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February 9, 2012

Attention: Filing Center
Public Utility Commission of Oregon
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Re: *In the Matter of PORTLAND GENERAL ELECTRIC Request for Proposals for Capacity
and Baseload Energy Resources*
PUC Docket No.: UM 1535

Enclosed are an original and one copy of Report of the Individual Evaluator for PGE
2011 Capacity Power Supply Resources RFP.

Sincerely,

Stephanie S. Andrus
Senior Assistant Attorney General
Business Activities Section

SSA:mme/#3223963
c: UM 1535 Service List

**REPORT OF THE INDEPENDENT EVALUATOR
PGE 2011 Capacity Power Supply Resources RFP
UM 1535**

Re: Revised Draft RFP – February 8, 2011

I. EXECUTIVE SUMMARY

Accion Group, Inc. (“Accion Group” or “Accion”) was selected by the Oregon Public Utility Commission (“OPUC” or “Commission”) to serve as the Independent Evaluator (“IE”) for Portland General Electric’s (“PGE” or “Company”) 2011 RFPs. This report of the IE addresses the combined 2012 Capacity and Energy RFP, which is the result of the OPUC decision of September 27, 2011: Order No. 11 371.

This RFP was initiated in 2011, with the OPUC pre-hearing conducted on April 15, 2011. Order No. 11 371 identified specific areas to be incorporated as PGE combined what was previously two separate RFPs, one for capacity and one for energy. The June 3, 2011, report of the IE addressed the structure of the RFP, bidder qualification requirements, compliance with the Commission’s guidelines, evaluation criteria, methods, and computer models, the documentation prepared by the Company, and the protocols being employed. This report addresses the actions taken by PGE to combine the two RFPs, the process to be used to ensure fair access to the PGE sites for Engineering Procurement Contract (“EPC”) bids, and the evaluation process to be employed.

The IE-controlled website (<http://portlandgeneralrfp.accionpower.com>) was modified to establish the combined RFP. At the request of the Commission Staff, persons who registered for the Capacity-only RFP continue to be registered on the combined RFP site. All Questions and Answers from the original RFP continue to be available, as requested by the Commission Staff.

Accion Group believes that PGE has acted in good faith with all bidders, and created protocols and documents that will permit the RFP to be conducted in a fair and transparent manner. The protocols previously adopted will continue to be employed, with additional procedures for access to PGE site specific data, and for EPC bidders. The IE believes this RFP is, and can be, conducted in a fair and unbiased manner.

II. MODIFICATIONS: EPC BIDS

PGE retained the products being sought and the acceptable technologies from the Capacity RFP. The combined RFP provides processes for EPC bidding, as required by the Commission. The IE worked with PGE personnel to devise a process that will permit access to the PGE site-specific data and permit bidders to build on the PGE sites. This process was explained during the stakeholder’s conference and the bidders’ conference on January 18, 2012, and no participant raised concerns at that time.

The design/build specifications that PGE will use in preparing self build proposals will be available as part of the RFP documents. Under the PGE approach the PGE site-specific data will be

bifurcated and available on the RFP website. Qualified bidders will have access to the PGE site-specific data, such as the design/build specifications, without committing to build on a PGE site. Bidders who commit to only bid to build on a PGE site will also have access to the cost assumptions developed by PGE.

The RFP website will provide a separate section that is dedicated to the EPC data and bid form. Bidders will have access to the design/build specifications by completing a pre-qualification form providing confirmation of experience and financial capability to construct a power unit and execution of the Non-disclosure Agreement (NDA) provided by PGE (Draft RFP Appendix S - 6). If PGE determines a prospective bidder is not qualified to have access to the PGE site information, the decision will be reviewed with the IE. Bidders who also want to receive the site-specific cost data developed by PGE will need to execute another, distinct, Non-disclosure Agreement (Draft RFP Appendix S – 7) and commit that they will not participate in a bid from a site that is owned by an entity other than PGE.

EPC bidders will have a unique Q&A section on the website, with access limited to those who executed the requisite NDA. This is intended to minimize the risk of inadvertent disclosure of confidential information, and to provide an open forum for qualified bidders to receive responses from PGE about the EPC requirements. PGE will provide an opportunity for visits to the two PGE sites after the design/build data is available to qualified bidders.

The IE's engineers will review the design/build specifications and the PGE site specific data, once the data is provided by PGE. The IE anticipates that the site specific data will include information that is unique to each PGE site, such as permit restrictions. When that review is completed, the IE will provide a report regarding whether the information is sufficiently detailed so that a qualified third party could reasonably produce a bid using the data. The report will be posted on the RFP website and provided to the Commission.

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. As noted, the extent of the information to be released will be decided at a later date. Qualified bidders will have access to the design/build specifications that will detail the power islands PGE would own, regardless of whether constructed by PGE or by a third party, without committing to build on a PGE site. The IE accepts the structure for access to PGE's cost data as an appropriate way to make the data available to the bidders who will bid in the EPC RFP so they will have the same information as the self build team when preparing bids.

III. SEPARATION OF THE EVALUATION TEAM

Accion personnel reviewed PGE's plan for separating personnel between the evaluation team and the self build team. The introduction of EPC bidding complicated the planning for personnel because the evaluation team must have engineering expertise to determine that an EPC bid has met the EPC design/build requirements. The IE and PGE agreed to a structure with an engineer assigned to the evaluation team until the completion of negotiations for EPC and Build-Own-Transfer ("BOT") bids. The

individual will have no responsibility for the development of any self build proposals, and will have no interaction with the self build team regarding this RFP. The IE's engineers will work separately with the evaluation team and the self build team to confirm the design/build specifications.

As noted in an earlier report, Accion established protocols for receipt of self-build proposals by the IE, and to hold that information apart from other bids until the IE performs analysis of the self build proposals and completes a "lock down" of those bids. Only then will other bids be released to the evaluation team.

The IE has employed this approach in other jurisdictions with success. We expect PGE personnel will respect the separation of responsibilities and will not jeopardize the RFP process by being less than diligent in adhering to all separation protocols.

IV. BID SUBMISSION PROCEDURES

The online bidding process will permit bidders to submit a variety bids, as noted in our last report. The bid form will permit bidders to bid capacity and energy proposals in combination or as separate bids. The array of bidding options will permit bidders to present an array of proposals, which is expected to present PGE with a full range of options.

Bidders who gain access to the design/build information included with the RFP documents will be permitted to bid any of the requested products from any other location. A bidder who gains access to the PGE site specific design information may also bid any requested product from any other location. Once a bidder gains access to the PGE site specific cost information, the bidder may bid an EPC proposal for that PGE site, but will not be permitted to bid that same product from another site. After gaining access to the PGE site specific cost data, the bidder will be permitted to bid a different product from a different site. For example, if a bidder gains access to the cost data for the Port Westward unit, the bidder may still submit an energy bid from a different site, but would not be permitted to submit any capacity bid from a site other than an EPC bid at the Port Westward location.

In order to submit an EPC bid, the bidder must have both the PGE site specific design information, *and* the PGE site specific cost data.

The IE team reviewed this approach in great detail with PGE personnel in order to maximize the amount of information that would be released to the potential bidders. We believe the correct balance was reached, in that bidders from a third party site will have no legitimate reason to have the site specific cost data, as it would not be transferable to another site. Also, the IE believes it is appropriate to require an EPC bidder to have all relevant information, including site specific information and cost data, before bidding. Indeed, we would expect the EPC bidder to want as much information as possible before bidding.

V. DOCUMENT DEVELOPMENT

The IE reviewed revisions to the RFP while still in draft form and offered recommendations to remove ambiguities and possible confusion. PGE personnel were cooperative and receptive to suggestions. The requirements of the Commission's Order were fully addressed by PGE in clear, straightforward text. The EPC documents have yet to be provided to the IE, and will be the subject of a subsequent report.

VI. CREDIT REQUIREMENTS

In this version of the RFP PGE provides credit threshold estimates to assist bidders in determining the cost of credit assurances, which the IE believes is appropriate. PGE also provides two sections within its final draft RFP where credit and bidder qualifications are specified, and where credit evaluation factors are detailed. On page 25 of the RFP PGE summarizes credit requirements for (a) bidding capacity or energy, (b) execution of a PPA, and (c) performance for the life of a contract. As drafted, page 25 of the RFP provides all necessary credit disclosures, when read with care. At the same time the text could be misunderstood, if not read closely, to be at odds with Appendix R (Credit Security Requirements). To remove any perceived ambiguity the IE encourages PGE to begin the statement on credit requirements in the RFP by directing bidders to Appendix R for a detailed explanation of PGE's position.

Similarly, Appendix R begins with the statement "[i]n order to submit a bid for Capacity or Energy, PGE requires that Bidders be at or above investment grade..." This attempt to simplify the preferred credit rating of bidders is at odds with the detailed standards that follow. The IE recommends amending the statement to clearly state this is PGE's preference, but, as the rest of Appendix R states, it is not a requirement.

Further, the IE recommends explicit reference to EPC, APSA and Build to Transfer (BOT) bids as "[b]ids for outright purchase..." as referenced on page 26 of the RFP. While the meaning of this phrase is clear to one who has followed the development of this RFP, this minor adjustment would remove any possible ambiguity.

In Appendix R of the Draft RFP, PGE proposes a methodology for determining the required security for different types of contracts. For energy contracts, it is proposed to use three years of estimated energy costs netted against 3 years of replacement power costs. However, since energy contracts will also likely have a capacity component, Accion recommends that the foregone capacity payment be taken into account in calculating the security requirements. For those instances where the energy contracts contain a capacity payment, we suggest that three years of capacity payments be used for security requirements. The levels of security subject to the Credit Thresholds defined in Appendix R are reasonable based on our experience in other jurisdictions.

During the evaluation process, credit evaluation will comprise 7.5% of the scoring. This non-price scoring factor will take into account the following seven credit considerations:

- Debt and equity ratings
- Performance assurance
- Financial ratio analysis
- Default risk
- Credit concentration and liquidity
- Enforceability of contractual credit terms
- Bidder revisions to contract templates that may affect credit requirements

The IE believes PGE's credit scoring methodology is reasonable and consistent with good industry practice.

VII. EVALUATION AND SCORING

EVALUATION PROCESS

The evaluation process that was proposed by PGE to be employed for the previous Capacity RFP was vetted by the Accion Group prior to the launch of the combined Capacity and Energy RFP. The evaluation methodology, modeling techniques, and assumptions were appropriate for the types of products that were being sought in that RFP.

However, the inclusion of the solicitation for a baseload gas resource into the current RFP has implications for all the products being sought. The OPUC Order 11-371 notes that "combining the RFPs will allow bidders to offer to build capacity and energy resources at a single site to take advantage of economies of scale." Combining the RFPs not only allows bidders to achieve economies of scale, the evaluation process can be more aligned to ensure that the portfolio of selected resources optimizes benefits and minimizes costs. The evaluation process for the combined RFP will need to more closely consider the portfolio effects of selecting multiple categories of resources. In addition to the individual assessment of projects, portfolio analysis using various permutations of high scoring bids from each category will be used to ensure that the ideal set of resources is selected.

As noted in the previous IE report, the information regarding the evaluation process provided in the RFP documents sufficiently describe the evaluation process to provide bidders the information necessary to for them to tailor competitive bids. The flexible capacity product and seasonal peaking products are well defined in the most recent RFP document, providing lists of technologies that are most likely applicable to fit the need but not ruling out any commercially proven technologies. The baseload gas product and eligible technologies are also well defined. The option for an EPC contract on PGE sites for either the Capacity or Baseload Gas requests clearly articulates what information will be made available to bidders, as well as the steps required to participate in that process. The price and non-price factors that will be used for the evaluation are defined in adequate detail for bidders to understand how their bids will be evaluated, without providing too much detail so as to provide opportunities for

“gaming” the process. PGE, Accion, and Commission Staff will finalize the details of the evaluation process before the bids are received.

BENCHMARK RESOURCES

Since PGE intends to bid a self-build option to compete for both the flexible capacity need and the baseload gas need, Accion recognizes the need to assuage bidders and regulators that all bidders will receive a fair opportunity during the evaluation process. During the previous Capacity only RFP that was merged into the current process, several parties raised specific concerns about how PGE will allocate certain costs to the self-build option.

The following steps will be taken to ensure that all bidders are treated fairly in relation to the self-build options. As stated in the RFP documents, the benchmark bids will be due prior to other bids to enhance transparency and fairness among all bids. Accion will be responsible for independently scoring PGE’s benchmark resources. Accion will also score, in accordance with the OPUC Competitive Guidelines Order No 06-446, “all or a sample of the bids to determine whether the selections for the initial and final short-lists are reasonable.” Accion will also review the scoring of all bids performed by PGE for accuracy and fairness. Also, Accion has worked with PGE to ensure that the evaluation process will capture all necessary incremental costs to build on a PGE site, regardless of whether the construction is done for a self build proposal or a third party bidder.

As the actual costs are developed and allocated, the OPUC Order directs “PGE and the IE to share, under the terms of an appropriate protective order, the proposed cost allocation.” Accion and the IE will work to finalize this information as part of the process of finalizing the evaluation process with Commission Staff.

MOCK BID PROCESS

The mock bid process will play a significant role in finalizing the details of the evaluation methodology ensuring that models, assumptions, and scoring are performing as designed. Accion will work with PGE and Commission Staff to develop mock bids to be run through the evaluation tools. These mock bids will represent a wide range of technologies and products to attempt to cover the majority of possibilities to ensure proper point allocation for all categories when the actual bids are scored. The process will allow for sensitivities to stress test the evaluation framework. In addition, portfolio effects of selecting various combinations of bids will be assessed during the mock bid process. Once all parties are satisfied that the evaluation process is performing as intended, then all models and assumptions will be “locked down” before bids are received. Once the models are “locked down”, there will be no changes made to the models unless approved by Accion and Commission Staff. The mock bids will be run with the actual bids to ensure that no changes to the model have been made.

GENERAL PRE-QUALIFICATIONS

Accion Group's previous assessment that the pre-qualifications defined in the Capacity only RFP are reasonable is still applicable.

PRICE COMPONENT

Accion remains agreeable to the price scoring methodology for flexible and seasonal capacity as documented in the Capacity only RFP.

For the energy product, PGE will dispatch all bids in an Excel model against an hourly market price forecast developed using AuroraXMP. All unit constraints and bids costs are included in the dispatch model. As required by Guideline 9a, "[t]he price score should be calculated as the ratio of the bid's projected total cost per megawatt-hour to forward price." This price score will constitute 60% of the total bid score. When determining the total system cost impact, the IE will pay particular attention to the potential market price forecast impact of a large baseload resource. If any substantial variation is identified between the Excel dispatch model and the Aurora model, the difference will be rectified and all bids will be re-run through the more accurate dispatch tool.

NON-PRICE COMPONENT

The non-price criteria have not changed substantially. However, the OPUC order did clarify the treatment of two issues: 1) Gas Storage and Intraday Scheduling and 2) Dynamic Transfer Transmission Rights.

Per the order, "bidders must demonstrate that they have a plan to acquire gas storage and intraday scheduling to be eligible to participate in the RFP for flexible capacity". We agree with the implementation as proposed since bidders simply have to demonstrate a plan to secure those services.

Also the order recognized that while dynamic transfer is essential for the flexible capacity resource, "there is no harm in excluding the dynamic transfer requirement from the initial scoring of bids for flexible capacity". We agree with the approach and PGE has accordingly removed that component from the initial scoring.

INITIAL AND FINAL SHORT LIST

The initial short lists will be developed separately for the Capacity and Energy products strictly on the price and non-price scoring for two times the capacity requested in the RFP. A combination of energy, flexible capacity, and seasonal products will be evaluated at the same time and against each other in order to identify the best portfolio of products.

The final short list will be developed using this refined price scoring and based on refining several non-price categories including transmission, security for performance requirements, and portfolio fit. Since the OPUC order clarified that imputed debt is not to be considered in either the initial or final short list, the scoring procedures have been refined to accommodate this change.

Depending on how closely the projects score, it may be necessary to take more than two times the capacity into the next level of evaluation to determine a final short list. Accion, PGE, and Commission Staff will be involved in finalizing each phase of the evaluation process to ensure appropriateness of the price scoring, non-price scoring, initial short list selection, and final short list

selection. Throughout Accion's review of the evaluation methodology, there has been no indication of any bias or reason to believe that the evaluation will not be conducted in a fair manner for all bidders.

XI. CONCLUSION

Accion continues to find PGE receptive to recommendations of the IE for improving the detail and clarity of the RFP documents. The modifications made by PGE in response to Order No. 11 371 addressed the issues identified by the Commission, especially the combination of the Capacity and Energy RFPs and the addition of the ability for bidders to propose projects on PGE sites. The EPC documents, including the design/build specifications, will be reviewed by the IE and will be the subject of a subsequent report. The evaluation process has also adequately been adjusted to accommodate baseload gas products, the exclusion of imputed debt costs, refinement of the credit requirements, the timing of scoring impacts due to dynamic transfer rights, and the allocation of costs to self-build options.

CERTIFICATE OF SERVICE

I hereby certify that on the 9th day of February, 2012, I served the foregoing Report of the Individual Evaluator for PGE 2011 Capacity Power Supply Resources RFP upon the persons named on the service list, by mailing a full, true and correct copy thereof and to such persons waiving such service by mail who were served at their e-mail address as listed on the service list.

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