

*2018 All Resources RFP:*

## Exhibit A. Evaluation Criteria

**EXHIBIT A. EVALUATION CRITERIA***Evaluation Criteria*

PSE's evaluation of new long-term electric generation resources is based on an assessment of five primary criteria:

- Compatibility with resource need
- Cost minimization
- Risk management
- Public benefits
- Strategic and financial

Each criterion is further delineated into more detailed criteria elements, as described in the following tables.

*1. Compatibility with Resource Need*

Criteria Element	Description
1. Timing	<p>PSE prefers proposals that offer:</p> <ul style="list-style-type: none"> <li>• energy and/or capacity in a time frame consistent with PSE's needs</li> <li>• substantial assurance of being commercially available according to the schedule proposed</li> <li>• flexibility in development schedule and/or contract start date to accommodate PSE's timing needs</li> </ul>
2. Match to need through ownership	<p>Proposals that offer generation from an underlying asset that closely matches PSE's annual capacity requirements, or that offer output which can be controlled by PSE are preferred to those that rely on shaping through short- or long-term arrangements.</p>
3. Match to need through contract	<p>PSE prefers proposals that provide a fixed annual price and closely match PSE's annual capacity requirements.</p> <p>PSE seeks proposals that provide fixed transmission capacity from BPA's system to PSE's system and closely match PSE's annual capacity requirements.</p>

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Criteria Element	Description
4. RPS requirement	Proposals in which qualified renewable generation and/or RECs are closely aligned with PSE's renewable need as mandated by the Energy Independence Act, Chapter 19.285 RCW.
5. Operational flexibility	<p>PSE prefers proposals that offer control of project output whereby the Company may respond to seasonal and real-time fluctuations in load/resource balance and system reliability events. This includes, for example, dispatch or displacement of the project in real time and, for jointly-owned projects, the ability for PSE to elect to use generation output that would otherwise be displaced by the other owner for reliability purposes.</p> <p>Additionally, PSE prefers proposals that provide the ability to carry operating reserves.</p>
6. Performance within existing PSE generation portfolio	<p>Analyses will include such factors as:</p> <ul style="list-style-type: none"> <li>• impact on system reliability</li> <li>• system dispatch and displacement</li> <li>• location with respect to the regional transmission system and PSE's electric system</li> <li>• impacts on system reserves, load following, integration costs and other factors</li> </ul>
7. Resource mix/diversity	<p>The diversity of resource technology and fuel types will be considered in a manner consistent with PSE's <i>Integrated Resource Plan</i>.<sup>1</sup> Specific considerations shall include:</p> <ul style="list-style-type: none"> <li>• technology type</li> <li>• fuel supply type</li> <li>• fuel supply source</li> <li>• fuel supply reliability, including control and deliverability</li> </ul>

<sup>1</sup> PSE's most recent Integrated Resource Plan can be found at [www.pse.com/irp](http://www.pse.com/irp).

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*2. Cost Minimization*

Criteria Element	Description
1. Resource cost	<p>PSE prefers proposals that provide the lowest reasonable cost throughout the project life, taking into account the price of the proposal and other factors that impact PSE's overall cost.</p> <p>Such factors include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• capital cost</li> <li>• financing cost</li> <li>• operation and maintenance cost</li> <li>• expected or potential carbon control or mitigation costs</li> <li>• fuel and fuel transportation cost</li> <li>• fixed and variable power purchase agreement cost</li> <li>• transmission cost</li> <li>• ancillary services</li> <li>• integration costs</li> <li>• transmission system upgrades</li> <li>• cost to rebalance debt/equity ratio for imputed debt and consolidated debt</li> <li>• cost of credit facilities</li> <li>• transaction costs and other management costs, etc.</li> <li>• cost to meet environmental compliance, including capital improvements and/or capacity limitations and restrictions</li> <li>• renewable energy credits or other environmental attributes</li> </ul>
2. Transmission	<p>PSE prefers long-term firm delivery of energy to its service area. In the absence of the assurance of firm delivery at the time of the proposal, PSE prefers proposals that provide a high likelihood of acquiring adequate transmission rights.</p> <p>Proposals that do not include long-term firm transmission to PSE's service area, that would produce congestion or increase PSE's transmission costs will be compared unfavorably with other proposals and/or will be assessed the additional cost to PSE as part of the evaluation process.</p>
3. Portfolio cost impact	<p>PSE prefers proposals and combinations of proposals that result in the lowest impact on PSE's revenue requirements and rates when included in PSE's existing generation resource portfolio.</p>

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**3. Risk Management**

Criteria Element	Description
1. Status and schedule	<p>All else being equal, PSE prefers operating projects first, projects under construction second, and development projects third.</p> <p>With respect to development projects, PSE prefers proposals that demonstrate the respondent has the experience and financial resources to complete the project and has made significant progress in securing necessary permits, property rights, equipment, regulatory approvals, water rights, wastewater and disposal rights, project agreements and all other rights or arrangements necessary for a completely commercially operational project within the time frame proposed for commercial operation.</p>
2. Price volatility	Proposals that provide significant long-term control of fixed and variable costs are preferred.
3. Resource flexibility and stability	<p>PSE prefers proposals that provide flexibility for expansion to meet PSE's growing needs as required.</p> <p>Proposals that include project agreements and all other rights and arrangements coterminous with power purchase delivery periods or project life are preferred.</p>
4. Resource Technology	<p>Proposals based on commercially-proven technology with demonstrated long-term reliability and performance history are preferred.</p> <p>Proposals based on technologies whose output may be controlled are preferred.</p>
5. Long-term flexibility	PSE prefers proposals that offer the Company the flexibility to adjust its position in a resource long term, up to and including termination.
6. Project risk	<p>Proposals that minimize risk for timely plant completion within cost projections are preferred.</p> <p>Proposals that minimize exposure to environmental risk or other potential liability, including expected or potential carbon control or mitigation costs, are preferred.</p>

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Criteria Element	Description
7. Impact on PSE's overall risk position	<p>Proposals and combinations of proposals will be evaluated to determine the impact of the proposal(s) on PSE's overall risk position with respect to PSE's generation portfolio.</p> <p>Risk scenarios will include factors such as hydroelectric production variation, wind generation variability, fuel price volatility, carbon control costs, and power market price volatility.</p> <p>Additional risk scenarios will examine the correlation between fuel prices and power market prices, and alternative market price scenarios. Other considerations will include exposure to transmission congestion and costs.</p> <p>All else being equal, PSE prefers proposals that result in lower generation portfolio performance risk.</p>
8. Environmental and permitting risk	<p>PSE's evaluation process will include an assessment of the following criteria:</p> <ul style="list-style-type: none"> <li>• status in acquiring needed permits</li> <li>• risk associated with future environmental regulation and taxes, including greenhouse gas emissions</li> <li>• compliance with state RPS</li> <li>• compliance with regional generator performance standards and import standards</li> </ul>
9. Respondent risk	<p>PSE will consider information requested in <b>Section 4</b> of the RFP document and <b>Exhibit B</b> in determining the risk associated with the financial condition and performance of a respondent and any third parties relied upon by the respondent. Lower-risk respondents are preferred.</p>
10. Ability to deliver as proposed	<p>PSE will use the information provided in response to <b>Exhibit B</b> to evaluate the experience and qualifications of the project team, an important consideration when judging a respondent's ability to deliver a commercially operable project in the time frame proposed. PSE prefers respondents with proven track records.</p> <p>Information submitted in response to <b>Exhibit B</b>, which addresses project development status and schedule, will also be used to evaluate the respondent's ability to meet the proposed commercial operation date.</p>

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11. Status of transmission rights	<p>The ability to transmit power from the project site to one or more points on PSE's electric system is a requirement (particularly to points on the system where the deliveries may be used to serve load with limited or no transmission congestion).</p> <p>PSE will use information provided in <b>Exhibit B</b> and, if necessary, the PowerWorld software tools, to assess whether and to what extent the required transmission will be available, and whether and to what extent the necessary transmission paths are constrained.</p>
12. Security and control	<p>Proposals that supply firm, fixed price fuel supply are preferred.</p> <p>Proposals that offer alternative methods of managing price volatility will be favorably considered.</p> <p>Proposals that supply firm energy and capacity are preferred.</p>
13. Federal regulatory approvals	<p>PSE will consider the effect of any federal regulatory approvals that would result from accepting the proposal, including, but not limited to, requirements under Sections 203 and 205 of the Federal Power Act. Proposals that eliminate or minimize the effect of any such federal regulatory approvals are preferred.</p>

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**4. Public Benefits**

Criteria Element	Description
1. Environmental impacts	<p>Proposals that minimize environmental impacts are preferred. Environmental impacts refer to the full range of issues evaluated in an environmental impact statement or environmental assessment.</p> <p>PSE will consider information supplied in response to <b>Exhibit B</b> in its evaluation of the environmental impacts of a proposed acquisition.</p>
2. Resource location	<p>Proposed resources located such that they provide benefits to the regional and PSE transmission systems, or require minimal or no transmission upgrades are preferred.</p> <p>Proposals that are not dependent upon constrained transmission or fuel transportation paths are preferred.</p> <p>Proposed resources located within PSE's service territory are preferred.</p>
3. Community impacts	<p>Proposals that demonstrate support from public, local, state and federal government entities and Native American Tribes, if applicable, as well as other stakeholders, are preferred.</p>



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5. *Strategic and Financial*

Criteria Element	Description
1. Capital structure impacts	<p>PSE's quantitative analysis will impute the anticipated equity cost needed to offset any adverse effects on its capital structure associated with accounting requirements (e.g., FASB ASC 810) that may require PSE to consolidate the respondent's balance sheet.</p> <p>All else being equal, PSE prefers proposals that avoid risks associated with a requirement to consolidate a respondent's financials with PSE's financials (e.g., pursuant to FASB ASC 810).</p> <p>All else being equal, proposals are preferred that would not increase PSE's exposure to adverse impacts on its financial position (e.g., by requiring PSE to impute debt, to account for the transaction as a capital lease (e.g., under FASB ASC 840), to account for or report the transaction as a financial derivative transaction (e.g., pursuant to FASB ASC 815), by otherwise adversely affecting PSE's financial leverage, operating leverage, credit rating, cash flow, income statement or balance sheet, or by imposing credit requirements or increasing liquidity risk).</p>
2. Future exposure to environmental regulations and/or taxes	Proposals for resources with lower potential exposure to future environmental regulations and/or taxes are preferred.
3. Guarantees and security	<p>PSE will consider information provided in response to <b>Exhibit B</b> to determine whether it will require any additional guarantees or credit support pursuant to <b>Section 5</b> of the RFP document.</p> <p>PSE's credit risk department may require the seller to provide performance assurance. PSE will expect sellers with sub-investment-grade credit ratings (or being of similar creditworthiness) to provide performance assurance acceptable to the Company.</p> <p>PSE will not accept collateral thresholds, credit ratings triggers, general adequate assurances language or similar language that might require the Company to provide performance assurance.</p>