REQUEST FOR PROPOSALS
WIND POWER RESOURCES

Draft RFP for Public Comment

August 25, 2003

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Bellevue, WA 98004-5731

1. Introduction

This document constitutes a Request for Proposals (RFP) from qualified third parties (respondents) to supply electricity to Puget Sound Energy (PSE or Company) from wind-powered generation. PSE seeks approximately 150 MW of nameplate capacity from wind power resources, consistent with needs identified in its Least Cost Plan (LCP). This level will aid PSE in meeting its goal of meeting up to 10% of its resource needs through renewable resources. PSE reserves the right to acquire more than 150 MW if such acquisitions are deemed beneficial.

Proposals will be received from respondents for purchased power agreements and/or arrangements whereby PSE would acquire an ownership interest in the project (see Section 3) with energy delivered on an "as-produced" or "integrated" (shaped) basis. A proposal must offer a minimum of 25 MW of nameplate capacity to be eligible for evaluation by PSE.

Proposals submitted will be evaluated using a two-stage process. In the first stage, proposals will be screened to identify the most desirable wind resources on a stand-alone basis as measured against criteria such as cost, location and other thresholds. In the second stage, the most beneficial proposals identified in the first stage will be further evaluated as part of PSE's overall portfolio to identify those which perform best (from a cost effectiveness, environmental, technical integration, risk and other bases) in relation to PSE's existing and future resource mix. This two-stage evaluation process is further described in Section 7. Those proposals that best meet PSE's needs may then, depending upon the outcome of the above evaluations, be carried forward for further discussion and eventually negotiations of potential agreements (Definitive Agreements). There is no commitment by PSE to enter into negotiations for or to ultimately acquire by contract or other means, any resource proposal received as part of this RFP process although the intent is for that to be the ultimate outcome. For any resource proposal that PSE does ultimately acquire, it is expected that the ultimate Definitive Agreements will embody terms and conditions substantially as described in the prototype power purchase agreement and term sheet (if applicable) that are attached to and made part of this RFP.

This RFP is part of a multi-part and multi-stage resource acquisition program to acquire a diverse mix of new resources as PSE's electric resource need grows over time. As part of such strategy, PSE anticipates that it will release additional RFPs for other electric resources based upon the LCP as may be periodically revised and PSE's electric resource needs over time.

2. PSE Least Cost Plan

This RFP is intended to be consistent with the guidance provided by PSE's most recent Least Cost Plan. PSE filed a Least Cost Plan with the Washington Utilities and Transportation Commission (WUTC) on April 30, 2003. The Least Cost Plan examines PSE's electric and gas resource needs over the next 20 years, and through robust 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. PSE has filed an update to the April LCP 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 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 protects against market risks, such as those recently experienced in the region. PSE has a need 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, reduced hydro and combustion turbine generation, and the expiration of power purchase and non utility generation contracts. The planning standards that PSE believes are appropriate 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.

Following its strategic direction of building a diversified portfolio, PSE has established a goal of serving five percent of its customers' energy needs through renewable resources. Given possible lower-cost alternatives to using simple cycle combustion turbines to back up wind power and the possibility of including other renewable resources in its portfolio, PSE has established a higher target of serving 10 percent of its customers' energy needs through renewable resources.

PSE has also committed to continue 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 wind electrical generation proposals under two different contracting scenarios: (1) Power Purchase Agreements or (2) PSE ownership arrangements. PSE will also entertain arrangements that are combinations of the two scenarios. Two different energy delivery scenarios are also sought: (1) as produced or (2) integrated (shaped).

The "Power Purchase Agreement" scenario anticipates a proposal pursuant to which the respondent would acquire, construct and retain ownership of the wind resource assets along with operating responsibilities with PSE purchasing all of the output (energy and capacity) and environmental attributes at an agreed upon delivery point. A prototype power purchase agreement that would be used in this scenario (and a combination of the two scenarios) is included as Exhibit 1 to this RFP.

The PSE ownership arrangement scenario anticipates a proposal pursuant to which PSE would ultimately own 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 2 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.

The first energy delivery scenario assumes that energy is delivered to PSE at the time that it is produced by the project. Under the second scenario, two options are envisioned, although PSE would welcome additional creative proposals from respondents. Under the first option, energy is provided in the general shape in which it was produced but is firmed and delivered after an agreed upon time period; e.g., one day or one week later. In this way the energy can be prescheduled as firm energy. Under the second option, seasonal shaping would be offered such that energy deliveries from the generation project would more closely match PSE's seasonal resource requirements.

4. Eligible Respondents

This RFP will accept proposals from all third party project developers 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 increase the number of qualified respondents and thus increase the overall creativity and competitiveness of responses to this RFP.

5. Proposal Requirements

Proposals shall include the following information:

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 integrated) being offered. 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 an integrated (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 turbines to be used, source and duration of wind data, 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, 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 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. 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 turbines and other project facilities.
- Project size, in acreage and megawatts. If the project can be expanded, please describe the potential scope and conditions.
- 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 and an Excel spreadsheet
- 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.
- 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 description, size, number and manufacturer of wind turbines that will be used. Provide a summary of the commercial operating experience of the turbine chosen. If a final wind turbine selection has not been made, list the candidates under consideration and the status and schedule of the selection process and any commitments by the manufacturer. For each turbine under consideration, provide the following information:

  – Technical specifications
  – Tower type and proposed hub height
  – Design life
  – Level of certification achieved
  – IEC design wind class (I or II)
  – Power Curve at sea level and average project site air density in 0.5 m/s increments (Excel spreadsheet and in written proposal)
  – Summary of performance guarantees and warranty provided

- The land area controlled relative to the locations of the turbines and the potential for additional wind energy development.

5.3 Energy Projections

5.3.1 Wind Data:

Include in the proposal any wind resource assessment report, summarized data and underlying source data that have been used to project the energy production of the project. These should include:

- The source and basis of the wind speed data and the wind speed data used in the development of the energy projections for the project.
- The purpose and location of the wind speed data collection, period of record, number of on-site and off-site meteorological stations used, data quality assurance procedures, levels of measurements and seasonal data recovery, and the organization responsible for the data collection and analysis.
- The name, address and contact information for all meteorological consultants.
- The methodology used to develop the estimated long-term annual and monthly wind speed, hub-height, average annual wind speed and wind speed frequency distribution for the project site.

- Monthly and annual representative hub-height wind frequency distributions at intervals of 0.5 m/s. Provide these tables in the written proposal and separately as an Excel file.
- The duration of on-site measurements (multi-year is strongly preferred).

5.3.2 Energy Calculation

Provide the analysis used to estimate the annual, monthly, and diurnal energy output of the project. This analysis should include as a minimum:

- Determination of wind speed for individual turbines in the project.
- Calculation of gross energy production using wind speed frequency distribution and turbine power curve.
- Calculation of energy losses with a list and quantification of all sources of losses considered and the basis for the quantification.
- Calculation of net energy output.
- If the proposal is for an integrated (shaped to PSE needs) product, the method and type(s) of resource to be used to shape the energy production, a description of any contractual arrangements necessary to effect such integration or shaping, and the status of such arrangements.
- Provide the as produced and, if applicable, integrated delivery schedule (see Exhibit 7)

5.4 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 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.
- A managerial organization chart
- Existing projects owned, developed and/or operated by the respondent
- The personnel or organizations responsible for the following areas:
  - Project wind resource assessment and energy 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 wind project experience of the key participants in the project.

5.5 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
- Financial statements (as of June 30, 2003) for the legal entities described in Section 5.4 above and for any other individuals or entities that may provide credit support, credit enhancement, surety bonds, guarantees, and security plus the most recent audited financial statements, if available.
- 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.
- 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 have described.
- The qualifications of such parties to provide, arrange or assist in obtaining necessary financing and credit support arrangements.
- Audited financial statements, if available, or other financial statements for the most recent 12-month period for all entities, including affiliates involved in the proposed transaction. 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 Section 10.4.
- Clear identification of the respondent's Investment Advisor. 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 estimates 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 in accordance with Exhibit 6.
- 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 an Excel spreadsheet file as well as in the proposal.

5.6 Interconnection Point, Control Area, and Point of Delivery

PSE will accept delivery of project energy and capacity at the respondent proposed Interconnection Point or at PSE's system. PSE will, in its evaluation of proposals excluding delivery to PSE's system include a quantification of the delivery charges necessary to transport project energy to PSE on a firm basis.

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 official studies, any information available concerning the transmission/interconnection costs and reliability should be provided with as much supporting documentation as possible

5.7 Project Development Status and Schedule

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

5.7.1 Schedule

Provide, in a format such as a Gantt chart, the best schedule estimates available on the various project activities covering the period from the initiation of wind resource measurements on site 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.

5.7.2 Site Control

Provide documentation of site control, including wind rights, access road, and transmission corridor easements needed to construct, interconnect and operate the facility. 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.

5.7.3 Environmental Review

Discuss known environmental issues relative to the development and operation of the project, including visual impacts, avian issues and baseline noise levels.

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 minimize the potential for avian mortality, noise, and visual 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.

5.7.4 Permits

Identify 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.

5.7.5 Interconnection/Transmission Construction Requirements

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

- new pole lines,
- 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 wind 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.

5.7.6 Construction

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

5.7.7 Testing

Summarize the testing planned to be conducted prior to acceptance of the turbines 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 for the turbines and the project, availability tests, SCADA acceptance, distribution system acceptance, and others that demonstrate performance of the project and associated facilities in accordance with applicable laws, regulations, permits and the power purchase agreement.

5.7.8 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. Price Proposal(s)

PSE envisions several potential options for project pricing. For Power Purchase Agreements, these include:

- A fixed price per kWh for energy and Environmental Attributes produced.
- Fixed annual or monthly payments to the project to offset operations, 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.

For PSE ownership arrangements, alternative purchase terms may include:

- 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. 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.

7. Environmental Attributes

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

8. Other Requirements

8.1 Signature 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 an agreement of rules of any group, association, organization, or corporation.
- 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.

8.2 PTC 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) on December 31, 2003, or the respondent or other project entity's ability to utilize the PTC.

8.3 No Reassignment

All proposals shall state 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.

8.4 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.

8.5 Validity and Deadlines

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 to support the proposed project schedule.

9. 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, amount, 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, the value associated with market-based liquidated damages for failure to perform, delays in construction, failure to meet minimum availability levels and/or other forms of default or non-performance.

Please see Section 10.2.5 of this RFP regarding the Evaluation Process for matters that PSE will consider in evaluating the structural and financial risk associated with project proposals. The respondent should be aware that PSE may require negative control in addition to any that may be included in the prototype power purchase agreement (Exhibit 1) or prototype term sheet (Exhibit 2) in any or all Definitive Agreements that respondent or PSE might execute in connection with respondent's proposal.

10. Evaluation Process

Those eligible proposals which meet the initial threshold size requirement of 25 MW of nameplate capacity, will be subject to one or both stages of the following two stage evaluation process:

10.1 First Stage Evaluation

In stage one, eligible proposals will be examined and evaluated by PSE according to the following criteria:

- Resource price ranking as compared to PSE's estimated avoided costs for generic wind power resources (see Exhibit 3 to this RFP). The particular set of avoided costs used will depend upon whether the proposal contemplates a power purchase agreement, PSE ownership, or some combination. All transaction costs such as taxes and risk transfer will be included in the evaluation.
- Project Size & Monthly Production: Individual proposals must offer at least 25 MW of nameplate capacity. PSE prefers resources of larger size and which provide monthly energy well matched to its load requirements as illustrated in Exhibit 4 to this RFP. An initial evaluation of the quality of the wind resource data submitted by respondent will be made during this stage.
- Whether the proposal is for a new or recently completed project: One of the objectives of this RFP is to aid in the development of new wind resources in the Northwest and thus to aid in a sustained and viable wind industry. To that end, and given other considerations, PSE will prefer new resources to resources already existing.
- Proximity and availability of transmission and the status and schedule for completion of the necessary transmission agreements. The respondent shall be responsible for arranging for the transmission interconnection with the WECC high voltage transmission system and for projects located outside of PSE's control area, transmission to agreed to point(s) on PSE's transmission system.
- Status and schedule for completion of development of the project including financial resources of the respondent and progress made in securing necessary permits, land, hardware and other factors necessary for a completely commercially operational project.
- Proposed date of commercial operation and full availability of the project. To help ensure maximum benefits to PSE's customers, PSE prefers proposals that provide substantial assurances that the project will be on-line by December 31, 2004. This is to capture the benefit of a bonus MACRS depreciation schedule that will result in lower cost to our customers. However, projects with later on-line dates will be evaluated.

- The type of proposal, e.g., power purchase agreement or PSE ownership, or combination. All other factors being equal, ownership is of significant interest to PSE and long-term power purchase agreements (up to 20 years or longer) are preferred over short-term
- Experience and successful history of development of similar wind projects.
- Project Location: Must be located in the Pacific Northwest Region (Washington, Oregon, Idaho, Montana), with preference given to sites within PSE's service area that contribute to economic development of the host community consistent with local community preferences.

Those proposals that best meet, in PSE's sole judgement, the above criteria and provide a sufficient amount of resource will then be subject to a second stage evaluation.

10.2 Second Stage Evaluation

In stage 2, PSE will evaluate proposals within PSE's portfolio of existing and anticipated future resources. The following criteria will be used in stage 2:

10.2.1 Portfolio Analysis

PSE's evaluation of wind power proposals submitted in response to this RFP will include an analysis of the net impacts of each proposal on cost and risk for the Company's overall electric resource portfolio. This analysis will go beyond evaluation of proposals on a stand-alone basis. The portfolio analysis for a given proposal will assess how the proposed resource (including proposal costs, transmission costs, integration costs, seasonal shape of generation, etc.) would interact with other existing and planned resources in PSE's overall portfolio and with PSE's retail electric loads. The analysis will also take into account imputed debt effects associated with power purchase agreements, end-effects for resources with different lives, and other factors. The results of the portfolio analysis will include impacts on 20-year net present value of costs for the overall portfolio and impacts on portfolio risk (measured as variability in portfolio costs).

PSE recently developed and used an integrated portfolio screening model for its Least Cost Plan. This model is also being used to evaluate specific resource acquisition opportunities. To ensure that it evaluates proposals on a basis that is consistent with its resource planning, PSE intends to use the portfolio screening model to perform the portfolio analysis described above.

An estimated integration cost will be included in the portfolio analysis which will quantify, to the extent known, the cost of integrating the wind resource into PSE's system on a real-time and other bases. Integration costs will be based upon PSE's best estimate at this time but it is recognized that the information to analyze integration cost are not currently well known and will constitute PSE's best estimate only. PSE intends to continue with its acquisition of wind resources through this RFP process and will further evaluate and refine the integration costs as PSE gains experience with wind resources and the integration of wind resources into its electric resource portfolio and system.

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10.2.2 Risk

An important component of the analysis of proposals will be consideration of risk to PSE and its customers. PSE will evaluate risk in two ways: 1) Cost uncertainty, price volatility, production uncertainty and other such factors which can be included into the Portfolio Analysis in Section 10.2.1 above; 2) Other uncertainties which will be evaluated but do not lend themselves to

numerical analysis. These include such things as uncertainties or other risk associated with technology, performance, operations, transactional, vendor support, construction, project completion, schedule, capital cost, and others.

10.2.3 Ability of Project to Deliver as Proposed

The second evaluation criterion within stage 2 will be a more detailed assessment of the project's ability to deliver the level of energy expected over the proposed term of the project. This will be assessed using some or all of the following criteria:

- Probability of meeting the proposed commercial operation date
  - Financing commitments
  - Permit status and difficulty
  - Long lead time equipment commitments
  - Probability of financing – reasonableness of project budgets and pro forma
  - Project schedule
  - Availability and cost of transmission
  - Ability to document proposed transaction within schedule requirements
- Confidence in long-term energy projections
  - Quality and quantity of on-site data
  - Long-term reference data
  - Experience of the parties making the energy projections
  - History of proposed turbines
  - Written opinion and analysis of a nationally recognized meteorological consultant as to the reasonableness of the amount and shape of energy production.

10.2.4 Experience of the project team

This evaluation criterion will consider the factors listed in Section 5.4 of this RFP.

10.2.5 Guarantees, Security and Credit Worthiness

This evaluation criteria will include an assessment of the credit worthiness of respondent and any person that would provide any guarantees and security offered to PSE in the proposal. Developments in the capital and business markets strongly suggest to PSE 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 PSE capacity and energy from a wind resource under either of the project types, power purchase agreement or PSE ownership or a combination thereof. Considerations include:

Financial Structure

- Capital structure
- Budgets
- Limitations on distributions to equity
- Limitations on incurrence of debt
- Debt leverage
- Credit ratings of project level debt and any guarantors
- Events of default

Performance Security

- Sale or transfer, or pledge of assets, stock or partnership interests
- Merger and consolidation
- Bankruptcy, insolvency or reorganization
- Asset abandonment or assignment
- Line of business

Please note that all proposals are required to clearly identify the respondent's Investment Advisor. If a proposal is selected by PSE for further evaluation and possible negotiation and execution of a Letter of Intent and Definitive Agreements, PSE will require that the Investment Advisor be available to meet and discuss with PSE all aspects of project financing.

10.2.6 Environmental and Public Purpose

This criterion will include an assessment of the magnitude of potential environmental impacts, the thoroughness of the plan to identify and mitigate those impacts regardless of whether the proposal results in a new wind resource being added to the Northwest region, and level of support or opposition from external stakeholders.

10.3 Results of Stage 2 Evaluation

At the completion of the stage 2 evaluation, PSE will select proposals for further discussion with the respondent(s) and potentially move forward with negotiations o f the terms and conditions of Definitive Agreements.

11. 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 2 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. As part of the continuing evaluation of the proposal, PSE may require the respondent to fund the fees and cost of a third party selected by PSE to review and verify the wind resource and energy estimates.

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 prudent 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.

12. RFP Schedule

The RFP process will occur in accordance with the following schedule:

August 25	Issue Draft RFP
September 15	PSE Public Meeting on Draft RFP
October 24	End of 60-day comment period
November 24	WUTC Approval of RFP
December 3	Issue Final RFP
December 10	Hold Pre-Proposal Conference
January 9	Responses Due
February 2	Select Short-Listed Proposals, Notify Respondents
March 19	Execute Letter(s) of Intent

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

13. 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 responses must be received by no later than 5:00 PM Pacific Time on January 9, 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:

Charlie Black, Resource Planning
425-462-3081
425-462-3175 Fax
charlie.black@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

14. Confidentiality/Disclosure

Except as required under law or for regulatory purposes, PSE will maintain confidentiality of the information contained in submitted proposals. Only PSE employees, legal counsel, financial advisors or other contractors who are directly involved in this RFP process, or who have need to know for business reasons, will be allowed to view submitted proposals.

Respondents shall clearly identify portions of their proposals that they do not want revealed to third parties by marking those portions of the proposal "Confidential" on every page. If PSE is requested to provide such information, respondent shall be responsible for defending the confidential status of the information. The respondent shall be responsible for legal and all other costs incurred to protect their confidential information.

As required by law, PSE will make available to the public a summary of all proposals received and the final ranking of all such proposals.

All information supplied to PSE, or generated internally by PSE, shall remain the property of PSE and shall not be available to any entity before, during, or after this RFP process unless required by law or regulatory order. Proposal and all related material will not be returned to respondents. PSE will retain all information pertinent to this RFP process for a period of at least 7 years or until PSE concludes its next general electric rate case, whichever is later.

Additionally, the models and data used by PSE in its evaluation process will not be provided to respondents or other third parties unless required by law, regulatory order, or business need.

A standard Confidentiality Agreement is included as Exhibit 5 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.

15. Exhibits

1. Prototype Power Purchase Agreement
2. Prototype Ownership Term Sheet
3. Avoided Cost Schedule
4. PSE Monthly Resource Need
5. Mutual Confidentiality Agreement
6. Template for Financial Pro Forma (suggested)
7. Template for energy delivery schedule