

**Exhibit II, All Generation Source RFP – Evaluation Criteria (DRAFT)**

| Evaluation Criteria                                     | Explanation of Criteria  |
|---|--|
| <b>Compatibility with PSE Resource Need</b>             |  |
| 1) Timing   | <p>Proposals which are available early in the acquisition time period are preferred.</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                       | <p>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.</p>   |
| 3) Match to monthly need through contract               | <p>Proposals that provide a fixed annual price and shape the underlying generation asset output to PSE monthly energy requirements are preferred.</p>  |
| 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"> <li>- impact on system reliability</li> <li>- system dispatch and displacement</li> <li>- termination rights</li> <li>- location with respect to the regional transmission system and PSE's electric system</li> <li>- impacts on system reserves, load following, integration costs and other factors</li> </ul>   |
| 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"> <li>- technology type</li> <li>- fuel supply type</li> <li>- fuel supply source</li> <li>- fuel supply reliability including control and deliverability</li> </ul>  |

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| <b>Cost Minimization</b>  |  |
| 1) Resource Cost  | <p>PSE prefers those proposals which satisfy its other evaluation criteria at the lowest cost throughout the project life, taking into account the price of the proposal and other factors that impact PSE's overall cost.</p> <p>Such factors include, but are not limited to:</p> <ul style="list-style-type: none"> <li>- capital cost</li> <li>- financing cost</li> <li>- operation and maintenance cost</li> <li>- fuel and fuel transportation cost</li> <li>- fixed and variable power purchase agreement cost</li> <li>- transmission cost</li> <li>- ancillary services</li> <li>- integration costs</li> <li>- transmission system upgrades</li> <li>- cost to rebalance debt/equity ratio for imputed debt and consolidated debt</li> <li>- cost of credit facilities</li> <li>- transaction and other management costs, etc.</li> </ul> |
| 2) Transmission   | <p>PSE prefers firm delivery of energy to its service area (particularly at points on its system at which the deliveries may be effected and used to serve load with no or limited transmission congestion).</p> <p>In the absence of assurance at the time of proposal of such firm delivery, PSE prefers proposals that provide a high likelihood of acquiring adequate transmission rights to such points.</p> <p>Proposals that do not include firm transmission to such points, that would produce congestion or that would increase PSE's transmission costs will be compared unfavorably with other proposals and/or will be assessed the additional cost to PSE as part of the evaluation process.</p>   |
| 3) Portfolio Cost Impact (for proposals that make the preliminary shortlist only) | <p>Proposals and combinations of proposals that result in the lowest impact on PSE's revenue requirements and rates when included in PSE's existing generation resource portfolio are preferred.</p>   |

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| <b>Risk Management</b>                |   |
| 1) Status & Schedule                  | <p>All other things being equal, PSE prefers operating projects first, projects under construction second, and development projects third.</p> <p>With respect to development projects, proposals that demonstrate that the respondent has the experience and financial resources to complete the project and has made significant progress in securing necessary permits, property rights, equipment, regulatory approvals, water rights, wastewater and disposal rights, project agreements and all other rights or arrangements necessary for a completely commercially operational project within the time proposed for commercial operation are preferred.</p> |
| 2) Price Volatility                   | <p>Proposals that provide significant long-term control of fixed and variable costs are preferred.</p>  |
| 3) Resource Flexibility and Stability | <p>Proposals that provide flexibility to expand to meet PSE's growing needs as required are preferred.</p> <p>Proposals that include project agreements and all other rights and arrangements coterminous with power purchase delivery periods or project life are preferred.</p>   |
| 4) Resource Technology                | <p>Proposals that are based on commercially proven technology with demonstrated long-term reliability and performance history are preferred.</p> <p>Proposals that are based on technologies whose output may be controlled are preferred.</p>  |
| 5) Long-term Flexibility              | <p>Proposals that provide PSE the flexibility to adjust its position in a resource long term up to and including termination are preferred.</p>   |
| 6) Project Risk                       | <p>Proposals that involve minimal risk for timely plant completion within cost projections are preferred.</p> <p>Proposals that minimize exposure to environmental risk or other potential liability are preferred.</p>   |

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| <b>Risk Management (Cont'd)</b>  |  |
| 7) Impact on PSE's Overall Risk Position<br>(for proposals that make the preliminary shortlist only) | <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> |
| 8) Environmental and Permitting Risk   | Proposals will be evaluated considering their status in acquiring needed permits and the risk associated with further environmental regulation and taxes.  |
| 9) Respondent Risk   | 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.   |
| 10) Ability to Deliver as Proposed (Development Status & Schedule)                                   | 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.   |
| 11) Ability to Deliver as Proposed (Experience & Qualification of the Project Team)                  | 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.   |
| 12) Status of Transmission Rights  | <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>   |
| 13) Managerial Control   | PSE prefers proposals that provide control of key elements of the value chain.   |

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| <b>Risk Management (Cont'd)</b>  |   |
| 14) Security & Control           | <p>Proposals that supply firm, fixed price fuel supply are preferred.</p> <p>Proposals that provide for other methods of managing price volatility will be favorably considered.</p> <p>Proposals that supply firm energy and capacity are preferred.</p>   |
| 15) Federal Regulatory Approvals | <p>Proposals will be evaluated to determine the effect of any federal regulatory approvals that would result from accepting the proposal, including, but not limited to, requirements under Sections 203 and 205 of the Federal Power Act. Proposals that eliminate or minimize the effect of any such federal regulatory approval are preferred.</p> |

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|--------------------------|---|
| <b>Public Benefits</b>   |   |
| 1) Environmental Impacts | <p>Proposals with lower environmental impacts are preferred. Environmental impacts refer to the full range of issues evaluated in an environmental impact statement (EIS) or environmental assessment (EA).</p> <p>PSE will further consider the environmental impacts of a proposed acquisition. PSE will consider information supplied in response to Exhibit IV, Sections 2, 4 and 11.</p> |
| 2) Resource Location     | <p>Proposals that are located such that they provide benefits to the regional and PSE transmission systems or require minimal or no transmission upgrades are preferred.</p> <p>Proposals that are not dependent upon constrained transmission or fuel transportation paths are preferred.</p> <p>Proposals that are located such that they are within PSE's control area are preferred.</p>  |
| 3) Community Impacts     | <p>Proposals that demonstrate support from public, local, state and federal government entities and Native American nations, if applicable, as well as other stakeholders, are preferred.</p>   |

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| <b>Strategic &amp; Financial</b>                              |   |
| 1) Capital Structure Impacts                                  | <p>PSE’s quantitative analysis will impute the anticipated equity cost needed to offset any adverse effects on its capital structure associated with accounting requirements (e.g., FIN 46R) that may require PSE to consolidate the respondent’s balance sheet.</p> <p>All else being equal, PSE prefers proposals that avoid risks associated with the potential of PSE having to consolidate the respondent’s financials with PSE’s (e.g., pursuant to FIN 46R).</p> <p>All else being equal, proposals are preferred that would not increase PSE’s exposure to adverse impact on its financial position (e.g., by requiring PSE to impute debt, to account for the transaction as a lease (e.g., under SFAS 13), to account for or report the transaction as a financial derivative transaction (e.g., pursuant to SFAS 133), by otherwise adversely affecting PSE’s financial leverage, operating leverage, credit rating, cash flow, income statement or balance sheet, or by imposing credit requirements or increasing liquidity risk).</p> |
| 2) Future Exposure to Environmental Regulations and/or Taxes. | <p>Proposals for resources with lower potential exposure to future environmental regulations and/or taxes are preferred.</p>  |
| 3) Guarantees & Security                                      | <p>PSE will consider the information provided in response to Exhibit IV, Section 7 of their proposal in determining whether it will require any additional guarantees or credit support pursuant to Part II, Section 6 of this RFP.</p> <p>All else being equal, PSE prefers proposals that do not require PSE to post collateral. If posting of collateral is required, PSE’s quantitative analysis will include an estimated cost of credit for those proposals.</p>  |