

ORDER NO. **91-1383**

ENTERED **OCT 18 1991**

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 316

In the Matter of an Investigation into Competi- )  
tive Bidding by Investor-Owned Electric Utility )  
Companies. )

ORDER

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DISPOSITION: COMPETITIVE BIDDING GUIDELINES ADOPTED

EXECUTIVE SUMMARY

In this order the Commission adopts policy guidelines for competitive bidding for all investor-owned electric utilities in Oregon. The order presents the Commission's conclusions concerning key policy concerns and bid implementation issues. The roles of the Commission and utility are set out. In addition, resource types allowed to participate are defined, and general criteria for the evaluation and selection of bid proposals are developed.

The following is a summary listing of the major competitive bidding guidelines adopted by the Commission. The listing is not intended to encompass all of the guidelines contained in this order, but summarizes for the reader many of the policies discussed in more detail later in this order.

- 1.) The primary role of the Commission will be to establish a fair competitive bidding process and determine whether a proposed project is consistent with the soliciting utility's least cost plan.
- 2.) The Commission directs each electric utility to obtain at least a portion of its new power resources through the competitive bidding process.
- 3.) The utility should indicate its intention to conduct a competitive bid in its least-cost plan's two-year action plan. This is subject to public review and Commission acknowledgement.

- 4.) The utility will be responsible for issuing an RFP, evaluating the bids received, and selecting projects for implementation. The process, however, will be subject to established Commission guidelines. The Commission will review the draft RFP, in public, to determine whether the draft RFP is consistent with Commission guidelines.
- 5.) There are no legal barriers in either federal or state law prohibiting implementation of competitive bidding.
- 6.) Conservation has unique evaluation criteria which require that demand-side and supply-side bid solicitations be conducted separately.
- 7.) PURPA QFs, independent power producers, and other utilities are eligible to participate in a supply-side RFP. A utility or its affiliate, however, may not participate in the utility's own supply-side or demand-side bid solicitation.
- 8.) The Commission directs that at the end of each bid solicitation the utility revise its avoided cost figures to reflect market information gained in the bid process. In addition, the standard rate should be made available to small QFs of 1-MW-or-less capacity. Lastly, the terms of a specific utility/QF contract should take into account project characteristics and the utility's power needs. The contracting parties will negotiate the length of the contracts.
- 9.) The utilities will use a first-price sealed bid format in the bidding process. Post-bid negotiation on both price and non-price issues is permitted.
- 10.) Bid evaluation should include both price and non-price factors (i.e. dispatchability, reliability, environmental impacts). Table 1 of this order shows the weighting system that will be used for the initial ranking of project proposals.
- 11.) The soliciting utility's policy concerning interconnection and wheeling should be presented in the utility's supply-side RFP.
- 12.) The Commission is willing to consider, in another proceeding, reasonable incentive techniques which may improve the competitive bidding resource acquisition process. Utilities are encouraged to work informally with Commission staff on this matter.
- 13.) The demand-side RFP will clearly state the utility's policy concerning performance guarantees and verification of energy savings.

14.) In its demand-side RFP, a utility may target specific conservation sectors. Special concerns regarding the interaction of utility sponsored conservation programs and the demand-side bid will be addressed in the RFP.

15.) In demand-side bidding, a utility will limit its conservation acquisition and payments to cost-effective measures.

16.) At the completion of either a supply-side or a demand-side bid, the utility will issue, as public information, a summary report listing the characteristics of all winning bids. The report will also list the key features of losing proposals, without, however, revealing specific projects.

17.) The Commission will closely watch the progress of the competitive bidding process to ensure that it operates fairly and accomplishes the goals the Commission has established for it.

## INTRODUCTION

At its May 30, 1989, public meeting, the Oregon Public Utility Commission (OPUC or Commission) ordered an informal staff investigation into the potential use of competitive bidding as a means for investor-owned electric utilities to acquire energy resources. The OPUC's Regulatory Policy Analysis Unit (RPA) began that investigation in mid-July 1989. The RPA staff first sent out notice of the investigation to over 400 people who might be interested in competitive bidding. Based on the response from the notice, the staff developed a mailing list of nearly 200 interested parties. Staff then circulated, on October 6, 1989, a working paper which discussed several competitive bidding issues and concerns. In response to the paper, staff received written comments from several interested parties. Next, staff conducted a competitive bidding public workshop on November 13, 1989.

Taking into consideration the results of the workshop, the filed comments, and other input of interested parties, staff worked with the Oregon Department of Energy (ODOE) to complete a comprehensive report titled, "*The Potential Role of Competitive Bidding for Resource Acquisition by Investor-Owned Electric Utilities.*" This report was served on interested parties and made available to the public on August 10, 1990. The report included an introduction to the concept of competitive bidding, defined and discussed competitive bidding issues, surveyed competitive bidding activities and results in other states, identified key issues and concerns which relate specifically to Oregon, and presented study findings and recommendations.

In response, the Commission initiated this proceeding to consider the OPUC/ODOE report's recommendations. Hearings Officer Lowell Bergen presided at a prehearing conference on August 29, 1990. He established a schedule which included three workshops and several opportunities for parties to submit written comments. The workshops and written comments provided a means for parties to identify key issues and possibly to resolve disputed issues. Comments were received until March 13, 1991. The names of those who filed written comments to the Hearings Officer are listed on Appendix I to this order. In addition, other persons made oral statements and submitted written comments to staff on an informal basis.

Competitive bidding, as used in this order, refers to a process whereby many sellers compete with each other to market energy services to a regulated electric utility. Energy services may be provided by either supply-side resources (generating facilities) or demand-side resources (conservation and load management). Bidding should be viewed as one of many pathways the utility may follow to achieve the least-cost planning goal of acquiring the resource mix with the best combination of expected costs and variance of costs.

Competitive bidding regimes can be characterized as **nonflexible systems** which have rigid rules that determine the outcome, **flexible systems** which allow for negotiation and adaptation over time, or some **combination** of the above. In general, the Commission supports a flexible approach which can evolve over time. At the same time, if bidding is to be successful, it is necessary that potential non-utility developers know the rules of participation, understand the ranking and selection process, and consider the probability of success and monetary rewards sufficient to justify the costs of participation. Thus, in developing a bidding regime, there is a trade-off between flexibility and the need to establish process requirements and limits.

Although there is risk and uncertainty associated with acquiring new resources through competitive bidding, the process offers new challenges and opportunities which should not be ignored. Establishing competitive bidding as one option for resource acquisition will augment Oregon's least-cost planning efforts. Market information gained through a bidding process should promote efficiency by improving resource decisions made within the least-cost planning process. This outcome will benefit ratepayers by minimizing the expected long-term costs of providing energy services.

Interest in utility resource acquisition through bidding programs steadily increased during the 1980s. As of May 1990, competitive bid solicitations had occurred in 21 states. Results of these bid solicitations indicate that there is a large supply of capacity that independent developers are willing to offer at reasonable prices. Thus, the limited

experience with independent suppliers of energy services supports the OPUC/ODOE report's conclusion that competitive bidding should be pursued in Oregon.

The interest in independent suppliers of energy services primarily comes from evolving market conditions which are changing the utility industry's historical role of constructing and operating large-scale power plants. This change derives from advancement of electric generating technology and uncertain economic conditions -- especially regarding fuel supply, environmental concerns, and load growth.

Combined with the changing technology and economics is the concern of many utility managements that the risks of new plant construction may primarily fall on utility stockholders. Thus, many utilities have become reluctant to plan additional utility-constructed-and-financed power plants. This reluctance comes at a time when electric demand is increasing and the Pacific Northwest region is nearing load-resource balance. Given these evolving circumstances, the Commission finds that competitive bidding is one means, within the least-cost planning (LCP) framework, for an electric utility to identify and acquire economically efficient energy resources.

The Commission is convinced that the competitive bidding process established in this order will benefit the public in Oregon. Therefore, the Commission directs each electric utility providing service in Oregon to use the competitive bidding process to obtain at least a portion of its electric resources in the future. The Commission encourages active and enthusiastic participation, but is not requiring utilities to obtain all of their future power needs through the bidding process. In its review of each utility's least-cost plan, the Commission will examine the utility's participation in the bidding process.

### COMPETITIVE BIDDING GOALS

Energy resource acquisition via competitive bidding is a relatively new and evolving process within the electric industry. The main advantage of bidding is that it provides a means to identify and acquire least-cost resources which are available in the increasingly competitive electric generation marketplace. For Oregon to pursue competitive bidding, the process should satisfy the following goals:

1. Provide the opportunity to minimize long-term energy costs, subject to economic, legal and institutional constraints;
2. Complement Oregon's least-cost planning process, as described in OPUC Order 89-507;



3. Not unduly constrain utility management's prerogative to acquire new resources through means other than competitive bidding;
4. Be flexible, allowing the contracting parties to negotiate mutually beneficial exchange agreements;
5. Be understandable and fair.

The only goal to elicit comment from the parties concerns the fairness of the process. Staff suggests that the goal should be to have all participants consider the process to be fair. Portland General Electric Company (PGE) suggests that there be no fairness requirement at all and points out that fairness, like beauty, is defined through the eyes of the beholder.

Certainly, reasonable people want the process to be fair, as opposed to unfair or biased. It is important that the process be fair and assist utilities in obtaining the optimum mix of power resources. And the Commission hopes that the process will be perceived that way. However, it may be impossible to convince everyone that the process is fair. If the goal is to have everyone think the process is fair, one discontented participant could thwart that goal. Rather than make the perception of the process a stated goal, the Commission adopts the goal of establishing a process that is itself fair and understandable.

The Commission concludes that it can establish a competitive bidding regime for Oregon's investor-owned electric utilities which will satisfy the stated goals, including the goal of a fair process.

### BIDDING PROCESS

The primary tasks in implementing a bidding regime are to:

1. Summarize the estimated cost and availability of new resource alternatives which the utility has identified in its least-cost plan.
2. Identify the size and nature of the supply block which will be specified in the bid solicitation.
3. Prepare and publicize a Request for Proposals (RFP).
4. Evaluate project proposals and select the winning bids.

5. Negotiate and sign energy contracts with winning bidders.

Competitive bidding should complement Oregon's least-cost planning process. LCP is not intended to alter the basic roles of the Commission and the utility in the regulatory process (See Order 89-507, page 6). Nor will the Commission alter their respective roles in the competitive bidding process. The purpose of Commission involvement in competitive bidding is to establish a fair bidding process and to determine whether a proposed project is consistent with the soliciting utility's least-cost plan and complies with the bidding guidelines established by the Commission. The Commission will not become directly involved in bid evaluation and selection; that will be the responsibility of the soliciting utility company.

The first two tasks listed above should be part of the utility's least-cost plan. The plan includes a two-year action plan (See Order 89-507, page 11) and must be updated at least once every two years.

The LCP action plan should identify the extent to which competitive bidding will be employed in the utility's resource acquisition process. If the utility indicates that it intends to conduct a bid solicitation, then the LCP action plan should specify the expected size of the supply block which will be open to bid.

The public and the Commission will both participate in the review of the utility's least-cost plan. During this review process, parties will have the opportunity to comment on the resource alternatives identified in the utility's least-cost plan and its action plan. The action plan may or may not include a bid solicitation. This review process should eventually lead to Commission acknowledgement of the utility's least-cost plan, including any need for a competitive bidding solicitation.

### **Request for Proposals**

The next task will be for the utility to prepare an RFP. Any differences between what the utility indicated in its LCP action plan and what is listed in its bidding RFP should be documented and explained by the utility. The reasonableness of any changes will be considered in the RFP public review process, discussed below.

In general, the utility's RFP should provide sufficient information regarding potential utility-developed resources, requirements of bid proposals, and the method of bid ranking and selection so that potential developers can make an informed decision on whether or not to participate.

The soliciting utility will be responsible for developing and issuing its own RFP. Before an RFP is formally issued, however, staff recommends a public review process that addresses the RFP's compliance with the guidelines adopted in this order. Staff recommends that the utility file its draft RFP with the Commission at least 60 days prior to the date the utility plans to publish its RFP. Staff would review the RFP and report its conclusions and recommendations at a Commission public meeting. Staff envisions the review process being completed within 60 days.

Under staff's plan, the draft RFP would also be made available to members of the public who request a copy. Interested persons could submit comments to staff within 30 days of the RFP being filed with the Commission. In addition, they could express their viewpoints at the Commission public meeting at which the utility's RFP is considered.

Some parties object to the proposed review process for RFPs on two grounds. The first ground is that the process will provide an opportunity for some potential bidders to gain an advantage over other potential bidders; to prevent that from happening, the Commission could be forced into a detailed examination of potential contract terms and other substantive provisions of the RFP. An understanding of the Commission's role in the review process allays such concerns. The Commission will review the RFP for compliance with this order and consistency with the utility's least-cost plan. The Commission will not concern itself with substantive terms or technical details of an RFP for other purposes.

The second ground is a concern that the review process will constitute an unnecessary intrusion into utility management prerogatives. PGE argues that how a utility implements its two-year action plan should be left to the discretion of utility management. The answer, again, is an understanding of the Commission's limited role in the RFP review process. The Commission will not create the RFP or determine if it is the best possible way to implement the utility's least-cost plan. The Commission will only review the RFP's consistency with the utility's least-cost plan and the RFP's compliance with the requirements of this order.

Staff's proposal for a public review process for RFPs is adopted.

#### **Exemptions, Complaints, and Informal Procedures**

An exemption from a specific Commission guideline may be reasonable. Therefore, a utility may request, and for good cause the Commission may grant, a deviation from, or waiver of, the competitive bidding guidelines adopted in this order.

A person who thinks that any statute or rule administered by the Commission has been violated may file a complaint under the Commission's complaint process. See ORS 756.500 and OAR 860-13-015. If a dispute concerning a competitive bidding solicitation does not involve a violation of such statutes or rules, then the dispute must be dealt with in some other forum.

A soliciting utility may want to establish informal procedures in addition to the guidelines adopted in this order. For instance, Idaho Power suggests that a soliciting utility issue a Request for Interest before it issues an RFP. The Request for Interest would give enough information so that potential bidders could assess their interest in bidding. Also, workshops or meetings between the soliciting utility and interested developers after the RFP is issued would be helpful. Utilities may have other ideas to facilitate communication and understanding among interested parties.

### **Supply-Side and Demand-Side Bidding**

There are fundamental differences between the creation or purchase of electric power (supply side) and the purchase of energy savings (demand side). Possible sources of additional supply-side power include the following:

- Utility owned-and-operated central production plants;
- PURPA Qualifying Facilities (QFs), including cogeneration and small power production facilities;
- Independent Power Producers, including cogenerators and other non-utility generators who do not meet PURPA standards;
- Refurbishment of existing facilities, and;
- Purchase of power from other sources.

Demand-side sources of energy savings include reducing energy consumption by increasing the efficiency with which electricity is used, and shifting customer demand from peak demand periods to off-peak periods.

Differences between demand-side and supply-side sources of supply exist in the measurement of kilowatt hours supplied, resource quality, price determination, and other terms of exchange. These variables require that supply-side and demand-side solicitations contain unique bid requirements and evaluation criteria. These differences are best addressed in separate RFPs.

Given the current level and knowledge of conservation acquisition in Oregon, the Commission believes that separate supply-side and demand-side bid solicitations will make it more likely that conservation will receive the serious consideration it deserves.

Separate solicitations should reduce the complexity of bid evaluation and selection and encourage experimentation with demand-side bidding. Separate solicitations will allow a specific block of power, consistent with the size identified in the utility's least-cost plan, to be set aside and supplied by demand-side resources acquired through competitive bidding. Separate supply-side and demand-side bidding processes will, at least at the start of the competitive bidding program, increase the probability of success of the entire program.

After the bidding process has been in operation for awhile, experience may indicate that demand-side and supply-side bids should be combined into one integrated bidding process. If so, the Commission will address the issue at that time.

### **Guidelines for Supply-Side Bid Solicitations**

The supply-side bidding regime should cover the following areas:

1. Procedural Items
  - a. Identifying the need for a bid solicitation
  - b. Supply block size
  - c. Schedule RFP actions
  - d. Provide for project security
  - e. Provide for the confidentiality of information
2. Resource Information
  - a. Price and non-price information on potential utility resource acquisitions
  - b. Resource types eligible to bid
  - c. Information required in bid proposals
3. Bid evaluation and selection
  - a. Price factors
  - b. Non-price factors
    1. Project and system operational issues
    2. Environmental impacts
4. Awarding of contracts
  - a. Post-bid negotiation
  - b. Summary report of bid results

### Procedural Items

A utility's intention to conduct a competitive bid solicitation and the expected size of the supply block to be open to bid should initially be indicated in the utility's least-cost plan. Any significant differences between what was indicated in the utility's least-cost plan and the utility's draft RFP should be documented and explained to the Commission.

The utility's RFP should contain a schedule for submission of bid proposals, review, ranking, and final selection. In addition, the RFP should state when the utility expects to file revised avoided cost figures. These figures will incorporate information gained in the bidding process.

The RFP should clearly state the utility's policy regarding the project security requirements. In order to protect itself and ratepayers, the utility should require assurances that a proposed project has a reasonable probability of successful construction and operation. In determining this probability, such factors as the developer's control over the site where the project is to be located, project engineering, project financing, management expertise, and the likelihood of obtaining necessary government licenses should be considered. The utility's RFP should clearly specify all information which should be included in a project sponsor's bid proposal. In addition, the utility's requirements concerning entry fees, project milestones, and other project performance criteria which it feels necessary should also be listed in the RFP.

The utility's policy concerning bid confidentiality and protection of proprietary information should also be presented in the RFP. That policy statement should include information concerning what confidentiality restrictions the utility will impose on its employees involved in the bid evaluation and selection process. The RFP should clearly state that it is the project sponsor's responsibility to indicate in its bid proposal what information it considers confidential. The soliciting utility shall retain all bid materials at its business premises. The utility's RFP should state the length of time that these materials will be kept on file. The utility will be obligated to present these materials to the Commission upon request. *See* ORS Chapter 756.

The Commission concludes that the general procedure for dealing with bid confidentiality developed in this proceeding will strike a reasonable balance between the need to protect sensitive information and the need to have an open and public bidding process.

A summary report of the bidding outcome should be compiled by the utility and made available as public information. This report should list characteristics of all winning bids. It also should include analysis of the rate of participation and success of smaller

projects in the range of one to five megawatts. In addition, the report should summarize key points of the losing bids without, however, identifying specific projects. This type of summary information will be useful in evaluating the competitive bidding process and be useful input to the utility's least-cost planning process.

### **Resource Information**

A soliciting utility should clearly specify in its RFP the information it expects bid proposal sponsors to provide. This information should include such items as project description, siting, design and engineering, management expertise, financing, operational parameters, and government licensing requirements.

The utility should describe in its RFP, for informational purposes, the price and non-price attributes of potential resource alternatives which have been identified in the utility's least-cost plan. Essentially, the resource cost information and evaluation contained in the utility's most recent least-cost plan should be summarized in its bidding RFP. The RFP can refer the reader to the utility's least-cost plan for further detail on any particular resource. The utility resource information summarized in the RFP should assist potential bidders in deciding whether or not to participate in the bid solicitation. The utility's resource cost information contained in its RFP does not constitute a price ceiling for a project.

A soliciting utility should indicate in its RFP what weight the utility will allocate for specific project and system operational criteria. Operational issues discussed in the RFP should include: dispatchability; reliability; fuel type and supply; interconnection and wheeling policy; environmental concerns; and other concerns the utility may identify as important to project and system operations.

**Set-Asides.** One of the parties offering comments in this proceeding, California Energy Company, Inc. and CE Exploration (together referred to as CECI), wants renewable resources, especially those using geothermal resources, to receive preferential treatment in the competitive bidding process. CECI recommends that the Commission require utilities to fill 25 percent of their need for additional power by the use of renewable resources. It recommends that separate bidding arenas be used--one for all technologies and one for renewable technologies. It also recommends that the bidding process incorporate incentives for the utilities to choose renewable resources.

The appropriate place to make specific recommendations about particular resource types is the LCP process. The LCP process results in decisions about resource types. That is the appropriate proceeding in which to raise issues concerning set-asides and incentives for certain resources. The competitive bidding process will be one way to

implement the decisions made in the LCP process. The Commission invites CECI to participate in the LCP processes currently being conducted by the Commission.

**Wheeling.** One obstacle that could arise for prospective bidders outside the service territory of the soliciting utility is getting the electricity from where it is created to the soliciting utility's system. Access to the transmission systems of intervening utilities is not automatic nor assured. Staff takes the position that reasonable costs of interconnection and wheeling should be the responsibility of the project developer. It contends that this is a continuation of current OPUC policy and cites OAR 860-29-030(4) and OAR 860-29-060(1) in support of its position. It recommends that the Commission not address or attempt to resolve open transmission access issues (other than an admonition to soliciting utilities to make their best efforts to help winning bidders get their electricity to the utility's system), and that such issues are best dealt with at the federal level.

Several parties want the Commission to become actively involved in helping bidders get their electricity to the soliciting utility's system. The Northwest Cogeneration and Industrial Power Coalition (Coalition) requests that the Commission require utilities subject to its jurisdiction to wheel power intrastate, that the Commission establish equitable pricing guidelines for wheeling power, and that the Commission ensure cooperation between privately owned and publicly owned utilities to wheel power. The Oregon Committee for Equitable Utility Rates (OCEUR) and the Oregon Committee for Fair Utility Rates (OCFUR) request that the Commission require a utility (or its affiliate) responding to a bid solicitation to be willing to provide transmission access to other bidders in its service territory.

The Federal Energy Regulatory Commission (FERC) has authority to set the prices, terms, and conditions of transmission service. FERC also established transmission access requirements specifically for PacifiCorp as part of PacifiCorp's merger with Utah Power & Light Company. Oregon Public Utility Commission rules OAR 860-29-030 and 860-19-060 establish transmission interconnection requirements in certain situations. Issues of federal preemption, state and federal cooperation, reliability of the transmission systems, and possible conflicting requirements should be resolved before the Commission establishes additional requirements for transmission access. The record in this case does not develop those issues sufficiently to support a well-reasoned decision on transmission access. Parties desiring further action by the Commission may initiate a proceeding to address transmission access issues.

Staff's suggestion to require soliciting utilities to make best effort attempts to assist sponsors of winning projects get their electricity to the utility's system is adopted. In any event, a soliciting utility's RFP should clearly define the utility's policy concerning transmission access and wheeling of power.



**Utility Affiliates.** The investor-owned electric utilities (PGE, PP&L, and Idaho Power Co) expressed a preference that, with a proper showing, utility affiliates be allowed to participate in the utility's own bid solicitation. The OPUC/ODOE staff expressed the opinion that a utility affiliate's participation in the utility's own RFP could damage the perceived credibility and fairness of the bidding process (e.g., self-dealing) and contravene basic utility ratemaking policy. See OPUC Order 86-648, at 4; Order No. 82-606, at 7-8. Staff argued that there are sufficient independent sellers of energy services for a successful competitive bid to occur, and therefore, affiliate participation is not a necessary prerequisite.

The Commission agrees with staff's arguments that a utility or its affiliate should not submit bids in response to the utility's own bid solicitation. However, as stated earlier, the Commission views competitive bidding as a flexible process which should be allowed to evolve over time. After experience is gained with several competitive bid solicitations, the Commission may reconsider the prohibition against utility affiliates responding to the utility's own RFP.

The Commission concludes that resource types eligible to participate in a bid solicitation are: QFs, independent power producers (IPPs), and outside utilities (any utility company other than the one soliciting the subject bids) or their affiliates. The soliciting utility or its affiliate, however, may not submit bids in response to the utility's own bid solicitation.

**PURPA QFs.** FERC regulations (Chapter 292) and Oregon statutes (Chapter 758) give the Commission specific responsibilities concerning PURPA QFs. These responsibilities include the establishment of avoided cost figures for QFs, and certain terms and conditions of utility/QF power purchase agreements.

There are no legal barriers in either federal or Oregon law prohibiting the implementation of a bidding process which includes QFs. Bidding will require no changes to current state statutes (ORS Chapter 758) or OPUC administrative rules (OAR Chapter 860, Division 29) concerning PURPA cogeneration and small power production facilities. Sponsors of potential QF resources who do not sign contracts through the competitive bidding process will still be eligible to sell power to regulated electric utilities under the provisions of ORS Chapter 758 and OAR Chapter 860, Division 29.

The OPUC/ODOE staff report made several recommendations regarding the Commission's policy toward PURPA QFs. The issues surrounding those recommendations will now be discussed.

*Avoided Cost Updates.* OAR 860-29-080(3) requires utilities to file avoided cost figures each April 1 to become effective the following July 1. Staff recommends that with competitive bidding, however, a utility revise its avoided cost estimates to reflect resources acquired in the bidding process. Staff recommends that the utility update its avoided cost estimates at the end of a bid solicitation process. Several commentators support staff's position.

The Coalition argues that avoided cost figures should not reflect the results of the bidding process until substantial construction has been done on the winning project. It suggests that 25 percent completion would be an appropriate bench mark. It argues that bid prices and actual construction costs are usually different, making the bid price inaccurate. The Coalition also objects to an update of avoided cost figures at the completion of a bidding process to reflect information gained during the process. The Coalition argues that between-year updates would create uncertainty for QFs, making it more difficult for them to project their revenue streams. OCEUR and OCFUR support the Coalition positions.

Estimates of avoided costs are not precise numbers that would be degraded if the numbers from a bidding process were included in the calculation. They are estimates, and can include projections about the costs of projects not yet initiated. Figures from a just-completed bidding process would at least be current and would be for an identified project scheduled for construction. Cost figures estimated after the project was 25 percent complete would probably be more accurate, but in the interim the avoided cost estimates would not be based on the best evidence available.

When a utility contracts to add a resource to its system, its supply needs change. Its avoided cost estimates should reflect that change. Avoided cost estimates that reflect current market information and a utility's supply situation will give more appropriate signals than if information is deliberately delayed until the information is more precise.

The Commission is persuaded that utilities should continue to file avoided cost estimates yearly. In addition, they should update their avoided cost estimates at the end of each bid solicitation process. Appendix II to this order contains additional discussion about updating avoided cost estimates. The utilities should also state in their RFPs when they expect to file their updated cost estimates.

*Standard Rate.* OAR 860-29-040 mandates a standard rate for purchases from QFs with a capacity size limit of 100 kilowatts or less. That size limitation should be increased to one megawatt of nameplate capacity. Without this change, the transaction costs associated with participation in competitive bidding could disadvantage small QFs.

The standard rate should be derived from the results of the competitive bidding solicitation. Staff recommends that the standard rate be computed as a weighted average of the winning bid prices. This is a reasonable approach and is adopted by the Commission. A rulemaking docket to consider changing the capacity limitation contained in OAR 860-29-040 will be opened.

*Avoided Cost Filings.* In Order No. 84-720 the Commission directed utilities to file avoided cost estimates for 35 years into the future. No party contends that some other length of time should now be adopted. The Commission reaffirms the 35-year time period for avoided cost filings.

*Long-Term Contracts.* The length of the contract a utility and a winning project sponsor agree to should result from their negotiations rather than from a Commission fiat. This policy should apply regardless of whether the QF resource is acquired through competitive bidding or under provisions contained in ORS Chapter 758 and OAR Chapter 860, Division 29. But the further into the future projections are made, the greater the risk that the projections will not accurately represent actual conditions at the end of the projection period.

To address that problem, staff recommends that the prudence of utility/QF contracts for terms longer than 20 years be evaluated under the following criteria:

1. Whether there is a high probability that the resource will be operable well beyond 20 years;
2. Whether the developer could obtain financing for the resource for contract lengths of less than 20 years; and
3. Whether the resource's physical and cost characteristics make contract terms of more than 20 years advantageous for all parties. For example, a capital intensive project, such as a hydroelectric facility, may offer price and operational benefits for both the utility and developer with a contract term of greater than 20 years.

Idaho Power Company suggests adding a fourth criterion, the requirement that a professional engineer certify that the project, as designed and built, is capable of operating for a term greater than 20 years. Staff responds that its first criterion adequately covers that issue.

Staff's proposed criterion gives a resource sponsor more flexibility in how it shows that the project will last as long as its stated life. The sponsor may use a professional

engineer's certificate or it may use some other method. The Commission prefers to allow that flexibility. No party challenged the other recommended criteria. The three criteria proposed by staff are adopted. The recommended criteria help to ensure that long-term QF contracts (i.e., greater than 20 years) will be financially and economically justified.

### **Bid Evaluation and Selection**

The evaluation and ranking procedure will need to include both price and non-price factors. The soliciting utility should clearly explain those factors in its RFP.

A first-price-sealed-bid auction format should be used. Under this format, contract payments are based on the price contained in each winning bid proposal. The bid prices are not averaged or made uniform in any way. Pricing terms may, however, be adjusted in post-bid negotiations. All information submitted by bidders is confidential until after the selection is made.

Staff recommends that the soliciting utility and each winning bidder have the option to negotiate the final contract price stream, including any front-loading (i.e., levelization). Some commentators want the Commission to prohibit utilities from eliminating a project because it is capital-intensive and requires higher payments early in the project's life than would otherwise be the case. They also object to the proposal to leave the matter to negotiation between the parties.

Issues relating to levelization should be decided between a utility and a project sponsor as they negotiate the terms of a specific project. The bidding process adopted in this order allows the utilities to determine their need-for-power requirements, evaluate and select projects to meet their power requirements, and negotiate to fine-tune the proposed project to the power requirements. Market forces will be allowed to operate as free as possible from government restraints. The Commission will be better able to test the success of the bidding process in the marketplace if the marketplace operates in an unfettered manner. The utilities which agree to a levelization payment plan should protect themselves (thus their ratepayers) against the possibility that a project may fail. The potential harm to ratepayers is greater when a larger portion of total payments are paid early in a project's life.

The decision reached in this proceeding is consistent with the recommendation the Commission made on November 1, 1988, to the 65th Legislative Assembly. The recommendation was made in a report to the legislature regarding cogeneration and small power production facilities.

The Commission realizes that some projects may be more difficult to finance without a levelization agreement. The Commission encourages utilities to seriously consider the long-term costs as well as the short-term costs in evaluating bids. The Commission directs the utilities not to eliminate projects from consideration just because they require a levelization agreement.

**Evaluation Factors.** The Commission directs each soliciting utility to state in its RFP the weights the utility will use to evaluate each RFP-specified price and non-price factor. The RFP shall provide sufficient detail to allow potential bidders to determine what power supply characteristics are important to the utility. Then the potential bidders will be able to realistically estimate the score their projects will receive in the bidding process.

Staff recommends that the weights assigned to each factor be within the ranges shown in Table 1 below. Staff's recommendation contemplates the Commission setting ranges within which the utilities may assign specific weights to the various factors. The recommendations are separated into price and non-price factors.

The Coalition points out that the weighting of the various factors might have public policy implications. It suggests that public input to the decision as to what weight to allocate to the various factors might be appropriate. A public review and comment process after the draft RFP is issued could be scheduled. Another possibility would be to schedule workshops or hearings. The Coalition acknowledges that public input sessions could be burdensome and awkward.

TABLE 1

WEIGHT ALLOCATION FOR PRICE AND NON-PRICE FACTORS	
PRICE FACTORS .....	50% to 70%
NON-PRICE FACTORS	
Project and system operation .....	20% to 40%
Environmental .....	At least 10%
Total Non-Price .....	30% to 50%
TOTAL WEIGHT .....	100%

The competitive bidding process will have a public review element after a draft RFP is issued. But the review will be limited to determining if the RFP is consistent with the utility's least-cost plan and with the guidelines adopted in this order. It would not be productive for the Commission to make decisions on individual substantive issues. One obvious problem that would be created if the Commission made such individual decisions would be a possible conflict with other jurisdictions if the soliciting utility operates outside Oregon. The utility would need to add resources that it could integrate effectively into its overall system. Conflicting state policies could substantially restrict its options.

However, the utilities could benefit from discussions with potential bidders about operational factors. Valuable suggestions that will make the project more successful or appropriate might be made. Therefore, soliciting utilities are directed to sponsor informal workshops with potential bidders. The workshops should be held before a utility files its draft RFP with the Commission.

Consistent with LCP, this competitive bidding order requires that environmental impacts be incorporated into the bid evaluation process. CECI argues that allowing as little as a 10 percent weighting allocation to environmental factors may be insufficient. It does not suggest what a more appropriate weighting factor might be.

In Order No. 89-507 establishing the Least-Cost Planning process, the Commission stated that it was not usurping the role of utility decision-makers. Utility management is fully responsible for making decisions and accepting the consequences of those decisions. The same principle applies to the competitive bidding process. The Commission is not going to establish specific weights to be allocated to various operating factors. Individual utilities will design supply additions to meet the needs of their specific system. Each system is unique and no assignment of operating factor weights to be allocated to all resource additions would serve the public well. It is sufficient, in fact preferable, for the Commission to establish guidelines and then for the utilities to make specific decisions within those guidelines.

The Commission is persuaded that staff's weighting plan strikes an appropriate balance between public policy considerations and the need to make the process flexible. By providing ranges over which the utility can rank price and non-price factors, the proposed weighting system will not unduly constrain process flexibility while simultaneously keeping the bid evaluation procedure understandable and fair.

The weighting system adopted and shown on Table 1 will provide a means to initially screen bid proposals. The initial ranking should help to identify the strengths and weaknesses in each project proposal. Some projects with low rankings may be eliminated from further consideration. For other proposals, the utility may want to request additional information from project sponsors. The highest scoring projects should be selected for further consideration.

Utilities will evaluate projects so that proposed projects will receive credit for positive attributes. A proposed project's total score will be cumulative (i.e. Price + Non-price). The better a project meets the price and non-price criteria, the higher its overall score will be. The maximum achievable score is 100 percent.

**Environmental Impacts.** Consideration of environmental impacts in Oregon's least-cost planning process represents a prospective view. Alternatives are examined in an organized fashion before resource acquisition decisions are made (see Order No. 90-365, page 3).

In a bid solicitation, it is not practical to expect a bid sponsor to provide an in-depth review of the environmental impacts of its proposed project. Thus, for most proposed projects, the lack of scientific data linking cause and effect will make the quantification of environmental costs and benefits a difficult and contentious endeavor. Furthermore, since environmental impacts are often project and site specific, any attempt to preassign a global cost to a specific environmental impact could result in inefficient resource acquisition decisions.

The environmental ranking process should provide flexibility so that resource type, technology, and location are considered in the scoring process. At the same time, it should be an understandable process which can function within the time and data constraints of the bid solicitation schedule. To achieve this, staff suggests using the environmental damage factors shown in Table 2 on page 23 of this order as a basis to calculate an environmental score by resource type.<sup>1</sup>

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<sup>1</sup>Information contained in the Northwest Power Planning Council Staff Issue Paper titled, *New Resources: Supply Curves and Environmental Effects* (90-1), was taken into consideration.

Some commentators contend that the ranking of environmental factors proposed by staff is overly simplistic. They point out that staff's ranking differentiates primarily on the basis of energy source and largely ignores the type of facility that will use the energy source. For example, natural gas or electricity used in a cogeneration facility is far better environmentally than that same natural gas or electricity used in a single-purpose generating facility. They want the ranking to recognize explicitly the environmental benefits of cogeneration.

Other commentators do not like the staff-proposed ranking of geothermal environmental impacts. CECI argues that the type of geothermal facility it builds has environmental impacts similar to those of solar facilities, rather than to natural gas as staff suggests.

Another position supported is that soliciting utilities should have the option of using the environmental assessments made in their least-cost plan instead of the generic environmental assessments established in this proceeding. CECI opposes that option unless a value greater than the minimum weighting required for environmental factors in the bidding process (set at 10 percent in this order) is used. CECI also wants such an option to apply only to analysis done for least-cost plans submitted after the order in this case is issued.

The generic ranking of environmental impacts of adding resources suggested by staff has room for adjustments to recognize the differences that location and resource efficiency provide. There is enough flexibility to give a bonus to a proposed project that is more environmentally benign than the average for its class of resources.

Assigning numbers representing damages imposed on society by sources of electrical power involves analysis of the types of resources available and requires a healthy dose of judgment. Experience in doing that is not extensive. The damage factor system recommended by staff is a good initial estimate to get competitive bidding started. It allows the utilities flexibility in evaluating proposed projects. The ranking of environmental impacts shown in Table 2 on page 23 of this order is adopted. If actual experience suggests different numbers or a different approach, the Commission will again address the issue.



One of the objectives of Oregon's least-cost planning process is to develop methods to measure environmental costs and benefits. In establishing its resource acquisition opportunities in its least-cost plan, a utility must consider environmental costs. A utility's treatment of the environmental impacts of resource acquisitions may be appropriate for use in its competitive bidding process. The utility may have just finished such an analysis for the LCP process when it prepares its RFP, for example. If the utility's environmental assessment analysis prepared for its least-cost plan has been determined by the Commission to be more appropriate for it than the generic method adopted in this order (or the Commission makes such a determination in its review of the RFP), the analysis should be used in the competitive bidding process.

The Commission will use the same standards to evaluate an RFP's analysis of environmental impacts whether the analysis originated in the LCP process or was created strictly for the bidding process. Therefore the review standards for environmental impacts will be the same for all RFPs. A utility's option to use, in the bidding process, an environmental assessment that is part of an acknowledged least-cost plan will be available when this order becomes effective. A utility need not wait for its next least-cost plan to exercise its option.

In the adopted bid weighting parameters, the weight allocated to environmental concerns will be at least 10 percent. Since projects with positive attributes should be rewarded, an environmentally benign project should receive a high score (i.e., a solar project may receive 9 percent). Conversely, an environmentally damaging project should receive a low score (i.e., a coal plant may receive 1 percent).

The environmental scoring calculation involves two variables: (1) The ranking weight allocated to environmental factors, which must be at least 10 percent (see Table 1); and (2) The damage factor by resource type, which ranges from 0 to 1 (see Table 2). As listed in Table 2, each damage factor can be adjusted within specified limits. The damage factor for a resource type can be adjusted within the specified limits to account for positive or negative environmental impacts.

TABLE 2

## GENERIC RANKING OF ENVIRONMENTAL IMPACTS

-----  
 Weighting is from 0 to 1.0. The most significant  
 environmental damages are represented by 1.0.  
 -----

<u>RESOURCE TYPE</u>	<u>DAMAGE FACTOR</u>
COAL	.85 +/- .15
NUCLEAR	.70 +/- .10
OIL	.65 +/- .10
SOLID WASTE	.60 +/- .10
NATURAL GAS	.50 +/- .05
BIOMASS	.50 +/- .15
GEOTHERMAL	.50 +/- .15
HYDRO	
1.) Outside Protected Areas	.30 +/- .10
2.) Within Protected Areas	Not Permissible
SOLAR	.15 +/- .10
WIND	.15 +/- .10
CONSERVATION <sup>2</sup>	.00

-----  
 Assuming 10% of project scoring is allocated to environmental impacts, then:  
 Environmental Ranking =  $(1.0 - X)(10\%)$ ; where X = Damage Factor.  
 For example, a solid waste project would receive 4%, since  
 $(1.0 - .6)(10\%) = 4\%$ .  
 -----

A project's environmental score is calculated as follows:  
 Score =  $(1.0 - \text{Damage Factor}) * (\text{Environmental Weight})$ . For example, a coal plant  
 with state-of-the-art emission control technology may have a damage factor of .7 (i.e.,  
 $.85 - .15 = .7$ ). A coal plant with high air emissions could have a damage factor of 1.0  
 (i.e.,  $.85 + .15 = 1.0$ ). If the environmental weight established in the utility's RFP is 10

<sup>2</sup>The legislated 10 percent cost advantage afforded to conservation is separate from and not replaced  
 by this resource environmental ranking.

percent, a coal plant with a damage factor of .85 would receive an environmental score of 1.5 percent (i.e.,  $(1.0 - .85) * (10\%) = 1.5\%$ ).

The environmental weighting factors will be used for initial screening and evaluation of proposed projects. The weighting factors will not be used as price adjustment factors.

The Commission considers the environmental impacts of the generating resource options in the least-cost planning process. The Commission issued Order No. 90-1658 after reviewing the least-cost plan submitted by PacifiCorp. That order directed staff to investigate the assessment of external costs and to recommend a process for incorporating such costs in resource plans. The order invited interested persons to participate. Those who disagree with the environmental damage ranking factors adopted in this order are invited to participate in that investigation and in the Commission's review of individual least-cost plans.

#### **Awarding of Contracts**

The adopted bid evaluation and selection guidelines should provide a means for the utility to select the project proposals which best satisfy the price and non-price criteria established in the utility's RFP. In the evaluation process, the soliciting utility will select a preliminary award group. The preliminary screening will produce a "short list" of projects from which the winning bids will be selected. The utility then will conduct negotiations with selected project sponsors to finalize energy contracts.

The Commission directs utilities to prepare and make public a report summarizing the results of each bidding process. The report shall list the characteristics of all winning bids and the key features of losing bids, without revealing specific projects.

#### **Regulatory-Out Clauses**

Utilities have an obligation to serve their customers the amount of electricity demanded, when it is demanded. Utilities naturally are concerned that power obtained through competitive bidding be reliable and that the utility at least recover its expenses incurred in obtaining the power. A number of techniques are available to address that problem. One technique is to include a regulatory-out clause in contracts signed with winning bidders.

A regulatory-out clause allows the utility to adjust contract prices if the Commission does not allow contract prices to be fully recognized in determining the utility's revenue requirement. Staff and developers argue that this type of contract clause

would severely limit a project sponsor's ability to secure financing and, therefore, should not be permitted in final contracts. The utilities maintain that the lack of a regulatory-out clause shifts a disproportionate share of project risk onto the utility.

The Commission is concerned that potential bidders will experience difficulty in obtaining financing for proposed projects if utilities insist on regulatory-out clauses in the contracts. Such clauses would probably at least increase the cost of financing. Therefore, the Commission concludes that the contracts between soliciting utilities and winning bidders should not include regulatory-out clauses.

### **Guidelines for Demand-Side Bid Solicitations**

The demand-side bidding regime should cover the following areas:

1. Procedural Items
  - a. Identifying the need for bid solicitation
  - b. Supply block size
  - c. Schedule for RFP actions
  - d. Performance guarantees
  - e. Confidentiality of information
2. Resource Information
  - a. Conservation measures open to bid
  - b. The price the utility will pay for targeted conservation measures
  - c. Non-cost-effective conservation measures
  - d. Information required in project proposal
3. Bid evaluation and selection
  - a. Verification of energy savings
  - b. Price factors
  - c. Non-price factors
4. Awarding of contracts
  - a. Post-bid negotiation
  - b. Summary report of bid results

### **Procedural Items**

As with supply-side bidding, a utility's intention to conduct a demand-side bid solicitation should initially be presented in the utility's least-cost plan. The interaction of

bidding with utility-sponsored conservation programs, including any project-specific concerns, should initially be addressed in the LCP process.

The least-cost plan's action plan should indicate the expected size of the supply block to be open to bid. In identifying the proper mix of new resources, the cost advantage given to conservation by ORS 469.631(4) should be considered. The supply block in the demand-side RFP should be consistent with the identified mix of LCP resources. Any significant differences between information presented in the utility's least-cost plan and in its draft demand-side RFP should be documented and explained to the Commission.

The RFP should contain a time schedule from submission of bid proposals to final project selection. The RFP should clearly state the utility's policy concerning performance guarantees and verification of energy savings. The utility may wish to designate a verification methodology which it feels appropriate. The utility, however, should be willing to consider alternative methods which project sponsors may propose.

The policy concerning demand-side bid confidentiality and protection of proprietary information should be the same as for supply-side bidding. The utility will be responsible for retaining all bid materials at its business premises. These materials will be available to the Commission upon request. It is the project sponsor's responsibility to indicate in its bid proposal what information it considers confidential.

### **Resource Information**

Eligible participants can be private contractors proposing projects at utility customer facilities or utility customers who bid on their own behalf. As with supply-side bidding, a utility or its affiliate may not participate in the utility's own demand-side bid solicitation.

Information required in a bid proposal should be clearly identified in the RFP. This information should include such items as project description, management expertise, financing, useful life of energy savings, verification of energy savings, and bid price.

The OPUC/ODOE staff report recommended that the utility's demand-side RFP identify specific measures which are targeted. The report further recommended that the RFP indicate the maximum price the utility will pay for each identified measure. Finally, staff recommended that conservation measures not shown to be cost-effective be excluded from the bidding process.

These constraints on price and non-cost-effective measures were designed to address the concern that if a conservation supplier is paid for conservation and also receives energy bill savings, the supplier may undertake uneconomic conservation measures. This is generally known as the "double payment" problem. It is discussed in more detail on pages 69-72 of the joint OPUC/ODOE report.

The Commission agrees that the utility should be able to target specific conservation measures. However, as PGE suggested in its comments, it may not be feasible to target savings on a measure-by-measure basis. The Commission agrees that in some instances the best strategy may be to target and set a payment limit for a package of measures. In all instances, however, conservation measures not shown to be cost-effective should be excluded from the list of targeted measures.

Generally, actions which promote fuel switching are not considered conservation and should not be included in a bid proposal. However, in some circumstances it may be reasonable to include fuel-switching promotions in a list of demand-side resource alternatives. Therefore, a utility may include fuel-switching in its RFP. If it does, the utility will have the burden during the Commission's review of the RFP to demonstrate that fuel-switching is a reasonable course of action.

#### **Bid Evaluation and Selection**

As with supply-side bidding, the purchasing utility will be responsible for the evaluation and selection of project proposals. The utility should consider all bid proposals which it receives. While the utility's RFP may designate a savings verification methodology, the utility should be willing to evaluate alternative methods which project sponsors may propose.

Proposed bid prices should be carefully compared with the estimated value of the energy savings to the utility and its customers. The utility should limit its conservation acquisition and payments to cost-effective measures.

#### **Awarding of Contracts**

In the evaluation process, the soliciting utility will select a preliminary award group. The preliminary screening will produce a "short list" of projects from which the winning bids will be selected. The utility then will conduct negotiations with selected project sponsors to finalize energy contracts. As with supply-side contracts, regulatory-out clauses will not be included in finalized contracts.

The Commission directs utilities to prepare and make public a report summarizing the results of each bidding process. The report shall list the characteristics of all winning bids and the key features of losing bids, without revealing specific projects.

### **Incentives**

The utilities express a need to balance the risks and rewards of resource acquisition through competitive bidding. PGE, for example, points out that since reasonable power purchase costs are merely passed through in rates as expenses, the utilities do not have an opportunity to earn a return or profit on power purchased from a developer. It also notes that utilities may be required to assume many of the risks of power production even though they buy the power from third parties. PGE would like the Commission to address, in depth in the future, the issues of risks and incentives in resource acquisitions.

Utilities using the bidding process will have the benefit of shifting to a third party the financial risks associated with building generation resources. The bidding process may reduce regulatory lag in getting the costs of a new resource reflected in customer rates. Utilities will also be diversifying their resource base. Should the Commission provide other incentives?

That is an important question, and this proceeding does not provide the kind of record the Commission wants before it answers the question. The Commission is willing to seriously consider specific proposals addressing this issue. The Commission invites participants to develop a viable proposal, work with staff and other interested parties, and present a proposal to the Commission. Note also that the Commission recently opened a proceeding, UM 409, to investigate electric utility incentives for the acquisition of conservation resources.

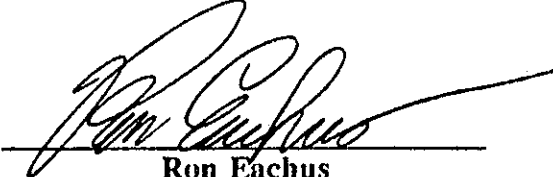
### **Concluding Comment**

The Commission recognizes that there is much to learn in acquiring and verifying energy savings. The separation of demand-side from supply-side bid solicitations will allow time for experimentation with demand-side bidding. Over the long term, as experience is gained in acquiring energy savings through bidding, it may become feasible to integrate the demand-side and supply-side bidding regimes.

ORDER

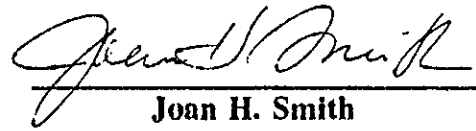
IT IS ORDERED that the guidelines and policy statements stated in this order are adopted.

Made, entered, and effective OCT 18 1991.

  
\_\_\_\_\_  
Ron Eachus  
Chairman

  
\_\_\_\_\_  
Myron B. Katz  
Commissioner



  
\_\_\_\_\_  
Joan H. Smith  
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561.  
A party may appeal this order pursuant to ORS 756.580.

compbid2.umo



APPENDIX I

LIST OF PARTIES WHO SUBMITTED FORMAL WRITTEN COMMENTS

1. Portland General Electric Company  
Portland, OR  
By Pamela Grace Lesh, Attorney
2. Pacific Power & Light Company  
Portland, OR  
By James C. Paine, Attorney
3. Idaho Power Company  
Boise, ID  
By Gene C. Rose
4. OPUC/ODOE staff  
Salem, OR  
By William A. McNamee and Wayne L. Lash
5. OCEUR/OCFUR  
Portland, OR  
By Grant E. Tanner
6. California Energy Company, Inc.  
CE Exploration  
San Francisco, CA and Portland, OR  
By Sara Steck Myers, Attorney
7. The Northwest Cogeneration & Industrial Power Coalition  
Portland, OR  
By Mark P. Trincherro, Attorney
8. SESCO, Inc.  
Lake Forest, New Jersey  
By Richard M. Esteves, Vice President and Daniel Meek, Attorney

## APPENDIX II

REVISION OF AVOIDED COSTS TO REFLECT  
COMPETITIVE BIDDING RESULTS

Utilities will revise their avoided cost estimates to reflect resources acquired in the competitive bidding process. To assist in that endeavor and to promote uniformity, the following general method for the calculation of avoided costs is presented.

Avoided cost is defined as the "incremental cost to an electric utility of electric energy or energy and capacity that the utility would generate itself or purchase from another source but for the purchase from a qualifying facility." ORS 758.505(1). The definition does not limit the type of electric resources which can be considered in estimating avoided costs. Thus, while resources acquired in the bid solicitation should be considered in the calculation of avoided costs, other resources -- such as utility constructed plants, wholesale purchases, or efficiency measures -- are also potential variables in the calculation procedure.

The avoided cost calculation is discussed on pages 49-50 of the OPUC/ODOE report. The report explains that a "utility's avoided-cost filing includes a long-term load forecast which is used to estimate when new resources will be needed to meet projected load growth. The filing will also identify what resource type(s) the utility plans to develop to meet load growth. The calculation of avoided costs is then a function of: (1) The variable expenses of operating existing generating facilities until projected load deficits occur; and (2) when new resources are needed, the estimated capacity and energy costs of new resource development."

Resources acquired through a competitive bid may impact the timing of projected load deficits and the need for new resources. In addition, to improve the accuracy of avoided-cost estimates, the calculation of new resource costs which are incorporated into the utility's revised avoided-cost filing will include information learned in the bid solicitation.

The utility's revised avoided-cost filing should reflect the results of a bid solicitation which may impact the need for new resources and the estimated costs of new resources. As is the current policy, the reasonableness of a utility's revised avoided cost filing will be subject to public review and Commission approval. Staff will present its analysis and recommendation concerning the utility's filing at a Commission public meeting. The Commission expects the accuracy of avoided-cost estimates to be improved by incorporating market information gained through bidding.

## APPENDIX III

## CALCULATION OF STANDARD RATE

The standard rate will be available to QFs with a nameplate capacity of 1 MW or less. Commission Order 84-720 (p.23) states that the standard rate should be set at: "the real levelized price in mills per kilowatt-hour that would apply to the first year of a 20-year contract." Thus, the standard rate is recalculated each year and is included in the utility's annual avoided-cost filing.

When the utility, as a result of the completion of a competitive bid solicitation, revises its avoided cost filing, it will update its standard rate to reflect the weighted average price of the winning bids.<sup>1</sup> Since small QFs are supply-side resources, the standard rate will be calculated as a weighted average of the supply-side winning bids. The calculation essentially involves two steps:

1.] Calculate the weighted average net present value of the payment streams for supply-side winning projects.<sup>2</sup> The basic formula would be:

$$W = \frac{\sum_{i=1}^N (C_i + NPV_i)}{\sum_{i=1}^N C_i}$$

Where: W = Weighted average net present value  
 $C_i$  = Capacity of winning bid i  
 $NPV_i$  = Net Present Value of winning bid i  
 N = Number of winning bids

2.] Given the average net present value, the standard rate is calculated by the following financial formula:

<sup>1</sup>The signing of final contracts would mark the end of a bid solicitation.

<sup>2</sup>If a contract price stream is less than 20 years in length, then it may be necessary to linearly extrapolate the price stream out to 20 years.

$$\text{Standard Rate} = W * \left[ \frac{i + (1+i)^n}{(1+i)^n - 1} \right]$$

Where: W = Weighted average net present value  
 i = Real interest rate  
 n = 20 years (Length of avoided cost stream)

For example, assume a utility's supply-side RFP results in the following three winning bids:

Project	Capacity	Net Present Value of 20 Year Contract Price Stream
#1	40 MW	32 cents/kWh
#2	30 MW	38 cents/kWh
#3	20 MW	28 cents/kWh

The weighted average net present value (W) is:

$$W = \frac{(40MW * \$0.32/kWh) + (30MW * \$0.38/kWh) + (20MW * \$0.28/kWh)}{(40MW + 30MW + 20MW)}$$

$$= \left[ \frac{\$29.8/kWh}{90} \right] = 33.1 \text{ cents/kWh}$$

Then, assuming a real interest rate of 6 percent:

$$\text{Standard Rate} = 33.1 * \left[ \frac{.06 * (1.06)^{20}}{(1.06)^{20} - 1} \right] = 2.89 \text{ cents/kWh}$$

Thus the standard rate, in this example, equals 2.89 cents/kWh. Note that OAR 860-29-040(5)(c) allows adjustment of the standard rate based on the QF resource's technology and supply characteristics.

The standard rate is also updated annually as a part of the utility's avoided cost filing. If no new bid solicitations occur between annual updates, then the standard rate will remain the weighted average of the winning bids from the last bid process, as adjusted for inflation. If no new RFPs take place for a period of greater than two years,

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then, as is the current procedure, the standard rate shall be calculated directly from the avoided cost filing.

Additional discussion of the standard rate can be found on pages 56-59 of the OPUC/ODOE report.