

Via First Class Mail and Email

January 6, 2004

Carole Washburn
Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket # UE-031353: Puget Sound Energy's All Source Request for Proposals

Dear Ms. Washburn,

Thank you for the opportunity to comment on Puget Sound Energy's (PSE) all source Request for Proposals (RFP). The NW Energy Coalition and Renewable Northwest Project actively participated in PSE's recent least cost planning process, which led to this RFP. PSE continues to demonstrate a strong commitment to working with stakeholders and considering all options for best meeting the needs of its customers.

At the Commission's November 12 open meeting, we supported PSE's RFP for 150 MW of wind resources. The Commission determined that proposal to be in the public interest conditioned on PSE's filing an all generation source RFP by December 31. We understand the purpose of this all source RFP to be two-fold: (1) to determine whether resources with appropriate cost and risk characteristics are available for acquisition in accordance with PSE's need for energy, and (2) to compare bids across all resource types to help ensure that final acquisition decisions are in the best interests of PSE's customers.

PSE originally had planned to target specific resource types in a series of RFPs to be issued in 2003-2004. An all source RFP will only provide a fair and true comparison of widely differing resources if the evaluation process recognizes and explicitly values a number of costs and benefits in addition to price. We are, therefore, pleased to see that PSE plans to evaluate proposals based on a variety of unweighted quantitative and qualitative criteria, including price and related volatility, exposure to environmental risk & regulations, and resource diversity. Risk factors are critical in this analysis, and are appropriately included in PSE's Stage 1 and Stage 2 evaluation criteria.

Compared to fossil fuel-fired generation, renewable resources offer utilities at least three kinds of risk mitigation. First, they provide fuel cost risk protection because renewables have no fuel cost. Renewables offer a fixed price for a 20 to 30 year period; this should be balanced against the availability of a fixed-price, long term gas contract. Second, renewables provide protection against the risk of fuel availability. The supply reliability of renewables should be balanced against the reality of dwindling gas supplies. Finally, renewables offer protection against the risk of future environmental regulation of carbon emissions. Fossil resources are vulnerable to any carbon tax imposed in the future.

The draft RFP emphasizes PSE's preference for 15-20 year or longer contracts. It provides bidders with proposals dependent on a fuel source an option to propose a firm supply of fuel. And it establishes criteria for evaluating environmental risk. However, we are concerned that these options alone do not provide sufficient certainty to ensure "apples-to-apples" comparisons across resource types.

We believe that the RFP would be improved by adding a requirement for bidders to offer at least one bid that includes the following:

1. A fixed-price contract to PSE for the duration of the contract term. This eliminates any fuel cost risk to PSE and more specifically to ratepayers who may ultimately see the cost as a result of the power cost adjustment mechanism.
2. A long-term (i.e., 20 year minimum) contract for fuel supply. This eliminates any risk to PSE of fuel availability.
3. An agreement by the developer to absorb any carbon risk. This would provide an indicator of the environmental cost associated with each resource type.

The results of this bid will provide comparable data to the bids received from the wind solicitation as well as from other renewable resource bids. Bidders could also be given the option of submitting a bid that places one or more of these risks on PSE.

Finally, we also suggest that if PSE accepts a bid that does not internalize carbon risk, then PSE's shareholders, not their customers, accept that risk.

Thank you for considering these recommendations. The Coalition may separately submit comments by January 13 on PSE's energy efficiency RFP included in this docket.

Sincerely,

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