

**REQUEST FOR PROPOSALS**  
**From**  
**All Generation Sources**

Draft RFP for Public Comment  
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# 1 Introduction & Key Considerations

## 1.1 Introduction

This document constitutes a Request for Proposals (RFP) from qualified third parties (respondents) to supply electricity to Puget Sound Energy, Inc. (PSE or Company) from various generation technologies. It is an “All Generation Sources” RFP in that any generation source will be considered, consistent with the requirements of this RFP.

Consistent with PSE’s Least Cost Plan (LCP), PSE’s identified need is for up to approximately 355 aMW of winter (January) energy commencing in the 2005 through winter of 2007/08 period (with a preference for commencement earlier during this period). These needs are in addition to PSE’s prospective acquisition of an interest in the Frederickson 1 combined cycle generation project (approximately 125 aMW) and programmatic conservation. PSE anticipates meeting approximately 50 aMW of its 355 aMW need through the RFP for Wind Power Resources that PSE issued in November 2003. Please see (<http://www.pse.com/about/supply/rfpwindpower.html>). This All Generation Sources RFP process may result in multiple acquisitions by PSE.<sup>1</sup>

Consistent with PSE’s LCP, it is anticipated that programmatic conservation will constitute approximately 8.6% (147 aMW) of its portfolio by 2013. The Company is addressing the acquisition of conservation through a separate process.

## 1.2 Key Considerations

A number of important considerations will be central to PSE’s examination of generation resource opportunities submitted by respondents to this RFP and, among others, are part of the Stage I and Stage II Evaluation Criteria (see Section 8 below and Exhibits I and II). These Key Considerations fall generally under the categories of the need to: 1) meet PSE energy requirements and 2) manage risk. Each of these Key Considerations is further discussed below:

### 1.2.1 Energy Requirements

PSE’s LCP as updated in August of 2003 identified an electric energy need based upon its winter (January) energy requirement. This need has been partially met through the prospective acquisition of an interest in the Frederickson 1 combined cycle generation project (approximately 125 aMW of energy). PSE’s aggressive conservation effort is also anticipated to contribute to meeting that need. Despite those efforts, PSE still requires additional generation of up to 355 aMW of winter energy commencing in the 2005 through winter 2007/08 time period. PSE anticipates that wind energy from the separately issued Wind Resources RFP will satisfy approximately 50 aMW of the identified need. PSE’s energy need has a seasonal shape (see Exhibit VI); PSE’s need is greatest in the winter and PSE generally has surpluses in summer months. Therefore, PSE, as it evaluates respondent proposals, will consider the seasonality of the basic

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<sup>1</sup> Use of the term “acquisition” or terms of similar import in this RFP, unless the context otherwise indicates, refers interchangeably to power purchases and acquisitions of interests in generating facilities.

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.

Another important consideration for meeting PSE's energy requirement is timing. PSE will place significant emphasis on acquiring resources which are already in commercial operation or that can demonstrate that they can meet a commercial operation date beginning in 2005.

### 1.2.2 Management of Risk

An important consideration for PSE is exposure to long-term and short-term risks and project costs in light of such risks. Within the broad category of risk management related to resource acquisition, several key elements stand out. These include stability of an acquired energy resource in PSE's portfolio over time, the ability to adjust PSE's position in a resource in the long-term, and the financial impacts and risk associated with the addition of a resource to its portfolio.

Longer lived resources can provide relative stability in resource supply and cost, which can help to provide rate stability. Resources that provide PSE with the ability to adjust its position in the asset in the longer term help protect against changes in the market place, tax laws or the regulatory environment. Resources that adversely impact PSE's financial position – by requiring PSE to impute debt, by adversely affecting PSE's financial leverage, operating leverage, credit rating, cash flow, income statement or balance sheet, or by imposing credit requirements – present increased near-term costs and risks to PSE and its customers and will have long-term effects on PSE's ability to attract capital to meet the needs of its customer base (or increase the cost of that capital), creating pressure on rates and financial risk for the Company.

With respect to proposals for facility ownership and power purchase proposals submitted in response to this RFP, opportunities that provide a cost-effective, long-term stable resource base while minimizing long-term market, regulatory, operational, technological, fuel source, environmental and financial risks are preferred.

## 2 PSE's Least Cost Plan

This RFP is intended to be consistent with the guidance provided by PSE's most recent LCP. PSE filed its LCP with the Washington Utilities and Transportation Commission (WUTC) on April 30, 2003. An update to the April LCP was filed by PSE on August 31, 2003 to incorporate a comprehensive analysis of conservation programs and update other planning assumptions. Complete versions of the April 2003 LCP and the August 2003 update 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 through analysis and consideration of such factors as price, supply and risk, 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. It 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, such as those recently experienced in the region. PSE's resource needs (prior to recent acquisition activities) were for an estimated 400+ aMW of new electric resources in 2004 growing to over 1,700 aMW in 2013 due to growing load in its service territory, the loss of existing resources, and the expiration of power purchase and non utility generation contracts. A portion of those needs have been met through the prospective acquisition of the Frederickson 1 combined cycle generation project. Another portion will be met through conservation. PSE's planning standards call for adequate energy resources to serve each month's electric load under average hydro conditions, and having sufficient capacity resources to meet customer peak loads at 16 degrees Fahrenheit. Both energy and capacity resources will be shaped through various means to fill winter deficiencies, while minimizing summer surpluses.

The PSE LCP set forth a strategy for the acquisition of a diversified portfolio of energy resources. Thus, PSE has established a target of serving 10 percent of its customers' energy needs through renewable resources by 2013. The intent of this RFP is to solicit proposals representative of a broad set of resource technologies and fuel types.

PSE has also committed to continue, as part of its analysis, the on-going process of evaluating all new resource options through the integrated resource portfolio modeling approach used to develop its LCP.

### **3 Products Requested**

This RFP seeks electric generation proposals from a wide variety of technologies and fuel sources consistent with PSE's Least Cost Plan and Key Considerations (see Sections 1.2 and 2) and Evaluation Criteria (Section 9). PSE will consider the acquisition of generation from such proposals under two potential mechanisms: (1) long-term Power Purchase Agreements (20 + years) or 2) ownership arrangements, including co-ownership arrangements in which PSE retains adequate dispatchability and rights of control.

#### **3.1 Power Purchase Agreements**

Any proposal for a Power Purchase Agreement must specify the generation asset underlying the agreement and provide assurances of its commercial availability within PSE's time frame requirement as defined previously in this document.

In considering Power Purchase Agreements, PSE requires proposals pursuant to which the respondent would acquire, construct, own and operate the generation asset, with PSE purchasing the output (energy and capacity) at an agreed upon delivery point and any

Environmental Attributes<sup>2</sup> (see Section 6.6). A prototype Power Purchase Agreement is included as Exhibit III to this RFP.

### **3.2 PSE Ownership**

The PSE ownership mechanism anticipates a proposal pursuant to which PSE would ultimately own the resource or a significant interest in the resource. This may be accomplished at various stages of development and 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 which may be mutually beneficial. Although PSE is willing to consider a wide range of arrangements, the term sheet included as Exhibit IV 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.

### **3.3 Shaping**

PSE will also consider contractual or other proposals for shaping resource output to meet PSE seasonality requirements. If the respondent includes a shaping proposal, such proposal must be in conjunction with a proposal for an underlying generation asset. PSE is interested in shaping proposals that provide a stable price (e.g., are not tied to a market price index), are associated with an underlying resource proposal and are for arrangements for a term of 3 or more years. Any proposal to shape resource output contractually must be made in conjunction with a specific proposal that satisfies the criteria of this RFP (i.e., stand-alone or separate shaping proposals do not meet such criteria). Also, any such shaping provisions should be optional, to be included at PSE's election.

### **3.4 Fuel Supply**

For proposals that are dependent upon a fuel source such as natural gas, coal, biomass or others, respondents may propose a long-term stable price (e.g., not tied to a market price index) and firm supply of fuel. Any proposal for fuel supply must be made in conjunction with a specific proposal that satisfies the criteria of this RFP (i.e., stand-alone or independent fuel supply proposals do not meet such criteria). Also, any such fuel supply provisions should be optional, to be included at PSE's election.

## **4 Eligible Respondents**

This RFP will accept proposals from all third party project developers or owners that meet the project requirements and comply with the process guidelines described herein. Affiliated generating companies of PSE are not eligible to respond to this RFP. However, PSE will consider proposals from other utilities or utility subsidiaries. PSE believes that consideration of proposals from other utilities and/or their affiliates may

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<sup>2</sup> "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.

increase the number of qualified respondents and thus increase the overall creativity and competitiveness of responses to this RFP.

## **5 Proposal Requirements**

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

- Summary Data (Summary material to be provided as per Exhibit X of this RFP)
- Project Summary
- Resource Description
- Fuel Supply
- Legal and Financial Information
- Price
- Transmission
- Experience and Qualifications of the Project Team
- Development Status and Schedule
- Response to RFP Section 6 Requirements
- Completed RFP Exhibits or proposed modifications to RFP Exhibits, as applicable (see Section 13 of this RFP).

Information requirements for each of the above subjects is further detailed below. It is expected that respondents will provide complete information in their original submittals. (Please see Section 10 and Exhibit VII for additional requirements regarding confidentiality.)

### **5.1 Project Summary**

Describe the product(s) being offered in response to the RFP. Proposals must clearly specify the contract type (Power Purchase Agreement and/or PSE ownership) and energy delivery type (as produced or shaped) being offered. Proposals may contain multiple options for contract type and/or energy delivery within the same response package. Any proposal that contemplates a Power Purchase Agreement shall indicate the commencement and length of the agreement term. For PSE ownership the proposed date of transfer shall be indicated.

Include a brief description of the proposed delivery schedule, its relationship to the actual production of the project, and, if a shaped resource, the means by which the resource would be shaped. Briefly summarize the project, including key elements such as the location, total nameplate capacity (in megawatts), expected annual output (in megawatt-hours), expected monthly output, type of technology to be used, interconnection plan, transmission arrangements (if applicable), environmental issues, zoning and land use issues, permitting status along with known or probable challenges to permits, planned financing, financing commitments, proposed construction schedule, other participants in the project (such as owners of the project for tax purposes or other passive or financial participants, or other output buyers for project expansions, if any), and current status and schedule for completion of development and construction.



## **5.2 Project Description**

The proposal should include a detailed description of the project including the project's features and the development work completed to date. Include the following information as applicable and indicate if requested information is not known:

- Project location. Identify the site where the project will be located. Provide a map showing the location of key facilities.
- Project Site Control. Provide a list of leases, easements, and/or other ownership documents that demonstrate that the respondent has control of the intended project properties and the legal rights to construct, interconnect and operate the project as described.
- Project layout, showing anticipated placement of all project facilities.
- Project size, in acreage and megawatts. If the project can be expanded, please describe the potential scope and conditions.
- A description of the site including flora and fauna, proximity to inhabited structures, proximity to areas that may be sensitive from an environmental, cultural, commercial, security or other perspective.
- The land area controlled relative to the facilities and the potential for additional development at the site.
- A description of whether the respondent is proposing that PSE take the entire output of the project or whether there are or will be other off-takers of power.
- A description of any existing or proposed procedures for, or limitations on, dispatching or displacing the project (or individual units, if applicable), on a preschedule basis or in real time, throughout its full operating range, for economic reasons or for system reliability.
- Type of generation equipment and description including manufacturers of major equipment, date of manufacture or age of major equipment, hours of operation and major maintenance performed for any previously owned/operated equipment.
- Type of heat rejection equipment (cooling towers, ponds, etc.) and manufacturer, age, hours of operation and major maintenance as applicable.
- Type of pollution control equipment and manufacturer, age, hours of operation and major maintenance as applicable.
- Source of process and/or cooling water
- Wastewater disposal plan, equipment and underlying contracts or permits for wastewater services.
- Terms of warranties and/or guarantees on major equipment
- Estimated annual unit availability and any guaranteed minimum annual availability and level of production.
- Primary fuel supply and source including backup alternatives.
- Net capability rating and net heat rates at full load, 90%, 80%, 75%, 50% and minimum sustainable load. If output will vary with ambient temperature, bidders shall specify the net capacities and net heat rates at average annual site conditions and 95°F, 80°F, 40°F, and 20°F.
- Operating Limits – Any limits imposed on the number of startups that may be performed per year or per unit of time. Any limits on the number of hours that a unit may be operated per year or unit of time. Any minimum run times or ramp

- rates. Regulatory constraints must also be stated, including operating constraints that are either implicitly or explicitly embedded in the permit application or final permit conditions.
- Startup Time for Cold, Warm, and Hot starts including respondents definition of those terms. Respondent shall also specify any specific costs associated with unit startups.
  - Distribution of expected annual and monthly output (in megawatt-hours) of the project. A graph showing the monthly and annual output is suggested as well as tabular values including Heavy Load Hour and Light Load Hour production should be provided in an Excel spreadsheet
  - As applicable, typical hourly energy production from the project for a one-year period in electronic format. This will be used to evaluate the hourly variability of the resource.
  - Estimate of emissions (air, liquid and solid wastes) in pounds per hour per pollutant and/or waste product at 100% load and tons per year per pollutant and/or waste product at a specified capacity factor as selected by the bidder. Any limits on emissions must be stated.
  - Electrical interconnection (location, transmission provider, and control area).

### **5.3 Fuel Supply**

The proposal should specify the source and pricing of fuel to be supplied to the project. Respondents should describe and document (including copies of applicable agreements) their fuel supply plan and the extent to which they propose to provide fuel and transportation and other fuel-related services, including physical and/or financial hedges. Alternatively, respondents may propose a variable cost payment or tolling fee in which PSE would be responsible for all fuel and fuel-related costs. With respect to fuel supply proposals, PSE's preference is for proposals that address its need for reliability, mitigation of fuel price risk, and flexibility for fully dispatchable plant operations.

### **5.4 Legal & Financial**

The proposal should contain the following information as a minimum:

- A description of the structure and status of the project financing, the significant conditions on which the financing depends and the milestones that need to be achieved to secure both construction and term financing (as required) to support the project schedule.
- Identification and contact information for all legal advisors, financial advisors and capital providers (debt and equity) for the project to the extent now known or anticipated
- A description of the project structure and capitalization during the development, construction and commercial operation phases. Describe all anticipated credit support arrangements and appropriate parental, subsidiary and venture relationships pertinent to proposal.
- A description of any dependence of respondent on another entity, e.g., a fuel supplier or a steam host.

- Commitment letters or letters of undertaking from corporations, investment bankers and/or commercial bankers indicating that the project has or is able to obtain the construction and permanent financing it will require. Describe any caveats and conditions to financing commitments such parties may require.
- The qualifications of such parties to provide, arrange or assist in obtaining necessary financing and credit support arrangements.
- Audited financial statements, if available, or unaudited financial statements for the most recent 12-month period for all entities, including affiliates involved in the proposed transaction and all entities that may provide credit support, credit enhancement, surety bonds, guarantees, or security. This information is intended to provide an indication of the ability and willingness of the respondent to negotiate in good faith (and to cause its lenders and equity partners to do the same). The types of financial and control requirements PSE may require are listed in the Stage II evaluation criteria in Exhibit II.
- Clear identification of the respondent’s investment advisor. The use of the term “financial advisor” or “investment advisor” in this RFP refers to third party advisors, such as investment bankers or others assisting the project developer in the placement of debt and/or equity financing. If a proposal is selected by PSE for further discussion and possible negotiation towards a Letter of Intent and potentially a Definitive Agreement, PSE will require that the investment advisor be available to meet and discuss with PSE all aspects of project financing.
- A summary of the major project capital and operating expenses and documentation to support the reasonableness of the projections referred to below including an itemized budget with a breakdown of projected capital costs, and operating and maintenance costs and a breakdown of all costs associated with site acquisition and improvement, permitting, project construction, testing and commissioning, compliance with environmental and other applicable federal, state, or local regulations, security, and routine operation and maintenance activities.
- Pro forma financial projections showing the project cash flow, income statement, and balance sheet, sources and uses of funds, construction draw schedule, and including all financing assumptions. At a minimum the pro forma should include the following:
  - Annual energy production and assumed revenue
  - Annual operating expenses including turbine and balance-of-plant operations and maintenance costs, G&A expenses, asset management fees, land leases, property taxes, insurance and other expenses
  - Transmission and ancillary services costs (if any)
  - Debt service requirements
  - Debt coverage ratios (highest year, lowest year, average)
  - Depreciation (tax and book)
  - Income taxes and tax credits
  - Other taxes
  - Working capital requirements
  - Net income
  - Book rate of return to average equity

- After tax unlevered internal rate of return to capital
- After tax levered internal rate of return to capital

The pro forma should be provided in a machine-readable Excel spreadsheet file with formulas intact (generally in the form set forth in Exhibit 8 hereto) as well as in the proposal.

## **5.5 Price**

PSE envisions several potential options for project pricing.

### **5.5.1 Power Purchase Agreements**

For Power Purchase Agreements, respondents should provide the following information, as applicable, or other terms:

- A stable price per kWh for energy and any Environmental Attributes produced.
- Fixed annual or monthly payments associated with operation, maintenance and ownership costs.
- Fixed plus variable cost payments.
- A combination of the above or other suitable alternatives that may be proposed.
- 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 are aligned.

### **5.5.2 PSE Ownership**

For PSE ownership arrangements, respondents should address the following, as applicable:

- Purchase by PSE of the development rights at the completion of the development stage with design, procurement and construction being the responsibility of PSE with the possibility of a limited continuing role for the respondent.
- Outright purchase and operation of the project by PSE at the date of commercial operation (respondent to provide training to PSE operating personnel)
- Joint development and ownership by PSE and the respondent
- Purchase of the project by PSE with respondent having principle responsibility for continued development and operation.
- Purchase of the project by PSE at commercial operation with operation by the respondent for a specified time period during which time respondent would provide training to PSE operating personnel.
- A combination of the above or other alternatives that may be proposed by the respondent.
- Price proposals must specify fixed and variable payments, escalation rates to be applied if any, and all other pricing information necessary for PSE to fully evaluate the proposal. For Power Purchase Agreements, in addition to the project pricing, please provide a schedule of termination amounts, based on the year in which

termination occurs for each contract year of such Power Purchase Agreement based on the assumption that upon a notice of termination provided by PSE and PSE's exercise of such election, Seller shall immediately transfer to PSE (i) all of Seller's rights, title and interests in and to the Project (including all project equipment), the Permits, all rights of Seller to real property included in or benefiting the Site and (ii) all of Seller's rights, title and interests in, to and under any agreements related to the Project to which Seller is a party. In all cases, respondents should contemplate in their price proposal that the prototype power purchase agreement and term-sheet for PSE's purchase of an interest in the project as applicable, attached to this RFP will be the basis for any potential Definitive Agreement with PSE.

## **5.6 Transmission**

PSE will accept delivery of project energy and capacity at the respondent proposed Interconnection Point or at PSE's system. PSE prefers delivery to its system (particularly at points on its system at which the deliveries may be effected and used to serve load with no or limited transmission congestion) with the respondent assuming responsibility for firm transmission on third-party transmission systems to effect delivery. In its evaluation of proposals that exclude delivery to PSE's system, PSE will include an assessment of the likelihood of acquiring adequate transmission rights and a quantification of the costs to deliver project output to PSE.

Proposals should include a clear statement of the proposed Interconnection Point, whether or not the proposal contemplates delivery to PSE, and the proposed entity to manage control area responsibilities. For 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. Include all details of planned electrical interconnections and related transmission services, including:

- Planned interconnection point, including status of
  - Interconnection requests,
  - System impact studies (SIS)
  - Facility studies
  - Interconnection agreement(s),
  - A communication plan in support of control area responsibilities,
  - Potential alternatives to interconnection arrangements, if any, and
  - Contacts at the interconnecting utility that may be contacted by the review team.
- Planned transmission services to be included with proposal, including status of:
  - Transmission services secured and/or requested by developer
  - System Impact Studies
  - Facility studies
  - Expected availability of the transmission,
  - Detailed costs estimates of transmission services with supporting detail, and

- Contact information for representatives of the transmission provider that may be contacted by the review team concerning such transmission arrangements.

Include copies of any completed System Impact Studies performed by transmission providers, and all other information/correspondences obtained from transmission providers as a result of interconnection and transmission requests and discussions that have been made to date. In the absence of formal studies, any information available concerning the transmission/interconnection costs and reliability should be provided with as much supporting documentation as possible. In any event, all available information should be provided regarding whether and to what extent firm transmission will be available, whether and to what extent the necessary transmission is subject to constraint, and the projected cost of relieving any transmission constraints.

### **5.7 Experience and Qualifications of the Project Team**

The proposal should contain the following minimum information indicating the qualifications of the proposed project team to implement and execute a proposal in response to this RFP:

- The organizations (including organization charts) and key personnel responsible for implementing the project including identification of the project manager, his/her tenure, and scope of responsibility.
- A legal entity organization chart.
- Existing projects owned, developed and/or operated by the respondent
- The personnel or organizations responsible for the following areas:
  - Project energy resource assessment and projections
  - Project financing
  - Project design, engineering, procurement and construction specifications
  - Interconnection and substation design
  - Project environmental assessments
  - Project land use and zoning approval
  - Permits and related approvals
  - Regulatory compliance
  - Project construction and commissioning
  - Risk management and insurance
  - Project operations
  - Project maintenance
- A brief description of relevant experience of the key personnel and organizations for their responsibility area listed above.
- Contacts and references (name, title, address, telephone, e-mail and fax numbers) knowledgeable about the previous project experience of the key participants in the project.

## **5.8 Development Status and Schedule**

The proposal should provide the following information concerning the status of project development activity.

### **5.8.1 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 project development, interconnection and construction activity. Provide any additional time lines applicable to the project that will demonstrate its status and plans.

Indicate what actions have been taken to ensure the schedule is met (such as placing orders for equipment with long lead times) and potential opportunities to better the schedule.

### **5.8.2 Site Control**

Provide documentation of site control, including access road, and transmission corridor easements needed to construct, interconnect and operate the facility. Provide evidence of water rights, as applicable. Examples of such documentation include copies of letters of intent, property title or purchase agreements, lease or lease option agreements with landowners and other documents that demonstrate the control over the intended project site and properties and the legal rights to execute the project as described.

### **5.8.3 Environmental Review**

Please provide any draft or final Environmental Impact Statement for the proposed project.

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.

Provide copies of all wildlife or other environmental studies and assessments that have been performed related to the site and the project. Describe methodologies for such studies and identify the person(s) or firm(s) who conducted and completed the work. If such studies are in progress, describe the scope and schedule for completion and identify the person(s) or firm(s) doing the studies and methodologies to be employed. Describe measures that will be taken to mitigate all impacts of the project.

Discuss plans to engage community and environmental stakeholders to support the proposed project.

All proposals must indicate what actions have been taken to develop support for the project from the public, local, state and federal government entities and Native American

nations. Any expressions of support from these or other entities, or concerns that have been expressed, should be identified in the proposals.

#### 5.8.4 Permits

Identify and provide copies of all project permits with special emphasis on the key permits (such as a conditional use permit or site certificate) required to build and operate the project. Discuss the current status of applications and proceedings, the schedule for obtaining key permits and approvals, and the approach to be used.

Outline the process planned to involve local residents and other affected parties in the planning/permit process.

If the project is located in an area that is ceded land or may have been historically used by a Native American tribe, describe any contacts that have been made with the tribe (include names and phone numbers) or plans to consult the tribe regarding the project.

#### 5.8.5 Interconnection and Related Transmission

Based on the identified interconnection point to the Northwest transmission system discuss all related construction plans status and schedule for:

- new lines and facilities,
- line upgrades,
- switchyards and substation work required to complete the interconnection, and
- metering and communications, both by the developer and the interconnecting utility.
- Easements, rights of way, or property controlled for any new transmission facility or otherwise to interconnect the project.

Include the status of control over required right of ways for any new transmission facility required. Include information on ownership and maintenance responsibility, and the availability of long-lead electrical equipment, such as transformers, that will be required to support the project. Metering information should include a detailed description of how the metering of actual output of the project shall be determined and how the metering configuration was included in the determination of project output.

#### 5.8.6 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; i.e., turnkey, EPC, multiple lump-sum purchase, etc. For any approach other than turnkey, provide information on the organization and responsible individual for project management during this phase. If construction is completed, identify all open warranty issues.



### 5.8.7 Testing

Summarize the testing planned to be conducted prior to acceptance of equipment from the manufacturer and completion of the project and the testing to be conducted prior to commercial operation of the project. Possible tests should include power performance tests, SCADA acceptance, distribution system acceptance, emission and others that demonstrate performance of the project and associated facilities in accordance with applicable laws, regulations, permits and any applicable power purchase agreements.

### 5.8.8 Operation & Maintenance

The proposal should clearly describe the operations and maintenance plan for the project including the identity of the entities or persons responsible for key activities, a listing of initial spares and their value, the procedures to assure the availability of spares and other operations, maintenance and logistics issues.

## 6 Other Requirements

### 6.1 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 not 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 himself/herself any advantage over any other respondent.

### 6.2 Production Tax Credit Risk not Borne by PSE

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.

### 6.3 No Reassignment

All proposals shall state that there will be no reassignment of proposals during the evaluation or negotiation stage and that in the event respondent and PSE negotiate and execute Definitive Agreements based on 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 which permission shall not be unreasonably withheld. 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.

#### **6.4 Conflict of Interest Disclosure**

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

#### **6.5 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 board of directors or other management body of PSE and 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 in 2005. PSE anticipates seeking regulatory review of its anticipated resource acquisitions as a condition precedent to any acquisition transaction. This may include receipt by PSE from the WUTC of approvals and orders, as applicable (for example, through a power cost only rate proceeding), pertaining to PSE's acquisition and the other aspects of the potential transaction, 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.

#### **6.6 Environmental Attributes**

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

### **7 Credit Requirements**

PSE reserves the right to require adequate credit assurances which may include, but not be limited to, a corporate parental guaranty and/or a letter of credit in a form and amount, for a term and from a corporate parent or a financial institution acceptable to PSE. In the event PSE anticipates that additional 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 on any Definitive Agreement. "Adequate credit assurances" shall include, but not be limited to, security for 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.

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 respondent and PSE might execute in connection with respondent's proposal, in addition to any that may be included in the prototype Power Purchase Agreement (Exhibit III) or prototype ownership term sheet (Exhibit IV). Examples of such negative control provisions are included in the prototype term sheet (Exhibit IV) under the heading "Transaction Covenants."

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.

## **8 Evaluation Process**

PSE will follow a structured evaluation process in evaluating the merits of proposals with regard to meeting PSE's LCP requirements and the Key Considerations previously stated. This will be accomplished through a two stage process.

### **8.1 Stage I Evaluation**

Stage I of the evaluation process is intended to screen and rank proposals which will then be further evaluated in Stage II which will examine individual proposals in more detail and in the context of PSE's overall loads and resources. PSE will evaluate proposals for individual resources based on compliance of the proposal with this RFP (including term sheet and contractual provisions contained in this RFP) and according to the following set of primary criteria:

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

Each of these primary criteria is further delineated with sub-criteria as detailed in Exhibit I to this RFP.

### **8.2 Stage II Evaluation**

In Stage II, PSE will further evaluate the most attractive proposals, as identified in Stage I, based on compliance of the proposals with this RFP (including term sheet and contractual provisions contained in this RFP) and using the same primary criteria as in Stage I, analyzed at a more detailed level. In Stage II, a primary focus will be to examine the interaction of the most promising resources and combinations of resources within PSE's existing portfolio of generation.

Further elaboration of the Stage II evaluation criteria are presented in more detail in Exhibit II to this RFP. Stage I evaluation criteria continue to apply in Stage II.

As part of the evaluation of proposals, PSE may require the “short-listed” respondents to fund the fees and cost 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.

At the completion of the Stage II evaluation, PSE will select proposals for further discussion with the respondent(s) and potentially move forward with negotiations of the terms and conditions of Definitive Agreements.

## **9 Post-Proposal Negotiations and Awarding of Contracts**

It is PSE’s intent to negotiate both price and non-price factors during any post-proposal negotiations with a respondent whose proposal is selected for further discussions at the completion of the Stage II evaluation. It is also PSE’s intent to include any additional factors that may impact the total cost of a project and to continually update its economic and risk evaluation until such time as PSE and respondent might execute Definitive Agreements.

Definitive Agreements, if any, would be based on the outcome of these continuing evaluations and negotiations. PSE has no obligation to enter into a Definitive Agreement 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.

## **10 Confidentiality/Disclosure**

A Mutual Confidentiality Agreement is included as Exhibit VII to this RFP. Respondents must sign the Confidentiality Agreement and include two signed originals with their proposal. 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.

## 11 Contact Information and Submission of Proposals

A sealed original 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 by no later than 5:00 PM Pacific Time on March 12, 2004.*

Questions and requests for additional information should also be directed to the individual and address listed below.

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. Wayman Robinett, Director of Resource Planning  
425-462-3144  
425-462-3175 Fax  
[Wayman.Robinett@pse.com](mailto:Wayman.Robinett@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

## 12 RFP Schedule

November 25, 2003	Issue Draft RFP
December 8, 2003	PSE Public Meeting on Draft RFP
January 6, 2004	End of public comment period
January 28, 2004	WUTC Approval of RFP
February 4, 2004	Issue Final RFP
February 11, 2004	Hold Pre-Proposal Conference
March 12, 2004	Responses Due
April 23, 2004	Select Short-Listed Proposals, Notify Respondents
June 4, 2004	Target Date for Executing Letter(s) of Intent

The above schedule is subject to adjustment based on WUTC review.

## 13 Exhibits

Exhibit I	Stage I Evaluation Criteria
Exhibit II	Stage II Evaluation Criteria
Exhibit III	Prototype Power Purchase Agreement
Exhibit IV	Prototype Ownership Term Sheet
Exhibit V	Avoided Cost Schedule
Exhibit VI	PSE Monthly Resource Need
Exhibit VII	Mutual Confidentiality Agreement
Exhibit VIII	Template for Financial Pro Forma (suggested)
Exhibit IX	Template for Energy Delivery Schedule
Exhibit X	Summary Data