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May 25, 2012

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

Re: UM 1535

Attention Filing Center:

Portland General Electric Company ("PGE") is submitting for filing a redacted version of its Reply Comments filed on May 18, 2012. PGE submitted the original comments under Protective Order No. 11-097 because they contained extensive reference to and discussion of our confidential transmission strategy and the scoring criteria and to the confidential comments submitted by Northwest and Intermountain Power Producers Coalition ("NIPPC"). After receiving a request from one of the stakeholders to consider whether any of the information could be publicly provided, we have reconsidered our initial position and are providing a redacted version of the original comments. NIPPC has indicated that it does not object to disclosure of references to its comments. We continue to view the attachments as confidential and have not included them as part of this filing.

This is being filed by electronic mail with the Filing Center and being provided by electronic mail to all the parties on the service list.

An extra copy of the cover letter is enclosed. Please date stamp the extra copy and return to me in the envelope provided. Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "V. Denise Saunders".

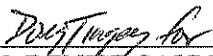
V. DENISE SAUNDERS
Associate General Counsel

VDS:cbm
Enclosures
cc: UM 1535 Service List

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **REPLY COMMENTS (REDACTED)** to be served by electronic mail to those parties whose email addresses appear on the attached service list for OPUC Docket UM 1535.

Dated at Portland, Oregon, this 25th day of May, 2012.



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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1535

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY

Request for Proposals for Capacity & Baseload
Energy Resources

REPLY COMMENTS OF
PORTLAND GENERAL
ELECTRIC COMPANY

Pursuant to the January 18, 2012, Prehearing Conference Memorandum issued in this docket, Portland General Electric Company ("PGE") hereby replies to the comments on PGE's owner's costs and technical specifications submitted by the Independent Evaluator ("IE") and the Northwest and Intermountain Power Producers Coalition ("NIPPC").

As discussed in more detail below, the IE concluded that the specifications "provide sufficient detail to permit a knowledgeable engineering firm to prepare a comprehensive and conforming bid" at either of PGE's sites and that the "owner's costs provide sufficient detail to assure bidders that PGE has plans in place that would permit a bidder to meet the in-service obligation at either site." *Report of the Independent Evaluator, PGE's 2012 Capacity and Energy Power Supply Resources RFP*, OPUC Docket UM 1535, at 14 (May 11, 2012) ("May 11, 2012, IE Report"). The IE suggests a number of minor clarifications to the specifications, which PGE will consider.

NIPPC reiterates some of the flawed arguments raised in its February 22, 2012, comments. NIPPC continues to argue that bidders proposing to build on PGE's site should use speculative costs for transmission lines that have not been built and that are not necessary to bring generation from PGE's sites to PGE load. NIPPC also wrongfully accuses PGE of

purposefully underestimating the transmission costs. We believe this accusation arises in part from confusion between the treatment of capital costs associated with interconnecting a generation resource to the transmission provider and the operating costs of transmitting the electricity across transmission lines. Finally, NIPPC persists in its mistaken claim that PGE has access to gas transport arrangements that are not available to bidders wishing to submit tolling agreement bids. We address NIPPC's comments in detail below.

Background

In response to the direction provided by the Commission in Order No. 11-371, PGE has made its Port Westward and Carty sites available for third-party engineering, procurement and construction bids – the Carty site for a baseload energy bid and the Port Westward site for a capacity bid. PGE developed detailed technology, engineering, design and contractual specifications to ensure that any resource developed on its site meets minimum operating life expectations, is designed and built consistent with prudent utility practices, offers synergies with PGE's existing fleet, and can be effectively integrated into PGE's portfolio of resources. In addition, PGE developed owner's costs in recognition of the fact that the infrastructure already developed on the sites, or in the process of being developed by PGE, and the costs of such infrastructure, would necessarily need to be attributed to each bid on the sites for a true total project cost for each bid. As discussed in PGE's March 7, 2012, Reply Comments, PGE worked with the IE to develop an approach for making the specifications and owner's costs available in a manner that would provide sufficient information to allow prospective bidders to develop bids on PGE sites while at the same time preventing bidders who do not need the information from using it to game the process. Accordingly, PGE has provided three levels of information, each with progressively stricter levels of restriction for access and use. The first level consists of the general technical specifications which are available to all bidders. The second level is the site

specifications which are provided only to those bidders bidding new resources. The site specifications contain transmission strategies, fueling strategies and a description of what services PGE will provide to bidders. Those bidding existing resources have no reason to know this information and could potentially use it to game the RFP. The third level is the owner's costs which are available to those bidders who commit to bid only on PGE's site.¹ PGE wants to insure that a bidder on a competing site could not use knowledge of the owner's costs to price a competing bid just slightly lower than a bid on PGE's site rather than a true competitive bid that may be at an even significantly lower cost for customers and PGE.

"The IE reviewed this approach with PGE and agrees it will appropriately provide for the protection of confidential information, while at the same time making the information available to qualified bidders." *Report of the Independent Evaluator, PGE 2011 Capacity Power Supply Resources RFP*, OPUC Docket UM 1535, at 2 (Feb. 8, 2012) ("Feb. 8, 2012, IE Report"). The IE again confirmed this approach after reviewing the specifications and owner's costs: "Review by the IE engineers included the designation of documents into the three levels of disclosure, because the designation controls who has access to each document. The IE found the designations to be acceptable." *May 11, 2012, IE Report at 1*.

Consistent with the procedural schedule agreed to by the parties and adopted by the ALJ, PGE made the technical specifications (and owner's costs) available to parties on April 27, 2012. The IE submitted its assessment and NIPPC submitted comments on May 11, 2012.²

¹ All of the specifications and owner's costs have also been made available to NIPPC and other parties to the docket under the terms of the Protective Order.

² Despite the schedule agreed to by the parties and adopted by the ALJ, the Industrial Customers of Northwest Utilities (ICNU) submitted a letter stating that it will review NIPPC's and the IE's comments and may file responsive comments before the public meeting. *May 11, 2012, ICNU Letter at 1*. We ask the Commission not to permit such a blatant disregard of the procedural order issued in this docket.

Reply to the May 11, 2012 IE Report

The IE reviewed PGE's specifications to determine if they were sufficient and extensive enough for potential EPC contractors to submit competitive bids. *May 11, 2012, IE Report at 1.* The IE concluded that the final version released to prospective bidders address all areas that need to be included for bidders. *Id.* In addition, the IE reviewed the scope of items designated as owner's costs, and believes the designations are reasonable. *Id. at 2.* The IE identified no defects in the documentation, or areas of construction that were unidentified. *Id.*

The IE made two recommendations. First, the IE suggested that if the Commission requires PGE to evaluate EPC or BOT bids proposing generating turbines other than the ones identified in the materials provided by PGE, the bidder should be required to identify the proposed alternative to the IE no later than June 15, 2012, so that the IE and PGE can conduct a technical review of the technology. *Id. at 3.* The IE's recommended approach would be reasonable if PGE were able to consider the use of other turbines on its sites. However, that is not the case here. For example, the turbines selected for the Port Westward site are closely intertwined with the permits for the site. *See, PGE RFP, Appendix S, Attachment 3, Exhibit 02.* PGE has designated the Wartsilla and GE simple cycle aero-derivative turbines for the Port Westward II site. The Commission has already rejected NIPPC and other stakeholders' request to also consider modified and unmodified frame unit simple cycle combustion turbines (SCCT) as an eligible technology in the RFP. *Re PGE 2011 Capacity Power Supply Resources RFP, OPUC Docket UM 1535, Order No. 11-371 at 5 (September 27, 2011) ("Order No. 11-371").*

For both Carty and Port Westward II, changing the turbine technology would have implications for emissions and size of the transmission interconnections. For Carty, it would also result in a loss of synergies with PGE's existing fleet. These synergies include savings in

staff training as well as spare parts inventory management. For these reasons the types of generating turbines used on PGE's sites must comport with the specifications. Bidders wishing to submit other technologies are free to do so on third-party sites.

The IE also included as Attachment C to its report a list of possible areas for clarification of the design materials. *May 11, 2012, IE Report at 4.* The IE states that these are the type of questions that could be asked during the technical session that PGE intends to hold for bidders. *Id.* PGE will review the items identified by the IE and post clarifications on the IE's website or address them in the technical workshops to be held for potential bidders on June 12 and 13, 2012.

Reply to NIPPC's Comments

NIPPC's comments focus on the transmission and interconnection specifications and costs at both the Port Westward II and Carty sites and the gas arrangements for the Port Westward II site. NIPPC continues to misconstrue PGE's IRP in an attempt to force bidders proposing to build on PGE's sites to forego using the costs of BPA transmission capacity, which can be determined with some certainty, and instead use speculative costs for transmission lines which have not been built and are not required to deliver the energy from the site to PGE load. NIPPC also persists in its erroneous belief that PGE has access to gas transport arrangements that are not available to others.

Port Westward II Transmission and Interconnection Specifications and Costs

As a preliminary matter, PGE wishes to clarify that the owner's costs for Port Westward II reflect the capital costs necessary to interconnect a new plant at the Port Westward site to the existing Port Westward substation. They also include owner's costs to upgrade the line between

the Port Westward generating facility and the Allston-Trojan line.³ These are the costs reflected in Confidential PGE RFP Appendix S, Attachment 10, Exhibit 03, Annex 12. To the extent NIPPC believes these costs appear to be low (*NIPPC at 4-5*), PGE points out that this merely reflects the value that an existing site with established infrastructure can offer to customers.

As PGE stated in its March 7, 2012, Reply Comments, PGE also fully intends to consider the incremental operating cost associated with delivering energy from the Port Westward II site to load. *March 7, 2011, PGE Reply Comments at 14-15.* [REDACTED]

[REDACTED] In deriving the BPA costs for scoring purposes, PGE will use BPA's published tariff rate and will estimate increases to the rate consistent with the methodology used in our 2009 IRP. *See, Re Portland General Electric Company, 2009 Integrated Resource Plan, ("2009 IRP")* at 192-193. This appears to be consistent with the approach suggested by NIPPC in footnote 1 of its comments; although in addition to the cost for reserved capacity that NIPPC suggests, PGE would also include all other operating costs associated with transmission (i.e., ancillary service charges and line losses).

NIPPC prefers that the incremental transmission costs be determined based on a two year old estimate of a conceptual transmission project (referred to as the South of Allston line) that was not included in PGE's 2009 IRP action plan and that is not currently being developed by PGE, and is not required to deliver energy from this site to PGE load. NIPPC appears to believe that the fact that the South of Allston line was discussed in PGE's IRP is sufficient to justify its use for allocating costs in the RFP. *NIPPC at 2.* NIPPC ignores the fact that PGE did not seek Commission acknowledgement of the South of Allston line and has updated its IRP to indicate

that it is not pursuing development of the South of Allston line in the near-term. Assigning bidders on PGE's sites speculative costs based on a line that may or may not be built seems particularly ill-considered given that PGE will, in fact, be using BPA transmission for its incremental transmission needs. It therefore only makes sense to use BPA's tariffed rates to calculate the incremental transmission costs. PGE believes using the costs of BPA transmission capacity is the most practical and prudent approach.

NIPPC's suggestion, that PGE's shareholders should be responsible for any increased cost to ratepayers that might arise if the South of Allston line is built after the RFP, is misplaced. *See, NIPPC at 5.* PGE would only move forward with the South of Allston line if the line was part of an overall plan that offered the best combination of expected costs and associated risks and uncertainties for the utility and its customers. In making that determination, PGE would consider factors such as the value of the line for making additional purchases and sales, accessing less costly resources in remote locations, acquiring alternative fuel supplies, and improving reliability. *See, In re Investigation into Integrated Resource Planning, Docket UM 1056, Order No. 07-002 at 13 (January 8, 2007).* The issue of whether ratepayers would bear the costs of the line would be determined in a future ratemaking proceeding. *See, Id. at 24 (decisions on whether to include, in rates, the costs associated with new resources can only be made in a rate proceeding).* This RFP docket is not the place to debate whether the South of Allston line should be built and who should pay for it.

NIPPC also argues that because PGE redacted the costs from the LGIA, it has not provided sufficient information to evaluate the cost allocation for Port Westward II's interconnection. *NIPPC at 5.* As discussed above, PGE provided the interconnection costs in the owner's costs. *See, Confidential PGE RFP Appendix S, Attachment 10, Exhibit 03, Annex*

12. The LGIAs referenced by NIPPC were provided as part of the site specifications, under a less restrictive NDA than that required for the owner's costs, for the purpose of demonstrating to potential bidders that PGE has contractual interconnection arrangements in place. Although PGE has made the interconnection costs available in the owner's costs, PGE provides the unredacted provisions of the relevant LGIA attachments and its amendment to the parties under the Protective Order as an attachment to these comments. [REDACTED]

[REDACTED] ⁴ To the extent that NIPPC questions the sufficiency of the interconnection costs or any other owner's costs, we note that the IE determined that the "owner's costs information is sufficiently detailed for the bidders to know the scope of services that will be provided by PGE." *May 11, 2012, IE Report at 10*. The IE also concluded that "[t]he owner's costs estimates and contingency are reasonable and categorically accurate for the project." *Id. at 12*.

Carty Transmission and Interconnection Specifications and Costs

Consistent with the approach used for the Port Westward II site, the owner's costs for the Carty site identify the costs of interconnecting a plant on the site to BPA's transmission system.

[REDACTED] As with the Port Westward II site, PGE will attribute to bids on this site the transmission costs needed to deliver

⁴ [REDACTED]

energy from the site to PGE load and these costs will be based on BPA transmission rates rather than on speculative costs of a line that has not been constructed.

Contrary to NIPPC's assertions, PGE is not attempting to use a double standard when it comes to consideration of the Cascade Crossing line. The genesis of the Cascade Crossing project arose as a result of Commission Order 04-375 in which the Commission acknowledged PGE's 2002 IRP and directed PGE to work with BPA and others to develop transmission capacity over the Cascades. *Re Portland General Electric Company, OAR 860-038-0080 Resource Policies, Order No. 04-375 at 12 (Jul. 20, 2004)*. Cascade Crossing was not conceived solely for the purpose of delivering energy from a future plant at the Carty site. If the Cascade Crossing line is developed then certainly any project that might be developed at the Carty site could establish an interconnection to Cascade Crossing and use the line. However, as PGE explains in the IRP, there are a number of other reasons to support the development of that transmission project. *2009 IRP at 193; IRP Addendum at 128*. Moreover, as we stated in our March 7, 2012 Reply Comments, Cascade Crossing is not required for the development of the Carty project. PGE can use BPA transmission to deliver energy from the Carty site to its customers. Unlike Cascade Crossing, which is still in the development stage, the costs of existing BPA transmission can be determined with some certainty.⁵ These are the costs that should be used for the RFP. PGE should not be required to speculate as to costs for a line that does not yet exist and which is not required for the development of a project at the Carty site.

Gas Storage and Delivery

NIPPC points to PGE's gas arrangements with NW Natural to persist in its argument that PGE has access to gas transport arrangements that are not available to others. NIPPC is

⁵ The ultimate cost of transmission over Cascade Crossing will depend on a number of factors that are unknown at this time. These include items such as the final path rating and the amount of third-party participation.

incorrect. PGE negotiated with NW Natural for the gas arrangements needed to develop the Port Westward II site. Any other entity has the same ability to approach a gas company or a pipeline to negotiate for the arrangements needed to support the product it wishes to bid into the RFP. PGE has been clear from the time it first issued the draft capacity RFP in April 2011 that intraday gas would be necessary to enable PGE to use a natural gas facility to integrate intermittent or variable energy resources. When the Commission issued its order on PGE's capacity RFP in September, it verified the importance of intraday scheduling for the capacity resource and recognized that PGE does not have any particular advantage in acquiring these services. *Order No. 11-371 at 4.*

NIPPC is also wrong to conclude that PGE would be the only entity that could structure an arrangement like the gas storage facility [REDACTED] that it negotiated with NW Natural. There is no reason why any potential bidder cannot approach NW Natural (or any other gas or pipeline company) and negotiate arrangements for its proposed bid. As NIPPC itself acknowledges, "there is no apparent reason Northwest Natural would refuse to modify it to reach other sites with a lateral line within a feasible distance that would still allow for comparable gas service." *NIPPC at 10.* PGE does not have a lock on obtaining intraday gas service. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

NIPPC also unjustly complains that PGE did not define intra-day gas until March 7, 2012. PGE identified gas storage as a solution to provide for the fueling of a flexible resource when it issued its 2009 IRP. *2009 IRP at 84.* PGE again offered the same description when it filed its draft Capacity RFP in May of 2011. *PGE, RFP Capacity Power Supply Resources, May*

23, 2011 at 12. This, in fact, drew so much attention that the Commission had to rule on the matter stating that arrangements for gas storage and intraday scheduling are location-dependent. Order No. 11-371 at 4. To suggest that this requirement was kept secret, until it was too late for other bidders to meet it, simply ignores the reality of the record in this proceeding.

[REDACTED]

[REDACTED]

[REDACTED] Further, contrary to NIPPC's apparent belief,

arranging a storage contract does not require a gas scheduling desk. Under a tolling arrangement, the burden of gas scheduling and gas risk does not shift from PGE to the seller. *Id.* PGE has simply asked bidders to propose workable solutions for gas transport to fuel their resources with the necessary flexibility for the intended use. Just as PGE has done, any potential bidder can approach a pipeline or gas company to arrange for any type of arrangement, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

In short, PGE has negotiated the intraday gas arrangements necessary for the gas resource acknowledged in our IRP. These arrangements will be available to anyone bidding on our site. Other potential bidders have the same ability to approach gas companies or pipelines and negotiate the arrangements necessary to support their bids.

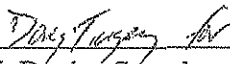
Conclusion

PGE's specifications and owner's costs are sufficient and extensive enough to allow potential bidders to submit complete bids. NIPPC's concerns about transmission costs appear to arise in part as a result of confusion between the treatment of capital costs associated with interconnecting a generation resource to the transmission provider and the operating costs of

transmitting the electricity across transmission lines. PGE included the capital costs associated with its interconnection arrangements in the owner's costs. PGE included in the specifications documentation showing the BPA transmission arrangements that will be used to deliver energy from its sites to its load and PGE should use the costs of BPA transmission service in evaluating bids. These costs can be determined based on BPA's published tariff rate and provide a more prudent and determinable estimate than can be derived using the speculative costs of transmission lines which have not been built and are not required for delivery of the energy. Finally, the gas arrangements identified in the specifications indicate the type of arrangements that can be negotiated by any potential bidder. NIPPC has simply demonstrated no sound reason why the specifications and owner's costs should not be acknowledged as part of PGE's RFP for Power Supply Resources.

DATED this 18th day of May, 2012.

Respectfully submitted,


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