

**EXHIBIT NO. \_\_\_\_\_ (EMM-21)**  
**DOCKET NO. \_\_\_\_\_**  
**2003 POWER COST ONLY RATE CASE**  
**WITNESS: ERIC M. MARKELL**

**BEFORE THE**  
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

Docket No. \_\_\_\_\_

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DIRECT TESTIMONY OF**  
**ERIC M. MARKELL**  
**ON BEHALF OF PUGET SOUND ENERGY, INC.**

November 27, 2002

Re: Solicitation of Proposals for Power Purchase Agreements (PPAs)

Dear \_\_\_\_\_,

Puget Sound Energy (the "Company" or "PSE") is currently conducting its biennial Least Cost Planning ("LCP") process to evaluate its long-term power supply resource requirements. The Company has preliminarily identified a significant need for new resources. A portion of these needs may be met by incremental long-term (20+ year) firm baseload resources with seasonal and other dispatch capabilities in the 200-300 megawatt range beginning delivery as soon as the fall of 2003. The purpose of this letter is to solicit proposals for power purchase agreements ("PPAs") to meet a portion of PSE's need for new resources at low costs that may be available due to recent energy market developments.

The Company recognizes that current conditions in the generation development sector, particularly for combined-cycle natural gas-fired combustion turbine projects, may create near-term opportunities to acquire new power supply at attractive cost. Accordingly, the Company is looking at a range of alternative methods to acquire low-cost resources with these characteristics, including self-build, buy-and-complete, and PPAs.

The Company is conducting its review of each of these alternatives in an unbiased manner assessing each alternative on its own merits. On September 16, 2002, the Company issued a Request for Expressions of Interest for Generation Facility, and is currently evaluating responses to that solicitation from developers. The Company is also assessing the feasibility and estimated costs to build a combined-cycle natural gas-fired combustion turbine project itself. Now, the Company is issuing this Solicitation for PPAs.

The Company is seeking PPA proposals for power supply resources from eligible respondents to meet the Company's requirements for electric generating capacity and associated energy as described in Exhibit B. The Company invites proposals from all potential suppliers who are capable of meeting the conditions of the Solicitation, including other electric utilities, marketers, exempt wholesale generators, independent power producers, and qualifying facilities.

Developments in the capital and business markets during the last year strongly suggest to the Company that it must consider means and methods to identify and reduce structural and financial risk inherent in the project or entity that may offer to provide the Company

capacity and energy under long term supply agreements. As a result, the Company also expects that a PPA, if any, executed as a result of this solicitation will include security of supply and financial viability provisions, as illustrated in Exhibit C.

This solicitation is for PPA resources with the characteristics described above and is not an "all-source" solicitation. The Company shall have no obligation to acquire resources under this solicitation or under other resource acquisition methods. Because the Company has preliminarily identified a significant need for new resources, it expects to issue additional request(s) for new resources following completion of its LCP.

As envisioned, the solicitation schedule will be approximately a four-month process, comprising three phases: (1) Solicitation Distribution and Proposal Submittal; (2) Evaluation Process; and (3) Contract Negotiations. The intended schedule is presented below.

- 1. Solicitation Distribution and Proposal Submittal (November 27, 2002 to December 20, 2002)**
  - Solicitation Issued – November 27, 2002
  - Proposals Due – December 20, 2002 (close of business)
- 2. Evaluation Process (December 20, 2002 to January 31, 2003)**
  - Value Individual Responses – December 20, 2002 to January 3, 2003
  - Determination of Short List – January 10, 2003
  - Determination of Final List – January 31, 2003
- 3. Contract Negotiations (February 3, 2003 to March 28, 2003)**
  - Initiate Contract Negotiations – February 3, 2003
  - Award Announcement – March 28, 2003

Interested parties should respond in writing no later than Friday, December 20, 2002, and should include all of the information requested in the Exhibits to this Solicitation. Respondents should mark all confidential and proprietary information contained in its proposals as "Confidential." The Company will use reasonable efforts to protect the confidentiality of such information consistent with applicable laws and regulations. Responses should be directed to:

W. A. "Bill" Gaines  
Vice President, Energy Supply  
Puget Sound Energy  
P.O. Box 97034, OBC-15  
Bellevue, WA 98009-9734

or Eric Markell  
Vice President Corporate Development  
Puget Sound Energy  
P.O. Box 97034, OBC-15  
Bellevue, WA 98009-9734

If additional information is required to respond to this letter, please contact Ron Amen (Navigant Consulting) at 425-765-9385, Eric Markell at 425-462-3595 or Bill Gaines at 425-462-3145.

Sincerely yours,

William A. Gaines  
Vice President, Energy Supply

Eric Markell  
Vice President, Corporate Development

## Exhibit A

### Content of Solicitation Response

#### Contact Information and Overview

1. Company/Respondent:
2. Name of Contact/Title:
3. Mailing Address:
4. Telephone:
5. Fax:
6. E-Mail:
7. Executive Summary (one or two paragraphs) describing the proposal:
  
8. Certification: Respondent hereby certifies that all of the statements and representations made in this proposal package, including attached documents, are true to the best of the Respondent's knowledge and belief. Respondent agrees to be bound by its representations and the terms and conditions of the Solicitation:

Signed: \_\_\_\_\_

(Typed Name): \_\_\_\_\_

Title: \_\_\_\_\_

(Duly Authorized)

Date: \_\_\_\_\_

## Exhibit B

### Description of Requested PPA Product(s)

The required solicitation response information should be provided in sections numbered in accordance with the specific items detailed below. The Company may request additional data or clarifying information from Respondents.

#### 1. Description of Proposed Product(s)

PSE is interested in proposals for PPAs with the following characteristics:

- long-term (up to 20 years or longer)
- firm, with ongoing demonstration of dedicated generation sufficient to guarantee physical availability of contract quantities
- delivery to the central or southern portion of PSE's transmission system, or to a location where long-term firm transmission is available to deliver the power to the central or southern portion of PSE's system
- 200 to 300 megawatts of capacity and associated energy that can be taken as baseload and that also can be displaced at PSE's option, including in response to swings in its utility portfolio load-resource balance or in response to market prices for electricity and/or natural gas
- pricing provisions that both reflect the power supply being provided and that protect against volatility in short-term market prices for power supply

Responses to this solicitation should include a detailed description of how the proposal would fulfill the product characteristics listed above. Examples of basic products that could be used as the foundation for proposals to meet these characteristics include:

- tolling agreements, e.g., with fixed demand charges and variable energy charges based on a heat rate and natural gas prices
- fixed price agreements with provisions that provide PSE displacement rights and that specify pricing terms for exercise of displacement rights

#### 2. Technical Resource Description

Describe the resource(s) which are the source of the power in greater detail. Describe the resource(s) features and the development work completed to date (if applicable).

Include the following information (this list is indicative, not exhaustive), and indicate if requested information is not known:

- Project location. Identify the location and arrangement of key facilities.
- Project size. Provide the acreage and megawatts of the facility. If the project can be expanded, please describe.
- Project output. Provide the expected annual and monthly output (in megawatt-hours) of the facility.
- Equipment description. Provide a description, size, number and manufacturer of equipment that will be used, or that is currently in use.
- Interconnection location. Identify where the facility will connect to a transmission system, transmission rights that remain to be acquired and any new transmission facilities that will be required.
- Schedule for permitting and construction. The expected date of commercial operation and identification of permits outstanding.

### 3. Proposed Agreement Term

The Company is interested in long-term (20+ years) PPA proposals. Identify the beginning and ending dates of commercial service under the PPA. Specify any and all proposed provisions for renewal or extension, and cancellation notification, identifying any and all proposed conditions for the above to occur, including whether such events are proposed to be mutually or unilaterally determined.

### 4. Availability Terms

Identify any specific terms regarding minimum availability that will be guaranteed, the minimum MWh levels to be offered under the guarantee, the maximum annual outage days, and the maximum outage lengths.

For Firm Power proposals, describe in detail any proposed terms for periodic displacement of purchases at PSE's election.

### 5. Pricing Information

- (a) For each product offered, specify in detail the price to be paid by PSE for each calendar year of the proposed term of the agreement.
- (b) To the extent the price for the proposed products is comprised of several components (e.g., fixed capacity component, start charges, commodity-related portion of variable charges, etc.), describe, for each component, any assumptions used related to the pricing, and the methodology for determining delivered costs.

- (c) If price escalation factors or fuel indices are proposed, identify the proposed index or other source data that will define the escalator (e.g., CPI, change in GDP, Henry Hub, etc.), and Respondent's current projection of designated escalator or index for each applicable time period.
- (d) Show an example that calculates the estimated total dollars that would be paid by PSE in each calendar year of the term of the agreement.
- (e) Specify the time period for which the proposal pricing would remain effective (the "validity date") and any other provisions related to adjustments to the price.

## 6. Financial Information

- (a) Identify appropriate parental and subsidiary relationships pertinent to the transaction.
- (b) Provide audited financial statements, if available, or other financial statements for the most recent 12-month period. This information should be provided for all entities, including affiliates involved in the transaction. This information is intended to provide an indication of the ability and willingness of a 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 the Company may require are listed in Exhibit C.

## 7. Additional Information

Please provide any additional information that the Respondent believes will assist PSE in an accurate and fair evaluation of the proposal.



## EXHIBIT C

### Illustrative Matters To Be Negotiated Regarding Security of Supply and Financial Viability of Supplier

#### Financial Structure

- Capital Structure
- Budgets
- Distributions to Equity
- Incurrence of Debt
- Credit Ratings

#### Asset Security

- Sale or Transfer of Assets, Stock or Partnership Interests
- Merger and Consolidation
- Bankruptcy
- Asset Abandonment or Assignment
- Line of Business