BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1368

In the Matter of	)	
	)	REPLY COMMENTS OF RENEWABLE
PACIFICORP, dba PACIFIC POWER	)	NORTHWEST PROJECT TO PACIFIC
	)	POWER FINAL DRAFT 2008R-1
Request for Approval of a 2008R-1	)	
Solicitation Process for New Renewable	)	August 11, 2008
Resources.	)	

Renewable Northwest Project (RNP) provides these comments in response to Boston Pacific Company's Independent Evaluator's Assessment (IEA) of PacifiCorp's 2008R-1 Renewables RFP Design, dated July 3, 2008 and to PacifiCorp's July 28 revised daft RFP, and comments to the revised draft. Boston Pacific Company asked several specific questions of bidders that RNP responds to below. In general, RNP agrees with the basic principles laid out by Boston Pacific: Fairness and Transparency, Measuring and Assigning Risk, Leading to a Positive Result, and Complying with Commission Rules and Guidelines. RNP finds general agreement with the specific findings of Boston Pacific and strongly supports needed changes to PacifiCorp's RFP where it is at variance with Boston Pacific's findings. RNP looks forward to resolving these issues to form a robust foundation for repeated use in future reissues as PacifiCorp desires.

Reply to Boston Pacific Independent Evaluator's Assessment (IEA)

1. Boston Pacific encourages input from bidders regarding what constitutes a reasonable option to purchase equipment. This issue is covered in more detail below in response to PacifiCorp's comments. The specifics of a reasonable purchase option are not of special concern to bidders so long as the Benchmark resources are held to the same standard, as the IEA recommends (page 10). Conversely, no form of agreement is acceptable if it does not equally

apply to Benchmark resources. As it stands, the RFP violates the principles of Fairness, Assigning Risk, and potentially, Leading to a Positive Result.

2. The IEA addresses the issue of credit requirements and encouraged feedback on alternatives (p. 17). RNP recognizes that there is a tradeoff in setting credit requirements between encouraging the highest number of credible bids, and protecting ratepayers. This is an especially sensitive issue with respect to Benchmark resources. The structure of the credit requirement has the ironic effect of penalizing lower bids by imposing higher credit requirements inversely proportional to bid price. This may be inescapable, but as the IEA points out, the credit requirement is based on a relatively extreme view of market prices. Lowering the credit requirement a significant, if modest amount may provide significant gains in credible bids, and merits further consideration.

3. The IEA invites feedback on conditioning bid prices on price indices such as the Consumer Price Index (CPI), or the Producer Price Index- Metals (PPI-metals). It should be noted that the presence or absence of indexed prices has a disproportionate effect on short lead-time resources, versus longer lead time technologies. For example, it may take several years to construct a thermal plant (e.g., geothermal and biomass,), as little as six months for a wind project, and under a year for solar photovoltaic project. Placing commodity and labor price escalation risk on the bidder tends to advantage shorter lead-time technologies at the expense of longer lead-time technologies. Whether this is a reasonable approach or not, depends largely on the importance PacifiCorp places on price certainty. However, an important problem arises with Benchmark resources in this regard. PacifiCorp argues that its risk lies in prudency review. In the case where commodity prices increase, the regulatory body might well find that the resulting higher cost is prudent, insulating PacifiCorp from that risk and placing it on the ratepayer. It is

important to ensuring Fairness, and proper Risk Assignment to hold the company to a capped level of cost recovery if bidders are required to take escalation risk. Conversely, the simpler approach would be to allow indexed bids, with the additional benefit of removing the disproportionate lead-time effects.

4. RNP agrees with the IEA with respect to attaching value to meeting peak load (pp 14-15). PacifiCorp's IRP, and the regional Northwest Wind Integration Action Plan (which PacifiCorp participated in) place great emphasis on the importance of geographic diversity of wind projects. It is therefore difficult to understand why the RFP analysis would not seek to place some relative value on the contributions. PacifiCorp meets planning reserve requirements in its IRP plans, with attending costs. Some renewable resources (especially wind) are primarily energy resources, but do provide some capacity as well. It is reasonable to expect that the advantages of dispersed wind projects should be recognized in the RFP analysis. Failure to do so does nothing to discourage co-located resources, increasing integration costs, and the need for resources to meet peak loads.

5. RNP completely agrees with the IEA assessment regarding transfer of asset at the end of the PPA term (pp 15-16). Clearly, PacifiCorp is assigning value to the asset beyond the stated economic life of the project (usually 20 years). In itself, this is not inappropriate—however, the IEA correctly, in our view, recognizes that a forced transfer of the asset under any and all PPAs has an anti-competitive effect that may advantage PacifiCorp in the short term, but harm ratepayers in the long run by driving out competitors. It is also unclear how PacifiCorp intends to value the Benchmark resources at the end of economic life—whether it will assume zero (or one dollar) value, or something else. There may or may not be remaining value in a project, depending not only on the useful life of the technology, but also permitting and lease

agreements that may vary from one proposal to another. In addition, many lease agreements for wind projects are strongly based on personal rapport and relationships that do not exist with PacifiCorp. Forcing a change in ownership will likely have a chilling effect on bids, further sacrificing the potential for Leading to a Positive Result.

6. The IEA correctly points out that requiring bids to maintain Green-E certification may have the effect of eliminating potentially eligible bids from resources that began operation after the January 1, 1995 RPS eligibility date, but before the January 1, 1997 Green-E eligibility date. RNP supports Green-E certification and suggests that PacifiCorp require Green-E certification for all eligible resources placed in service on or after January 1, 1997.

Reply to PacifiCorp Comments

1. PacifiCorp disagrees with the IEA regarding holding Benchmark resources to the "very same standard" as bids with respect to holding options on long-lead time equipment such as wind turbines (pp 3-4, lines 16-12). PacifiCorp argues that the bidders have greater ability to reallocate equipment. Certainly, some bidders may have flexibility on wind turbine placement that PacifiCorp does not possess, however PacifiCorp almost certainly has greater flexibility on other types of long-lead time equipment such as transformers and other substation and transmission related equipment. PacifiCorp's generally greater financial base likely gives it greater ability to purchase and resell unneeded turbines, potentially for a higher value. Further, if a bidder has an economic advantage over PacifiCorp, it is unclear why the ratepayer should not enjoy that benefit. PacifiCorp appears to interpret the Fairness principle to mean that competing bids should be handicapped in the analysis wherever they happen to have competitive advantages over PacifiCorp. PacifiCorp demands protection through cost recovery guarantees from the risks

it would impose on bidders. If PacifiCorp is unwilling or unable to provide evidence of ownership for equipment on Benchmark resources, it cannot require bidders to do so.

2. PacifiCorp rejects the IEA position with respect to allowing bidders to submit with and without PTC bid prices. Contrary to PacifiCorp's assertion that placing PTC risk on bidders places them in "a symmetrical position," PacifiCorp in fact forces bidders to raise their bids to cover PTC risk while Benchmark resources are potentially protected. PacifiCorp objects that they are regulated on an "after-the-fact" basis, placing them in a position of holding risk for which they cannot be compensated. While regulatory risk certainly exists, it is not identical or equivalent to PTC risk and trading different types of risk in this way in no way puts the parties in "symmetrical" positions. In fact, the analysis of bids as proposed by the IEA is extremely straightforward and fair if both bids and benchmarks are evaluated on with and without PTC bases. Simply asserting that regulatory risk and PTC risk are equivalent without any supporting evidence is unacceptable.

3. As noted above, RNP supports the explicit recognition of contributions to meeting peak load. PacifiCorp's IRP does present the company with the tools and methodology to compute contributions to meeting load by groups of resources. Although RNP agrees that capacity contribution is computed in the context of a portfolio of resources, the relative contribution of two (or more) competing resources can be computed in the context of the existing system. In ignoring the effects of diversity, PacifiCorp appears to be denying the importance placed on that effect as espoused in regional forums such as the Northwest Wind Integration Action Forum, and PacifiCorp's own IRP document.

4. As noted above, RNP disagrees in the strongest of terms to PacifiCorp's requirement of sale of assets to the company at the termination of any PPA. There are certainly

bidders who will not agree to such terms, limiting the potential success of the RFP. As the IEA points out, the provision will have the effect of driving out competitors and appears to be an anti-competitive action. PacifiCorp's assertion that this is necessary to protect ratepayers' interests is not founded. If PacifiCorp asserts that there is a salvage value at the end of the useful economic life of these projects, then it can explicitly include that in its analysis, without the additional requirement that ownership transfer. PacifiCorp's position, while consistent with its stated business model, is not consistent with ratepayers' best interests.

RNP supports PacifiCorp's proposal to use the RFP for reuse in its renewable resource acquisition program. It is imperative that the document provides a sound foundation to support an effective acquisition process and serve ratepayers' interests. We support a flexible and robust document, but it must set a level playing field among all bidders and not give disproportionate advantage to PacifiCorp's benchmark resources.

DATED this 12th day of August, 2008.

Ken Dragoon
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By: ______________________
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CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing **REPLY COMMENTS OF RENEWABLE NORTHWEST PROJECT TO PACIFIC POWER FINAL DRAFT 2008R-1** on the following persons on August 12, 2008, by hand-delivering, faxing, e-mailing, or mailing (as indicated below) to each a copy thereof, and if mailed, contained in a sealed envelope, with postage paid, addressed to said attorneys at the last known address of each shown below and deposited in the post office on said day at Portland, Oregon:

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