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VIA E-MAIL & FIRST CLASS MAIL
Carole Washburn
Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Comments on Puget Sound Energy's All-Generation Source RFP, Docket UE-031353

Public Counsel offers the following comments on Puget Sound Energy's all-generation source request for proposal (RFP).

We are generally satisfied with the process the company is pursuing to address the resource needs it identified in its most recent integrated resource plan (IRP). The use of three RFPs, targeting a mix of resources consistent with the IRP, is a reasonable means to seek out a low-cost resource portfolio.

Public Counsel believes ratepayers and the company share a common concern of how best to balance least cost and price stability for ratepayers, and a common interest in evaluating risk and volatility of power supply options. We are particularly concerned with three central elements of power supply risk – fuel prices, fuel supply (availability and adequacy) and environmental liabilities. A fourth risk, the ability of counter-parties to fulfill any agreement, is also important. While we are satisfied that Puget appears to be asking the right questions, we are not certain that the responses to the RFP will provide the clearest answers possible.

Puget proposes to evaluate numerous risk elements, including those we are most concerned with, and describes the evaluation criteria in Exhibits 1 and 2 to the RFP. The evaluation criteria give "preference" to fixed prices over "long" terms, demonstrably reliable fuel supply, minimal environmental liability and strong counter-parties. All other things being equal, such preference is reasonable. However, the criteria lack precision, which may impede the company, the Commission, and other interested parties in making direct comparisons of differing responses, even for similar resources. That problem will be exacerbated when comparing across resource options, particularly those with very different attributes and risk profiles (i.e. wind v. coal).

A standard offer requirement – a fixed price over a fixed long term, demonstrated fuel supply availability and adequacy, and environmental liability indemnification of some fashion – would be a useful addition to the RFP. Bidders would still be able to make other bids, conforming to the general criteria outlined by the company, even if they did not submit a standard offer bid that internalized these risks. Indeed, the difference between bids that did and did not internalize these risks would be useful to illuminate the price of each of the elements of the standard offer. The company could use the counter-party performance criteria to assist in evaluating whether bids which met the standard offer were likely to be fulfilled by the bidders. This type of bidding process is the only approach that would produce price information that would allow for an apples-to-apples comparison between renewable resources and conventional resources, addressing the concern raised by Commission Staff in the discussion of the company's wind-only RFP.

A lack of responses to the standard offer would still be very useful information for the Commission, the company and customers. It would suggest that some risks are too unknown, too large, or too volatile to be assumed by potential market participants. For example, a lack of bids with carbon indemnification would be a message that risk is unknowably high or altogether too volatile for bidders. Public Counsel suggests that risks that are too high for market participants are similarly ill-suited for customers to shoulder. If that is true, then it follows that resources without those risks should be afforded some considerable value for avoiding them.

We have learned much from the past four years. Natural gas prices have risen dramatically, and volatility is much higher. Natural gas supplies, and delivery infrastructure, are a far greater concern than in the past. Wholesale electricity markets have gyrated wildly, and market participants have exited. Puget's own IRP, and the pending EFSEC rules, have begun to quantify the costs of carbon emissions (but do not limit either company or ratepayer exposure to them).

The company has an excellent opportunity, through this RFP, to do significant price discovery on the costs of those risks. While the evaluation criteria the company proposes address the correct concerns, they should be augmented to call for specific proposals to address these key areas of concern through bids that internalize these important costs.

Sincerely,

/s/ Matt Steuerwalt

Matt Steuerwalt
Public Counsel Section
Washington Attorney General