether facility is ten minute start capable
- Facility start up: start up time for hot, warm and cold starts (hours), specify amount of fuel (MMBtu) and electricity (MW) consumed during start-up cycle.
- Describe any known or likely operating limits due to permitting, legal, aesthetic, wildlife or other reasons.
- Describe how the underlying facility or contract meets the obligations of Washington's Emissions Performance Standards (EPS) (WAC 173-407, effective June 19, 2008).
- Provide facility air emissions data for carbon dioxide, nitrogen oxides, and sulfur in tons/GWh or lb/MMBtu or as otherwise applicable.

Section 6. Fuel supply

- Specify primary fuel type; specify backup fuel type and storage capacity on-site (if applicable). Indicate if fuel supply has been secured.

- Identify the maximum hourly and daily gas requirements of the plant at its rated capacity, with and without duct firing, if applicable.
- Indicate fuel transportation method and whether transportation has been secured.

Section 7. Interconnection and transmission

- Identify point of interconnection, point of receipt (if different from interconnection) and point of delivery. For the purposes of this RFP, the term “interconnection point” shall refer to the point at which the project is connected to the high voltage transmission system. Project must meet all required interconnection standards
- Identify transmission provider(s). Has transmission been secured? Provide request queue number, if applicable.
- Identify interconnection provider. Has interconnection been secured? Provide request queue number, if applicable.
- Date of LGIA signing or expected signing.
- Expected date of interconnection capitalization.
- Are transmission and interconnection studies available, if requested? List studies available.
- Identify construction plans for any required interconnection facilities, and include status and schedule.
- Identify all long term, firm, point-to-point third party transmission service arrangements that are in place or will be in place to facilitate the delivery of the electricity to PSE’s transmission system.
- Respondent shall specify the balancing authority area in which the project will reside.
- Respondent shall specify all costs related to transmission services (including losses) and delivery of electricity to the point of delivery.
- For projects that reside outside of PSE’s balancing authority area, describe the plan for supplying the following:
 - Operating reserves;
 - Resource integration (wind or otherwise)
 - Scheduling
 - Regulating reserves
 - Generation imbalance
 - Any other required ancillary service

- If the proposal does not include long-term firm delivery to PSE's system, the respondent should explain the following: the steps taken to obtain long-term firm transmission delivery to PSE's system and the expected timing of long-term firm transmission delivery. The respondent is also encouraged to discuss any alternate solutions to firm the delivery of energy and capacity to PSE's system over the term of the proposal.
- If proposing a qualifying renewable resource that is located outside the Pacific Northwest as defined for the Bonneville Power Administration in Section 3 of the Pacific Northwest Electric Power Planning and Conservation Act (94 Stat. 2698; 16 U.S.C. Sec. 839a), describe how the electricity from the facility will be delivered into Washington state on a real-time basis without shaping, storage, or integration services.

Section 8. Legal and financial

- Describe any dependence on another entity (e.g., a fuel supplier or a steam host).
- Provide a deal diagram that shows all contractual parties, listed by their legal names, and their relationship with the project.
- Describe any pertinent legal issues, such as suits, disputes, administrative investigations or permitting issues.

Section 9. Additional information for development projects

Schedule

- Provide, in a format such as a Gantt chart, the most accurate schedule estimates available on the various project activities covering the period from the initiation of development activities through the project's proposed commercial operation date. Include a schedule item for each significant activity including:
 - project development
 - permitting
 - interconnection
 - engineering

- construction
 - startup
 - testing
 - commissioning
- Include any additional timelines applicable to the project that will demonstrate its status and plans.
- Indicate all actions taken to ensure the schedule is met (such as placing orders for equipment with long lead times) and potential opportunities to improve the schedule.

Site Control

- Provide a list of leases, easements, and /or other ownership documents demonstrating that the respondent has control of the intended project properties and the legal rights to construct, interconnect, operate and maintain the project as described throughout the life of the project.

Environmental Siting

- Discuss known environmental issues relative to the development and operation of the project, including impacts to air, water, flora and fauna, energy and natural resources, environmental health, shoreline use, housing, aesthetics, recreation, historic and cultural preservation, transportation, public service and utilities. Describe measures that will be taken to mitigate all impacts of the project.
- Describe all wildlife or other environmental studies and assessments that have been performed related to the site and the project (including, but not limited to, wildlife monitoring reports, biological assessments, environmental assessments, environmental impact statements, environmental media sampling reports (air, soil or groundwater), flood control measures or other risk mitigations identified at the site).
- Describe methodologies for such studies and identify the person(s) or firm(s) who conducted and completed the work. If such studies are planned or in progress, describe the scope and schedule for completion, identify the person(s) or firm(s) performing the studies, and identify the methodologies to be employed. Describe measures that have or will be taken to mitigate all impacts of the project.

- Discuss plans to engage community and environmental stakeholders to support the proposed project or existing projects. Discuss ongoing community relations and environmental stakeholder relations.

Permits

- Identify project permits and any other government approvals or authorizations required to build and operate the project, as well as all permit or other government approval applications and requests with special emphasis on the key discretionary permits (such as a conditional use permit, site certificate and major air, wastewater and/or waste permits).
- Discuss the current status of applications and proceedings, the schedule and the approach to be used to obtain necessary permits and approvals.
- If the project is located in an area that is ceded land, may have been historically used by a Native American tribe, or if the project may impact tribal interests, describe any contacts that have been made with the tribe (include names and phone numbers) or plans to consult the tribe regarding the project.

Construction

Describe arrangements and commitments (contracts, letters of intent, memoranda of understanding) that have been made, if any, for the construction of the project.

Describe the contractual structure (including any existing agreements or forms of agreement) proposed for project design, procurement, and construction (e.g., turnkey; engineering, procurement and construction (EPC); multiple lump-sum purchase, etc.). For any approach other than turnkey, provide information on the organization and individual responsible for project management during this phase. If construction is completed, identify all open warranty issues.

Section 10. Additional information for a transmission-only product

Any proposal for a firm point-to-point transmission-only product should provide the following information:

- transmission provider
- term of the transmission assignment
- point of delivery (POD) and point of receipt (POR)
- quantity
- term of the transmission assignment including start and stop dates
- price (See Section 2 for specific details.)
- any ancillary service provisions

Additional requirements for all proposals with a transmission component are included in Section 7, Interconnection and Transmission.