

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1535

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY

ORDER

Request for Proposals for Capacity Resources.

DISPOSITION: REQUESTS FOR PROPOSALS COMBINED;
CONDITIONS ADOPTED

I. INTRODUCTION

On March 22, 2011, Portland General Electric Company (PGE) filed a request for the Commission to open a docket for the company's Request for Proposals for Capacity Resources (RFP – Capacity). The RFP will be issued to fulfill the capacity resource actions identified by PGE in its 2009 Integrated Resource Plan (IRP), acknowledged in Order No. 10-457. The purpose of the RFP is to implement Action Items 11 and 12 to acquire 200 MW of flexible peaking capacity, 202 MW of bi-seasonal peaking capacity, and 152 MW of winter-only peaking capacity resources by year-end 2013.

Concurrently with its filing PGE submitted a request to open a docket and issue an RFP for energy resources that the Commission docketed as UM 1534 (RFP – Energy). No action has yet been taken in that docket.

II. PROCEDURAL HISTORY

A prehearing conference was held in this docket on April 15, 2011, and a schedule adopted. Petitions to intervene were granted on behalf of Northwest and Intermountain Power Producers Coalition (NIPPC), Industrial Customers of Northwest Utilities (ICNU), Renewable Northwest Project (RNP), Oregon Department of Energy, and Tepper LLC. The Citizens' Utility Board of Oregon (CUB) intervened by right.

On June 7, 2011, Accion Group, the Independent Evaluator (IE) filed its assessment of PGE's final draft RFP. The IE found the final draft RFP documents and process designed by PGE to be comprehensive and complete. The IE did not identify any bias in the documents or process towards or against any prospective bidder.

On June 22, 2011, NIPPC, ICNU, RNP and CUB filed comments in response to PGE's final draft RFP. PGE filed reply comments on July 8, 2011.

This matter appeared on the Commission's Public Meeting agenda of July 26, 2011. Following an extensive discussion the Commission took the matter under advisement.

III. DISCUSSION

A. Issues

1. *Overlapping PGE's RFPs: Capacity RFP and Energy RFP (UM 1534)*

a. *Parties' Positions*

As noted, PGE plans to issue two RFPs: this RFP seeking flexible year-round peaking capacity and another RFP, at issue in docket UM 1534, seeking 300-500 MW of baseload energy. NIPPC and ICNU argue that the RFP schedules should be modified to allow a bidder to bid a lower price to develop both a capacity and baseload resource on the same site. NIPPC explains that PGE will be developing a proposed benchmark resource on or adjacent to its existing sites for Boardman and Port Westward. For the RFP process to be competitive, NIPPC contends that bidders should also be allowed the opportunity to achieve economies of scale by using a single site to locate resources capable of meeting both requirements.

PGE opposes combining the two RFPs. PGE contends that combining the two RFPs will add additional costs for ratepayers with no certain benefits. PGE adds that any delay in the RFP schedule could jeopardize its ability to meet its needs for capacity that the Commission acknowledged in the company's 2009 IRP.

Staff examined the potential ratepayer benefits from combining the RFPs and found that the primary potential for ratepayer benefit would come from economies of scale at new generating resource sites. Staff estimated that value at a savings of about \$3 to \$5 million.

Staff also noted that combining the two RFPs would require a delay in the Capacity RFP and the acceleration of the Energy RFP. Staff believes that each of these measures would have negative financial effects on ratepayers. Based on its finding of small or nonexistent ratepayer benefits and an increased risk of not being able to meet capacity needs, Staff did not recommend combining the RFPs.

b. *Resolution*

We agree with NIPPC and ICNU that PGE should combine the RFPs. 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. The Commission has carefully considered both the reliability risk and the wind integration risk created by a short delay in the capacity RFP. PGE has successfully managed to meet its seasonal peaking need with its existing resources and market purchases for many years. A short delay in acquiring seasonal capacity should not significantly impact PGE's ability to reliably manage its peak demands. PGE is not currently integrating the variable output from any of its wind resources. PGE relies on the Bonneville Power Administration (BPA) to integrate the output of its Biglow Canyon wind

plant, and PGE's Klondike II and Vansycle Ridge power purchase agreements include firming and shaping. A short delay in acquiring flexible capacity should not significantly impact PGE's ability to integrate the output of its existing or future renewable resources.

2. *Delay the RFP for PGE's Wind Integration Study*

a. Parties' Position

RNP suggests that the RFP be delayed until PGE finalizes the modeled dispatch profile through its 2011 Wind Integration Study (WIS).

PGE believes there is no need for delay. PGE states that the only modeling process changes being contemplated are to the cost assumptions, and these changes will have no impact on bid scoring in the capacity RFP.

b. Resolution

Our decision to combine the RFPs renders this issue moot, as combining the RFPs should delay the Capacity RFP beyond the date expected for the completion of PGE's WIS.

3. *Gas Storage and Intraday Scheduling*

a. Parties' Positions

PGE's RFP requires bidders to demonstrate gas storage capabilities and proof of ability to provide intraday scheduling of gas supplies. NIPPC, ICNU, and CUB challenge these requirements, and argue that bidders should not be disqualified or penalized for inability to provide intraday scheduling of gas supply. NIPPC notes that intraday gas scheduling is not feasible at this time without access to substantial gas storage facilities, which are scarce and generally under utility control. ICNU states that the RFP should not include unreasonable gas scheduling or storage requirements that would effectively prevent third parties from submitting competitive bids.

NIPCC contends that the RFP should allow for typical tolling arrangements where PGE provides the gas, including storage and necessary delivery rights. NIPPC and CUB also contend that PGE should make its gas storage available to bidders.

PGE clarifies that it does, in fact, intend to assume the gas risk associated with the commodity scheduling and price. PGE explains that, as the buyer of the tolling agreement, PGE will procure and schedule the physical gas commodity to the seller if the proposed resource's point of receipt is located at a liquidly traded hub.

PGE contends, however, that it cannot be responsible for the procurement of gas transportation rights if the point of receipt is different than the point of delivery. PGE explains, under such circumstances, it will not have enough information about transport options to effectively evaluate the bid, particularly where transport options may require the

construction of new laterals. PGE also contends that it should not be required to make its gas storage available to bidders, and notes that PGE does not have any excess gas storage that it could make available to bidders.¹

Staff observes that some bidders will have access to intraday gas storage and some bidders will not. Staff believes that PGE's final draft RFP is fair as written.

b. Resolution

We are convinced that a natural gas fueled generating resource can only provide the flexibility needed to integrate intermittent or variable energy resources if it is located near a gas storage facility and has intraday scheduling capacity with a pipeline. We agree with PGE that 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 do not believe that PGE has any special advantage in acquiring these services. Rather, the ability to obtain them is largely location-dependant.

4. *Dynamic Transfer Transmission Rights*

a. Parties' Positions

NIPPC and ICNU believe that dynamic transfer transmission rights will be difficult to obtain without PGE's assistance. ICNU suggests the RFP be modified to require PGE to take all necessary steps to assist third parties in obtaining dynamic transfer or other transmission services. ICNU and NIPPC also suggest the availability of dynamic transfer should not be weighed or become a factor until after a bid has been selected to the RFP short-list.

RNP agrees that the dynamic transfer requirement should be excluded from the initial scoring of bids for flexible capacity. RNP notes that BPA recently made changes to its dynamic transfer capability. RNP points out that BPA's pilot implementing these changes is not currently suitable for bidders to PGE's RFP for many reasons, including the fact that all transmission rights issued through the pilot expire in September 2013.

PGE opposes these recommendations, and contends that dynamic transfer transmission rights are essential to allow the capacity resource to meet the general capacity need, as well as to integrate intermittent or variable energy resources.

Staff concurs with PGE and does not recommend that the utility be required to assist third parties. Staff believes it is reasonable to request that PGE commit to bidders who make the short-list to provide assistance for perfecting dynamic transfer rights.

b. Resolution

We are convinced that a capacity resource can only provide the flexibility needed to integrate intermittent or variable energy resources if it is located in PGE's Balancing Authority or has

¹ Reply Comments of PGE at 9 (July 8, 2011).

dynamic transfer capability. We agree with RNP that BPA's interim dynamic transfer capability is in flux, and that including the requirement for dynamic transfer transmission rights is not appropriate for the initial scoring of bids. There is no harm in excluding the dynamic transfer requirement from the initial scoring of bids for flexible capacity. Delaying the use of this scoring factor to final short-list negotiations may provide enough time to enable resolution of BPA's dynamic transfer rules that may then be considered in negotiations regarding the short-list.

We do not address at this time proposals that PGE assist bidders in obtaining dynamic transfer or other transmission services. We may revisit that issue as necessary during final short-list negotiations.

5. *Frame SCCT Technology*

a. *Parties' Positions*

PGE proposes to exclude recent models of both modified and unmodified frame unit simple cycle combustion turbines (SCCT) as an eligible technology in the RFP. PGE explains that these technologies are not likely to meet its performance requirements.

NIPPC and ICNU argue that the RFP should not exclude viable technologies. If a bidder can propose a technology that can meet the technical requirements of the RFP, CUB believes it should be allowed to do so.

Staff believes that it is essential that the resource meets the need for capacity, and that it would not be prudent to secure an unproven technology.

b. *Resolution*

PGE has stated that it will not exclude from bidding any technology that has been commercially deployed and has demonstrated that it can meet the dispatchability, ramp rate, or other performance requirements needed for the project. We accept this rationale and accept PGE's and the IE's assertions that recent models of both modified and unmodified frame unit simple cycle combustion turbines are not likely to meet PGE's needs.

6. *Allocation of Costs of South of Allston Line*

a. *Parties' Position*

NIPPC, ICNU, and CUB each raise the issue of the allocation of the cost of PGE's South of Allston transmission line to PGE's benchmark project. If other bidders are required to secure transmission rights to get their capacity resource to PGE's service territory, then PGE should include the costs it will incur to get its capacity resource to its service territory.

PGE notes that the IE is aware of this issue and stated that it "has worked with PGE to ensure that the evaluation process will capture all applicable costs and that bids will be scored

fairly.” PGE believes the IE will independently evaluate the benchmark resource and ensure that all incremental transmission costs associated with the benchmark resource are appropriately accounted for when evaluating the bids.

b. Resolution

The RFP should provide for a level playing field. The parties have raised specific concerns about how PGE will allocate transmission costs to the self-build option. Although this Commission does not generally single-out specific cost elements for review, we believe this issue warrants further exploration.

We have concluded that PGE should combine its Capacity RFP and its Energy RFP. As PGE develops this combined RFP, we direct PGE and the IE to share, under the terms of an appropriate protective order, the proposed cost allocation. The parties may then address this allocation when PGE seeks approval of the combined RFP.

7. Access to the Port Westward Site

a. Parties' Position

NIPPC and ICNU argue that PGE should be required to allow third parties to submit bids for projects at PGE's Port Westward site. CUB agrees, and notes that the Port Westward site is well-developed, has access to gas storage, and has a planned transmission investment.

PGE contends that the Commission previously rejected this idea when it issued the Competitive Bidding Guidelines. If the Commission were to require PGE to make its site available to bidders, PGE believes the Commission should require bidders to make their sites available to PGE and other bidders.

Staff notes that that in Order No. 06-446 the Commission stated it would not require a utility to offer its site to bidders, but that a utility may choose to do so. Staff proposes no change to the RFP.

b. Resolution

Whether the Commission can require PGE to make its site available to prospective bidders is a legal question that is not decided in this order. Whether to make its site available is a PGE management decision subject to prudence review by the Commission. In making its decision PGE should consider recent build-own-transfers acquired by other utilities, recognizing that proof of prudent decision making is the key to future cost recovery.

8. *Imputed Debt as a Scoring Factor*

a. Parties' Position

To help select the final bids from the initial short-lists, PGE has included the impact of imputed debt on PGE's debt-equity ratio and cost of borrowing. PGE contends that including this impact is consistent with the Commission's Competitive Bidding Guidelines adopted in Order No. 06-446.

CUB, NIPCC, and ICNU argue that PGE should not include imputed debt as a factor at any stage of bid evaluation. CUB acknowledges that PGE's position is consistent with the Competitive Bidding Guidelines, but explains that considering imputed debt is in conflict with the Commission's more recent decision in Order No. 11-001. In that docket, the Commission identified imputed-debt as one cause of self-build bias, but concluded that the issue was more appropriately addressed in an overall examination of the utility's cost of capital.

Staff agrees with PGE that imputed debt may be considered in the final bid evaluation process.

b. Resolution

We agree with CUB that, although PGE's position is consistent with our Competitive Bidding Guidelines, it conflicts with Order No. 11-001. We take this opportunity to clarify that this more recent order supersedes the guidelines and directs the parties to deal with debt imputation issues in rate cases.

9. *Miscellaneous Issues*

NIPCC has raised various other concerns with PGE's Capacity RFP. These concerns include the timing of the RFP, and the detail of information that should be provided to the bidders.

Given our decision to require PGE to combine its Capacity and Energy RFPs, we find it unnecessary to address these issues at this time. We will revisit these issues as necessary when PGE submits its combined RFP for approval.

IV. ORDER

IT IS ORDERED that Portland General Electric Company shall combine its Capacity and Energy Requests for Proposals consistent with the decisions made in this order.

Made, entered, and effective SEP 27 2011.



John Savage
Commissioner



Susan K. Ackerman
Commissioner



A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.