BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1360

In the Matter of PacifiCorp Draft 2008 Request for Proposals	STAFF'S REPLY COMMENTS

Pursuant to Judge Kirkpatrick's memorandum of March 6, 2008, staff submits reply comments on PacifiCorp's Draft 2008 Request for Proposals (Draft 2008 RFP). These comments are informed by the following events since the company's initial filing:

- On March 28, 2008, PacifiCorp filed a revised Draft RFP and reply comments following initial review by the Oregon and Utah Independent Evaluators (IEs) and stakeholders in Oregon, Utah and Washington.

- On April 1, 2008, the company filed an application for waiver of the Commission's competitive bidding guidelines to take advantage of a time-limited opportunity to acquire an existing generating plant at a favorable price.

- On April 9 and April 10, 2008, staff filed with the Commission the Oregon IEs' Closing Reports on the 2012 RFP for base load resources (Docket UM 1208).

- On April 24, 2008, the Commission issued its order on PacifiCorp's 2007 Integrated Resource Plan (IRP).[1] In opening comments staff relied on its proposed order when addressing alignment of the RFP with the acknowledged IRP — criteria 1 for RFP approval. Staff's opening comments in this regard are consistent with the Commission's order.

- On April 14, 2008, staff filed with the Commission the Oregon IEs' assessments of the final draft 2008 RFP design.

Only Industrial Customers of Northwest Utilities (ICNU) and staff submitted opening comments in this proceeding. ICNU recommended the Commission not approve the 2008 RFP for the following reasons:

- The company has not demonstrated a need to acquire up to 2,000 megawatts (MW) of new resources.

- The draft RFP is not consistent with the 2007 IRP as proposed for acknowledgment by staff.

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[1] Order No. 08-232 in Docket LC 42.

- Proposed deviations from the Commission's competitive bidding guidelines related to treatment of self-build options are not supportable.

ICNU further recommends that the bidders fees required by Utah also should be used to defray costs of the Oregon IEs.

Following are staff's reply comments responding to ICNU's opening comments; PacifiCorp's revised draft RFP, reply comments and responses to data requests; and assessments of draft RFP design by the Oregon IEs. The Attachment to staff's comments consists of PacifiCorp's responses to selected staff data requests.

Assessment of Draft RFP Design by the Oregon Independent Evaluators

1. **Treatment of self-build options** – Staff and ICNU did not support PacifiCorp's initial proposal to submit self-build options as "bids" instead of benchmark resources. Based on comments in Oregon and Utah, the company has revised the RFP to treat self-build options in a manner consistent with the Commission's guidelines.

   Staff discusses in opening comments issues PacifiCorp has raised related to complying with the Commission's requirement to provide benchmark resource scores prior to the opening of bidding. The Oregon IE continues to recommend that a separate person or team perform the initial short-list evaluation of benchmark resources to avoid code of conduct issues, noting that the price scoring should be unaffected. The IE acknowledges that non-price scoring may pose a difficulty because that is a matter of judgment. However, the IE believes this is not a major issue because the Benchmark Resources move on for final short-list consideration regardless of non-price score. Further, the evaluation team will consider the non-price aspects of all bids in the final short-list decision.

   It is unclear whether PacifiCorp intends to satisfy the Commission's requirement under Guideline 8 to submit the detailed score for benchmark resources prior to the opening of bidding. Staff therefore recommends the Commission explicitly include this requirement as a condition for RFP approval.

2. **Comparability of bids and benchmark resources** – To ensure fairness and transparency of the process, the Oregon IE strongly prefers that PacifiCorp, via an unregulated affiliate, submit a binding bid in a manner similar to a third-party bidder. The IE states that any resulting pay-for-performance power purchase agreement (PPA) with the affiliate would protect ratepayers from inappropriately low initial cost estimates, project mismanagement and rising costs for construction inputs above the allowed indexes.

   The Commission's competitive bidding guidelines allow for such an approach. The guidelines also allow for traditional ratemaking treatment. While staff finds the IE's arguments compelling, and PacifiCorp could choose to adopt this approach under

Oregon's guidelines, staff is uncertain whether the approach proposed by the IE would meet competitive bidding requirements in other PacifiCorp states.[2] Moreover, staff believes this issue is best addressed in a general review of Oregon's competitive bidding guidelines.[3]

In the event PacifiCorp continues to submit its benchmark resources on a cost-of-service basis, the Oregon IE recommends four possible ways to address the issue of comparability with bids:

a. PacifiCorp could "band" its cost estimate with a cap and floor on cost recovery, at a given percentage stated by the company. The highest-cost scenario (upper band) would be used for evaluation.
b. A specified amount could be added to the capital costs to reflect the possibility of cost overruns — for example, by indexing the bid 50 percent to the Consumer Price Index (CPI) and 50 percent to the Producer Price Index (PPI) – Metals, escalated at the 95th percentile of their expected value.
c. PacifiCorp could develop with regulators and interested parties a before-the-fact "PPA-like" document setting cost recovery at the submitted price, defining operating requirements and specifying penalties and conditions for allowable charges such as cost overruns.
d. PacifiCorp could submit both a "best offer bid" on a cost-of-service basis subject to a "not to exceed price" that would serve as a hard cap on bids and reveal the risk profile inherent in the company's proposal.

Order No. 06-446 (Guideline 10d) requires the IE to evaluate the unique risks and advantages associated with Benchmark Resources, including the regulatory treatment of costs or benefits related to actual construction cost and plant operation differing from what was projected for the RFP. The IE recommends that the issue be addressed up-front.

Staff conferred with the IE regarding an approach based on its option (b) above[4] and PacifiCorp's existing methods for calculating risks inherent in bids. As a result, the IE has proposed a modification to option (b) to adjust capital costs of benchmark resources[5] as follows:

Evaluators would start with PacifiCorp's costs as submitted. Evaluators would then create a "risk adjusted" value by assuming that 100 percent of PacifiCorp's costs are implicitly tied to a 50/50 split of the indexes the company allows bidders to use — the CPI and PPI – Metals. Based on the current position and past volatility of the indexes, evaluators would develop a 95th percentile value for those indexes. This

[2] The Commission's guidelines allow for consideration of regulations in other states.
[3] No such review is currently underway and staff believes it would be premature at this time.
[4] Described in Boston Pacific Company's "Assessment of PacifiCorp's All Source RFP Design," April 11, 2008, at 20, filed in this proceeding.
[5] The bidder's risk premium already is incorporated in its bid price plus any indexing. Bids for new assets (under an Asset Purchase and Sale Agreement, Tolling Agreement or PPA) can index up to 40 percent of capital cost payments, with a maximum of 25 percent to the CPI and 15 percent to the PPI – Metals.

95th percentile escalation would be adjusted for the probability of its occurrence (5 percent) and added to the expected mean escalation of the index.

For example, if the CPI and PPI are expected on average to rise by 5 percent during the escalation period and the 95th percentile values of the CPI and PPI are 10 percent, the total escalation factor applied to the entirety of the company's capital costs would be 5.5 percent (0.05 + (0.10 * 0.05)). This approach is similar to PacifiCorp's calculation of the primary risk metric for the RFP, "Risk-Adjusted PVRR." The benchmark resources would be evaluated in both the initial and final short-list evaluations with this escalation factor included.

The IE states that the indexes and splits are open for discussion, but any suggested indexes and splits should be substantiated with data.

Staff recommends the Commission adopt the IE's modified recommendation. As a condition for RFP approval, staff recommends the Commission require PacifiCorp to adjust the submitted capital costs of benchmark resources for risk in the following manner:

- Establish with the Oregon IE the indexes and the percentage split between the indexes to be used.
- Add to the expected mean escalation of the indexes the 95th percentile escalation adjusted for the probability of its occurrence.
- Include the risk adjustment for the benchmark resources in the initial and final short-list evaluation, applying the agreed-upon escalator to 100 percent of the submitted capital costs.

3. **Bid quantities on the initial and final short-lists** – The Oregon IE recommends the RFP state the maximum quantities PacifiCorp will include on the short-lists. Specifically, the IE recommends that:
   a. The initial short-list should total no more than two times the maximum acquisition from the RFP (e.g., two times 2,000 MW).
   b. The final short-list should total no more than 1.5 times the maximum acquisition from the RFP (e.g., 1.5 times 2,000 MW).

   Staff agrees and recommends as a condition of approval that the company specify in the RFP the maximum quantities for the initial and final short-lists. Staff recommends the company and the IEs work together to determine the specific amounts.

4. **Risks related to transmission and capital costs and reliance on off-system sales** – The IE recommends that, at a minimum, PacifiCorp conduct simple scenario analyses to determine whether changes to assumed transmission and capital costs — e.g., costs higher than expected — affect bid selection. The IE also recommends the company examine the risk of selling power off-system for bids and benchmark resources that rely on the ability to do so to be economic. Staff and others raised this issue in Dockets UM 1208 and LC 42.

Staff agrees and recommends that as a condition of approval the company add these analyses in the evaluation discussion in the RFP. The company should work with the IEs on the design of these analyses.

5. **Bidder participation levels** – The IE is concerned about the likely level of bidder participation in this RFP, based on attendance at pre-bid events and participation level in the 2012 base load RFP. The IE recommends the company redouble its efforts to publicize and promote the RFP. In particular, the IE recommends the company advise bidders about the range of products that can be bid, the wide range of transaction types allowed, the capital cost indexing allowed, and the fair and transparent evaluation process. Further, the IE suggests the company request feedback from market participants who do not plan to participate to reveal potential changes in RFP design that would elicit greater participation. Staff recommends that PacifiCorp report to the Commission on its efforts to promote the RFP and market feedback.

6. **Resource diversity** - Staff said in opening comments that PacifiCorp's proposal to ensure resource diversity on the initial short-list, pursuant to Guideline 9a, was inadequate with respect to resource duration. The company states it may replace all or part of the Front Office Transactions (FOTs) in the 2007 IRP preferred portfolio with resources solicited through this RFP. In opening comments (at 4), ICNU states that PacifiCorp may be using the RFP to inappropriately depart from its 2007 IRP in this regard.

   In the initial draft RFP, the minimum term required for any type of resource was five years. PacifiCorp has revised the RFP to allow PPAs and tolling agreements not backed by assets to bid for *up to* five years. Staff does not believe a bidder will propose a short-term PPA or tolling agreement far in advance of need, at least at a reasonable price. Further, such an assumption is inconsistent with assumptions in the IRP about FOTs. The IE agrees:

   > [T]he RFP will not solicit any product comparable to FOT[s]. This is because FOT[s] are purchased on an annual forward basis, not four years ahead of time. Since the FOT need will not be 'put up for bid' via this RFP there is no immediate need to deviate from the FOT quantities identified in the IRP….
   >
   > …While no FOT will be solicited through the RFP, all bids will be compared to a form of FOT (PacifiCorp's forward price curve) in the initial price screen and FOT will be a resource option in the company's CEM modeling. If there are many bids below the forward price curve or the CEM model picks more thermal supply resources, PacifiCorp may want to consider acquiring relatively more longer-term resources. If, on the other hand, most bids fare poorly when compared

> to the forward curve and are not selected by the CEM model when compared to FOT, then the Company may want to scale back its acquisition of longer-term resources in this RFP. *See* Boston Pacific Company's "Assessment of PacifiCorp's All Source RFP Design," April 11, 2008, at 9.

Given PacifiCorp's statements that it may replace some or all of the FOTs in the preferred portfolio with resources acquired through this RFP, staff recommends that the order in this proceeding state that the Commission does not acknowledge levels of FOTs that are lower than the levels included in the company's 2007 IRP preferred portfolio for the reasons stated in staff's opening comments.

7. **Heat rate** – The IE recommends that the RFP clarify that bids with heat rates less than 6,900 MMBtu will be accepted, classified and evaluated based on the resource's unique operating characteristics. Specifically, some stakeholders noted that certain eligible renewable resources (e.g., biomass) may have heat rates outside of the ranges noted in the RFP. Staff agrees that for eligible renewable resources this is appropriate and recommends that PacifiCorp make this clarification in the final RFP.

8. **Credit** – The IE makes several recommendations regarding clarification of credit requirements: a) add a credit matrix that reflects the lower risk exposure for short-term bids and more fully describe the methods to be used to calculate reduced credit requirements; b) provide credit matrices for intermediate and peaking resources prior to hearings[6] on the company's request for RFP approval; and c) amend language in Appendix B to define which resource alternatives are eligible for credit requirement adjustments. Staff agrees that the RFP should include these items. Further, staff agrees that the IE and stakeholders should have an opportunity to review and comment on the additional credit specifications prior to RFP issuance.

9. **Leases** – The IE recommends that PacifiCorp discuss with staff and the IE the appropriate treatment of bids that must be accounted for as leases pursuant to accounting standards. Staff suggests this issue be discussed soon after receipt of any such bids, rather than waiting until the final short-list evaluation, to avoid a potential delay in the evaluation process. Staff notes that, consistent with Order No. 06-446 (Guideline 9c), the Commission may require an advisory opinion from a ratings agency to substantiate the utility's analysis and final decision.

10. **Change of law risk** – The IE recommends that PacifiCorp: a) state in the RFP whether it will accept any change of law risk and, if so, specify that provision in the PPA template, or b) state whether there will be an opportunity to negotiate allocation of that risk after identification of the final short-list. Staff agrees with this recommendation to provide additional clarity to bidders up-front.

[6] No hearings are scheduled. However, PacifiCorp has indicated to staff a possible interest in requesting a Commission public meeting in this proceeding.

11. **Success fee** – Staff noted in opening comments the IE's recommendation that PacifiCorp consider recovering a greater portion of IE costs from successful bidders, thus reducing costs to Oregon ratepayers and unsuccessful bidders. PacifiCorp stated in reply comments that it is open to this concept and is interested in bidders' feedback. Staff is unaware of any bidder comments on this issue. The IE recommends the company adopt this approach, noting its use in other jurisdictions. Staff finds the proposal reasonable and recommends the company adopt a success fee unless potential bidders indicate it is problematic, PacifiCorp demonstrates that it may otherwise harm the solicitation process, or PacifiCorp demonstrates that it conflicts irreparably with another state's requirements.

<u>Staff's Additional Comments on the Final Draft RFP</u>

1. **Coal bids** - In response to comments from Utah, PacifiCorp now plans to allow (previously excluded) coal resources to bid "…if such proposals are consistent with multi-state legal and regulatory requirements regarding new and existing coal resources." *See* final draft RFP at 7. "The company explains, "Because PacifiCorp is subject to recently adopted laws in Washington and California regarding CO_2 emissions standards, any coal-based proposal must comply with these standards." *See* PacifiCorp's March 28, 2008, Reply Comments at 2.

   The company further explains that it is requiring any bidder proposing a coal plant to explain how the proposal will comply with these laws.[7] To the extent a bidder offers to take the greenhouse gas emissions risk, PacifiCorp acknowledges staff's concern about the ability of sellers to securitize the risk. PacifiCorp has not included any language in the RFP that addresses this issue. PacifiCorp has no specific proposals for how a bidder would be able to securitize any CO_2 cost risk. *See* PacifiCorp's response to Staff Data Request No. 26, attached.

   In its just-issued order in Docket LC 42 (PacifiCorp's 2007 IRP), the Commission declined to acknowledge the company's requested indemnification approach for bidders proposing coal plants.[8] Under the approach proposed in that proceeding, bidders would agree to hold the company and customers harmless from the cost difference between the CO_2 risk associated with a natural gas-fired resource and the CO_2 risk associated with a coal resource. PacifiCorp did not claim that bidders would in fact be able to provide such indemnification, nor did the company explain the nature or means of providing suitable security.

   The Commission found that indemnification raises complex issues that had not been thoroughly vetted.[9] The Commission also expressed concern about the potential for

[7] These laws set stringent emissions standards for resources with a term greater than five years and allow for consideration of sequestration.
[8] *See* Order No. 08-232 at 34.
[9] Indemnification issues have not been well vetted in Docket UM 1360, either. In fact, the initial draft RFP excluded coal plants from participating.

protracted disputes over interpretation of any indemnification agreement. Further, the Commission found that effective indemnification requires appropriate security. Therefore, the Commission could not envision how the approach would work in practice. The Commission could come to no other conclusion in the current proceeding.

It is staff's understanding that Washington and California emissions performance standards do not allow PacifiCorp an opportunity in those states to recover costs associated with long-term coal resources, regardless of whether the bidder takes the CO_2 cost risk. Therefore, as a practical matter, it appears that PacifiCorp will only accept coal bids for a term of under five years — even if it were possible for a bidder to provide a flawless indemnification agreement with appropriate security.

If this is accurate, PacifiCorp should so state in the RFP. Six months after submitting proposals for the 2012 base load RFP, bidders of coal resources on the conditional final short-list were told they would have to provide indemnification as described above in order to remain viable bids. Staff recommends that the current RFP provide additional clarity up-front on what coal bids are acceptable. Any compliant coal bids will be analyzed at various potential CO_2 costs to evaluate the risk.

Also related to CO_2 cost risk, PacifiCorp has clarified with staff that the company will require bidders to specify power sources, even for a PPA or tolling agreement not backed by an asset.

2. **Resource need** – Staff provided analysis in opening comments demonstrating that, at most, the company needs 1,119 MW of thermal resources in 2012 and 2,067 MW in 2016, after accounting for Front Office Transactions in the 2007 IRP. However, staff noted that PacifiCorp's assessment of capacity needs, which served as the starting point for staff's analysis, was deficient with respect to the capacity contribution of planned renewable resources, the appropriate levels of conservation considering risk reduction benefits as well as expected cost, and the failure to fully account for the combined heat and power resources in the 2007 IRP preferred portfolio and Action Plan. Further, staff stated that the resource need for this RFP is reduced by resources the company may acquire through the ongoing 2012 RFP.

   ICNU states that PacifiCorp has not demonstrated a need to acquire up to 2,000 MW of resources through the 2008 RFP. ICNU points in part toward PacifiCorp's load and resource balance provided in response to Staff Data Request No. 20[10] showing a forecasted deficit of 702 MW[11] to 886 MW in the 2012 to 2017 time period.

   The forecasted deficit on which ICNU relied is based on the level of Front Office Transactions in PacifiCorp's 2008 business plan. Staff pointed out in opening

[10] Attached to staff's opening comments.
[11] In 2017; the range cited by staff in opening comments reflected the latest resource on-line date (2016) specified in the draft RFP.

comments that the business plan is based on a model run and wholesale prices that are more recent than the company's 2007 IRP. As a result, the business plan includes more Front Office Transactions than in the 2007 IRP preferred portfolio. Because the Commission uses the most recently acknowledged IRP as the basis for RFP approval, not a new model run, staff's analysis relied on the level of Front Office Transactions in the 2007 IRP.[12] Staff's analysis therefore shows a higher forecasted need for thermal resources than ICNU. Both show a lower forecasted need than in the 2007 IRP which PacifiCorp relies on for the draft RFP, despite the company's updated load forecast and recent capacity additions.

Like staff, ICNU stated that the projected resource deficit assumes the company will not acquire any resources through the 2012 RFP process (Docket UM 1208). PacifiCorp added the following language in the 2008 RFP which staff believes addresses this concern: "In the event a resource(s) is selected from the 2012 RFP, the total resource need will be adjusted at such point in time." *See* revised RFP at 9.[13]

In response to a staff data request, PacifiCorp has agreed to make a similar statement in the final 2008 RFP related to the company's recently filed application to waive the competitive bidding guidelines for a time-limited opportunity to acquire an existing generating plant. Staff recommends the Commission condition any approval of the 2008 RFP on the company including the following statement in the final RFP it issues to the market: "In the event the Company receives necessary approvals from regulators, the total resource need will be adjusted to account for the generating facility that is the subject of Oregon Docket UM 1374." Further, staff recommends the Commission require the company to include this resource in its modeling for the final short-list evaluation pursuant to the clarification in Order No. 07-018 that RFPs should account for capacity additions and updated assumptions.

ICNU also correctly observes staff's concerns in Docket LC 42 about the company's load growth forecasts. In opening comments, staff stated that, compared to the 2007 IRP, PacifiCorp's 2008 business plan relied on an updated load forecast that is more in line with actual growth reported by the company in a recent period. Staff's and ICNU's analysis of resource need relied on that updated load forecast pursuant to Order No. 07-018.

In addition, ICNU remains skeptical of the company's reliance on a 12 percent planning margin for resource acquisition purchases. ICNU recommended consideration of a lower planning reserve margin in previous proceedings. In opening comments, staff noted that the company plans to conduct final short-list analysis using both a 12 percent and 15 percent planning reserve margin. Staff continues to recommend that the company be required to perform its final short-list

[12] In the absence of an order in Docket LC 42, staff relied on its proposed order in the proceeding.
[13] If the company does not select any resources from the 2012 RFP, in any acknowledgment proceeding for the new RFP, and in a future prudence proceeding, the Commission will review whether the company *should* have acquired resources from the 2012 RFP.

analysis consistent with Guideline 11 in Order No. 07-002.

Finally, ICNU points toward staff's concerns in Docket LC 42 about the proposed level of new fossil-fuel plants. In opening comments, staff reiterated its concerns related to demand-side management (DSM) analysis and capacity contribution of planned renewable resources other than wind. DSM analysis will be addressed in the new IRP cycle.

PacifiCorp plans to include as an input in the RFP Capacity Expansion Model its 2007 IRP renewable resource targets, based on IRP forecasted price. The IRP used wind as a proxy for all renewable resources analyzed.

The company now assumes that planned geothermal resources will account for 35 MW of the on-peak capacity value of the targets. The company did not provide the basis for assuming this small change, other than it is the amount in the company's 2008 business plan and no geothermal resources bid into the 2012 base load RFP. PacifiCorp also assumes 74 MW to 93 MW of planned hydro upgrades on the west side of the company's system during the 2012 to 2016 timeframe. The company states that these amounts reflect the planned turbine overhauls for Swift 1 that will increase rated capacity. PacifiCorp further states that it does not have information with which to determine precise amounts of alternatives to wind for refining the on-peak capacity contribution of planned renewable resources. *See* PacifiCorp's response to Staff Data Request No. 24, attached.

The remainder of the renewable resources to be modeled will consist solely of wind. To the extent the renewable resources do not reflect the on-peak capacity value of the actual mix of renewable resources to be acquired, and particularly given wind's low capacity factor, the company will be overstating its capacity needs for non-renewable resources.

PacifiCorp is likely to receive bids besides wind in its imminent renewable resources RFP. Staff recommends the Commission require PacifiCorp to replace a portion of the proxy wind resources that are inputs to the Capacity Expansion Model with geothermal, hydro and biomass if the company receives such bids in the renewable resources RFP in time to do so, and those bids perform well in initial evaluation of the renewable resources RFP.

In opening comments, staff noted that PacifiCorp's analysis of resource need assumed only 19 MW of planned combined heat and power resources, instead of 100 MW of such resources in the 2007 IRP preferred portfolio and Action Plan (Action Item 5). The company explains that it did not include the remainder of the planned combined heat and power resources in its analysis because they are eligible to bid in the Qualifying Facility category of the RFP. *See* PacifiCorp's response to Staff Data Request No. 25, attached. The company is far more likely to acquire such projects under PURPA agreements than through an RFP. Staff recommends that the Commission state it is not acknowledging any departure from

PacifiCorp's IRP in this regard. Further, the Commission should state that the company's RFP resource need is reduced when accounting for the full amount of combined heat and power resources in the IRP.

Ultimately, the company remains at risk in a prudence proceeding to demonstrate that it acquired the appropriate amounts and types of resources.

3. **Detailed scoring criteria for initial short-list** – Staff recommends that the Commission require the company to submit its detailed scoring and weighting criteria with the Commission, for review by staff and the Oregon IE, no later than the day before RFP responses are due from bidders. Specifically, the company must provide the methodology for translating each bid's initial price score – percent of forward price curve – into a score (maximum 70 points out of 100) that can be blended with the non-price score. Further, the detailed scoring must show how the company will award points for the non-price factors within each category.

4. **Bidder fees** - ICNU recommends that the company use bidder fees to pay for the Oregon IE's costs, as well as the Utah IE's costs. ICNU finds it inequitable for the bidder fees to be used only to defray the costs of the Utah IE.

   The Commission's competitive bidding guidelines do not provide for bidder fees but allow for consideration of regulations in other states. As provided for in Docket UM 1208, staff recommends the Commission grant the company's request for a waiver from the guidelines in this regard. PacifiCorp states it is required to use bidders fees in compliance with the Utah Energy Resource Procurement Act.

   Staff believes that the IE's proposal for success fees may address ICNU's interest in reducing costs to ratepayers.[14]

Summary of Staff's Recommendations

Staff recommends the Commission approve the final draft 2008 RFP with the following conditions:

1. PacifiCorp must include the following statement in the final RFP the company issues to the market: "In the event the Company receives necessary approvals from regulators, the total resource need will be adjusted to account for the generating facility that is the subject of Oregon Docket UM 1374." Further, the company must include this resource in its modeling for the final short-list evaluation, if it intends to proceed with its acquisition.

2. PacifiCorp must submit its detailed initial short-list scoring and weighting criteria with the Commission, for review by staff and the Oregon IE, no later than one day before bidder responses are due. Specifically, the company must provide the methodology

[14] See staff's comments on success fees, above.

for translating each bid's initial price score – percent of forward price curve – into a score that can be blended with the non-price score. Further, the detailed scoring must show how the company will award points for the non-price factors within each category.

3. Prior to the receipt of market bids, the company must submit the detailed score for benchmark resources, with supporting cost information, pursuant to Guideline 8.

4. PacifiCorp must specify in the RFP the maximum quantities of bids that will be included on the initial and final short-lists.

5. PacifiCorp must clarify in the RFP what coal bids are acceptable and any requirements for indemnification related to the risk of greenhouse gas emissions and associated security.

6. PacifiCorp must adjust the submitted capital costs of benchmark resources for risk in the following manner:
   - Establish with the Oregon IE the indexes and percentage split between the indexes.
   - Add to the expected mean escalation of the indexes the 95th percentile escalation adjusted for the probability of its occurrence.
   - Include the risk adjustment for the benchmark resources in the initial and final short-list evaluation, applying the agreed-upon escalator to 100 percent of the submitted capital costs.

7. PacifiCorp's evaluation of Benchmark Resources and bids must include analyses to determine whether changes to assumed transmission and capital costs affect bid selection, and the company must evaluate the risk of selling power off-system. These analyses must be incorporated into the evaluation section of the RFP.

8. PacifiCorp must modify the RFP to clarify that eligible renewable resource bids with heat rates less than 6,900 MMBtu will be accepted, classified and evaluated based on the resource's unique operating characteristics.

9. Regarding credit requirements, PacifiCorp must:
   - Include a credit matrix in the RFP that reflects the lower risk exposure for short-term bids and more fully describe in the RFP the methods to be used to calculate reduced credit requirements.
   - Provide credit matrices in the RFP for intermediate and peaking resources.
   - Provide items (a) and (b) above for IE and stakeholder review prior to issuing the RFP.
   - Amend language in Appendix B to define which resource alternatives are eligible for credit requirement adjustments.

10. PacifiCorp must state in the RFP whether it will accept any change of law risk and, if so, specify that provision in the power purchase agreement template, or state

whether there will be an opportunity to negotiate allocation of that risk after identification of the final short-list.

11. PacifiCorp must modify the RFP to include a success fee that reduces IE costs to Oregon ratepayers and unsuccessful bidders unless potential bidders indicate it is problematic, PacifiCorp demonstrates that a success fee may otherwise harm the solicitation process, or PacifiCorp demonstrates that a success fee conflicts irreparably with another state's requirements.

12. The company's planning margin analysis must be conducted in a manner consistent with Guideline 11 in Order No. 07-002.

13. PacifiCorp must replace a portion of the planned wind resources that are inputs to the RFP Capacity Expansion Model with geothermal, hydro and biomass if the company receives such bids in the renewable resources RFP in time to do so and they score well on the initial evaluation for the renewable resources RFP.

14. The Commission does not acknowledge reductions from the company's 2007 IRP preferred portfolio related to the specified levels of combined heat and power resources. PacifiCorp's resource need for this RFP is reduced by the amount of these resources in its acknowledged 2007 IRP.

15. RFP approval does not imply endorsement of any of the company's benchmark resources.

16. The Commission is neither approving the pro forma agreements included in the 2008 RFP in their entirety, nor endorsing any specific term therein.[15]

17. The Commission does not acknowledge reductions from the company's 2007 IRP preferred portfolio related to the specified levels of Front Office Transactions.

18. PacifiCorp must report to the Commission within 30 days of the due date for bids on the company's efforts to promote the RFP and reasons market participants cited for not participating.

[15] This provision is similar to one adopted by the Commission in Order No. 04-091 (Docket No. UM 1118) for PacifiCorp's renewable resources RFP.

Dated at Salem, Oregon, this 25th day of April 2008

Lisa Schwartz
Senior Analyst
Electric and Natural Gas Division

OPUC Data Request 24

PacifiCorp states it will include renewable resource targets as an input to the Capacity Expansion Model (CEM) based on IRP forecasted price. *See* February 15, 2008, letter accompanying filing at 2.

a. Please explain the basis for determining that geothermal resources will account for only 35 MW of the on-peak capacity value of the targets, as shown in the company's responses to Staff Data Request Nos. 10 and 20.

b. Please explain the basis for determining the year-by-year, on-peak capacity levels of planned hydro upgrades on the west side of the company's system, as shown in the company's responses to Staff Data Request Nos. 10 and 20. Please explain the basis for determining that the remainder of the IRP renewable resource targets will consist solely of wind for the purpose of determining the on-peak capacity contribution of planned renewable resources and price inputs into the CEM.

Response to OPUC Data Request 24

a. The 35 MW of geothermal resources constitutes cost-effective planned renewables capacity assumed in PacifiCorp's 2008 business plan. There is no basis to assume an alternate amount for 2008-2017 given that no eligible, cost-effective geothermal resource opportunities were identified through the 2012 base load RFP.

b. The hydro upgrades shown for the west side in 2014 through 2016 reflect planned turbine overhauls for Swift 1 that will increase rated capacity. No eligible, cost-effective base load renewable resources were identified through the 2012 base load RFP, which allowed bidders to propose geothermal, biomass, and Qualifying Facility projects. Outside of this RFP outcome, PacifiCorp does not have information with which to determine precise amounts of alternatives to wind for refining the overall on-peak capacity contribution of planned renewable resources.

OPUC Data Request 25

Please explain whether PacifiCorp plans to include 100 MW of combined heat and power resources as an input to the CEM based on the 2007 IRP preferred portfolio and Action Plan and, if not, why not.

Response to OPUC Data Request 25

The Company does not plan to include 100 MW of combined heat and power ("CHP") resources as planned capacity inputs to the CEM. The reason is that bidders may propose CHP projects under the RFP's Qualifying Facility resource category, and such projects would constitute one of the means by which the 100 MW CHP target is met.

OPUC Data Request 26

Regarding PacifiCorp's addition of coal resources to the RFP:

a. Please refer to page 7 of the revised draft RFP. Explain what is meant by "consistent with multi-state legal and regulatory requirements" regarding bids from new or existing coal resources that PacifiCorp will consider, in light of the following statement: "Because PacifiCorp is subject to recently adopted laws in Washington and California regarding CO_2 emissions standards, any coal-based proposal must comply with these standards." *See* PacifiCorp's March 28, 2008, Reply Comments at 2.

b. Please explain how the company plans to address the ability of sellers to securitize the risks related to greenhouse gas emissions. Include in your response citations to any text in the revised draft RFP that addresses this issue.

Response to OPUC Data Request 26

a. The Company must adhere to applicable legal and regulatory requirements in all the states in which it operates. As of the date the Company filed the revised draft RFP, both Washington and California had adopted laws regarding CO_2 emissions standards. As a result, PacifiCorp is requiring any bidder that offers a coal-based proposal to indicate how their proposal will comply with these specific standards. To the extent any additional laws or regulatory requirements are adopted, bidders would be required to indicate how their proposal would comply with those standards as well.

b. To the extent that a bidder offers to take the greenhouse gas emission risk and cost the bidder will be required to provide the Company with a specific proposal on how the bidder plans to do so. The Company currently does not know how a bidder will mitigate the risk and cost associated with greenhouse gas emissions. Once a bidder provides the Company with their proposal the Company will then determine if the bidder in fact is mitigating the cost and risk and if so, how the risk and cost will in fact be securitized by the bidder. Please refer to "Step 4 - Final Selections; Other factors" in the RFP which was intended to allow the company to review this risk and cost in the event a bidder provides such a proposal.

CERTIFICATE OF SERVICE

UM 1360

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 25th day of April, 2008.

Kay Barnes

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UM 1360
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