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September 30, 2013

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
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Attn: Filing Center

Re: UM 1182—Investigation into Competitive Bidding Process

PacifiCorp d/b/a Pacific Power submits for filing its opening comments in the above-referenced proceeding.

Informal questions concerning this filing may be directed to Gary Tawwater, Manager, Regulatory Affairs, at (503) 813-6805.

Sincerely,

William R. Griffith
Vice President, Regulation

Enclosures

cc: Service List—UM 1182

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1182(2)

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON

Investigation Regarding Competitive
Bidding.

**OPENING COMMENTS OF
PACIFIC POWER**

PacifiCorp, d/b/a Pacific Power (PacifiCorp or Company), submits these opening comments to the Public Utility Commission of Oregon (Commission) in accordance with Chief Administrative Law Judge Michael Grant's Pre-Hearing Conference Memorandum issued August 6, 2013.

I. INTRODUCTION

The Commission reopened docket UM 1182 to further investigate the Independent Evaluator's (IE) evaluation of the unique risks and advantages of utility benchmark resources as compared to purchasing power from an independent power producer (IPP). Through workshops, parties to this proceeding identified twelve comparative risks for the IE's evaluation of utility benchmark resources and third-party owned resource proposals.¹ The Commission accepted the risks and separated the process to analyze them into two parts, with the first four risks considered in part one, and the remaining eight in part two.² After numerous workshops, comments, two rounds of testimony, and pre and post-hearing briefs on part one, the Commission issued Order 13-204, which addressed each risk separately and determined that all four were related to

¹ Law Judge Ruling/Memorandum, Docket No. 1182, Issues List Established for Phase II at 2-3 (May 30, 2012).

² Part one risks included: (1) Construction Cost Over-Runs; (2) Heat Rate Degradation; (4) Wind Capacity Factors; and (4) Counterparty Risk. *See Id.* *See also Investigation Regarding Competitive Bidding*, Docket No. 1182, Order No. 12-324 at 4 (Aug. 23, 2012)(Order 12-324).

resource ownership.³ However, the Commission declined to prescribe a uniform approach for any risk factor, such as the generic risk adders suggested by the Northwest & Intermountain Power Producers Coalition, instead favoring flexibility for resource evaluation.⁴

Also in Order 13-204, the Commission laid out the framework for comments on the remaining eight risks, which would mimic the Commission's order on the part one risks.⁵ The parties were requested to first "address [and explain] whether the risk factor is related to resource ownership".⁶ If a party determines that the risk factor is related to resource ownership then the party should make "qualitative recommendations" on how the IE should respond.⁷ Below are the Company's comments, in accordance with the Commission's framework, on part two of this docket.

II. COMMENTS

In responding to the Commission's directive to further evaluate issues related to the competitive bidding guidelines for utility resource acquisitions, parties initially held workshops to discuss the Commission's directives. In the first workshops, parties identified a list of twelve comparative risks or advantages (items) to consider. As noted, the first four items were addressed in Order 13-204. The remaining eight items are: 1) end effects; 2) environmental regulatory risk; 3) construction delays; 4) changes in forced outage rates over time; 5) increases in fixed operation and maintenance costs over time; 6) capital additions over the resource life; 7) changes in allowed return on equity over the resource life; and 8) verify output, heat rate, and power curve at the start of resource life. Each item was generally described in Order 12-324,

³ Docket No. 1182, Order No. 13-204 at 9-11 (Jun. 10, 2013).

⁴ Specifically, the Commission ordered the IE "to provide a more comprehensive accounting of the risks and benefits to ratepayers" for construction cost over-runs, a "qualified and independent third-party technical expert" to analyze all projects on the short list for the wind capacity factor, and no changes for heat rate degradation and counterparty risk. *Id.*

⁵ *Id.* at 11.

⁶ *Id.*

⁷ *Id.*

which affirmed with modification the initial issues list. Each of the remaining eight items will be addressed in turn below.

Many of the same themes and concepts addressed with respect to the first four items evaluated also apply to the remaining eight items. As with the first four risk items, PacifiCorp understands this review of the competitive bidding process to be one focused on improving the IE's comparative analysis of a utility's benchmark resource and other resource options and ensuring that the analysis is fair and reasonable rather than one seeking to address pre-determined deficiencies. In other words, this review does not start with the presumption that the bid evaluation process is biased, nor with the assumption that the existing analysis process must be arbitrarily adjusted to account for an alleged bias.

It remains critically important to ensure that each resource proposal is evaluated based on its individual merits. Resource evaluations must take into account the facts and circumstances of each individual utility request for proposals (RFP), including the market and available technologies at the time RFPs are issued and resource acquisition decisions are subsequently made. In addition, the comparative risks associated with each risk item described below depend on the particular contractual structures a third-party proposes to sell power to a utility. These proposed contract structures can include fixed or variable price power purchase agreements (PPAs), tolling service agreements (TSAs) with varying degrees of market exposure, or lease agreements, all of which will have different terms and conditions that create different types and degrees of risk to customers. The risks and benefits of each proposal cannot be assumed without understanding the underlying financial structure and the terms and conditions of the specific contractual arrangement.

Lastly, it is important to consider where the process currently in place is already adequately addressing issues. In many cases, the current process assesses the below risk items to

the extent they are relevant in making resource decisions and identifying the least-cost least-risk resource options. In many cases, the current process is robust and addresses the comparative risks between utility and third-party owned resources. PacifiCorp identifies below the comparative risks for each resource type and provides recommendations for improving the evaluation process, where appropriate.

A. End Effects

1. The Company's RFP Evaluation of End Effects and Associated Risks

Generally, end effects or terminal values refer to what occurs at the end of the expected operation of a particular resource or at the end of the term of a third-party agreement. Currently, as part of its bid evaluation process, PacifiCorp does not attribute a value associated with end effects for any resource proposal as part of its initial analysis. In the initial analysis, no costs or benefits are assumed to extend beyond the term of the PPA or TSA or the useful life of a utility benchmark resource. However, following the initial analysis, PacifiCorp may perform a terminal value analysis to determine if it affects the results of the initial analysis. For example, in PacifiCorp's 2008R-1 and 2009R RFP bid evaluations, PacifiCorp included a terminal value for build-own-transfer projects to reflect the value of PacifiCorp owning the site after the life of the asset. These studies were conducted as part of the shortlist development to determine whether or not terminal value would impact the shortlist results. To inform the calculation of terminal value for build-own-transfer projects, PacifiCorp commissioned a consultant to prepare a study to examine terminal value applications and recommend an approach to terminal value pricing.⁸

PacifiCorp considers the terminal value of an asset, utility or third-party owned, to be

⁸See Oregon IE Final Closing Report on PacifiCorp's 2009R Renewables RFP pp 15-16, Docket UM 1429 (Nov. 17, 2009).

quantifiable at the time of resource proposal. The decision regarding whether or not to include a terminal value assessment as part of a sensitivity analysis is made on a case-by-case basis.

2. Evaluating the Comparative Risks of Various Resources with Respect to End Effects

The comparative risks associated with different types of resources with respect to end effects are that a contractual agreement with a third-party to provide power over a certain period does not reflect costs and benefits for utility customers beyond the contract termination date whereas a utility-owned resource may realize costs and benefits for utility customers that extend beyond the period of expected operation. Costs and benefits that may extend beyond the estimated or stipulated useful life of a utility-owned resource are associated with the utility's ability to restore the site, repower the site or the resource, and/or continue to operate the facility beyond the useful life assumed in the original benchmark proposal. The utility may continue to operate the resource at cost whereas a third party has the option to market the project output and any associated renewable energy credits to any entity at then-current market prices.

Accordingly, the comparative risks associated with terminal value are tied to resource ownership because third parties do not have the obligation to extend the benefits of its resource to customers beyond the term of a PPA or TSA while a utility will pass these benefits to customers.

3. Conclusions and Recommendations

At a minimum, if terminal value is to be assessed during the bid evaluation process it should be done taking into account the characteristics of each individual resource alternative. Any future costs and benefits that may extend beyond the useful life of a project will depend on the individual proposal as well as the terms and conditions offered in the relevant PPA or TSA. Accordingly, PacifiCorp recommends that the Commission direct the IEs to consider terminal value where appropriate during the bid evaluation process, either as part of the initial bid analysis or as part of a scenario analysis.

B. Environmental Regulatory Risks

1. The Company's RFP Evaluation of Environmental Regulatory Risks

Environmental regulations promulgated over the course of a resource life that were not in effect or known at the time of the bid evaluation have the potential to significantly impact costs associated with the continued operation of that resource. Historically, PacifiCorp has analyzed in its bid evaluation process the cost for potential future regulations that might limit carbon dioxide (CO₂) emissions from electric generating assets, and as appropriate, CO₂ emission risk for both benchmark and third-party owned proposals has been evaluated among a range of different CO₂ scenarios. This is aligned with the significant scenario analysis the Company performs as part of its integrated resource planning process (IRP). The purpose of a Commission approved RFP is to implement the action plan associated with an IRP. Outside of environmental policy risk related to CO₂ emissions, PacifiCorp has not calculated how unknown regulations might affect the valuation of either benchmark resources or third-party owned proposals. With respect to a benchmark proposal, PacifiCorp does not attempt to calculate this cost due to the inherent difficulty in attempting to predict and then value changes in law. To the extent a known and measurable environmental regulation exists, these costs would be evaluated and incorporated into a benchmark proposal. PacifiCorp does not request that third-party proposals include a line item cost associated with future environmental regulations and does not currently have the ability to determine to what extent a third party proposal includes a value associated with this risk.

2. Evaluating the Comparative Risks of Various Resources with Respect to Environmental Regulatory Risks

The comparative risks associated with environmental regulatory risks are that a utility may seek to recover the costs of compliance with future environmental regulations from customers while a third-party resource owner may not. This risk item is therefore also tied to resource ownership. The significance of these comparative risks to utility customers will depend upon the extent to which the PPA or TSA counterparty agrees to bear the risk of changes in law

and whether the cost to comply with new environmental regulations results in the third party failing to perform its obligation to operate the resource. It will also depend, to a certain extent, upon the long-term creditworthiness of the entity providing a guarantee associated with the PPA or TSA obligations.

Even though a third-party may not seek to recover environmental compliance costs from utility customers, it is not a foregone conclusion that customers are shielded from this risk with a third-party owned resource. In order to protect customers, the relevant agreement must include a change in law provision that assigns all change in law risk to the third-party. A third-party is likely to attempt to shift this risk to the utility or request excuse of performance under certain conditions.

In addition, the extent to which a change in law contract provision shields customers from regulatory risk depends on a third party's ability to absorb the costs of compliance. If new environmental regulations are material enough, a third-party owner could decide that the resource is no longer profitable enough to continue operating and seek to terminate or default on the PPA or TSA. A utility does not have this option due to its obligation to serve. In this instance, the Company need to purchase replacement power or step in to the resource and ensure it complies with the relevant regulations. As a result, the Company and its customers may potentially bear the risk of significant new environmental regulations regardless of ownership structure.

3. Conclusions and Recommendations

PacifiCorp utilizes known and measurable information related to compliance costs for future environmental regulations at the time that the benchmark proposal is prepared. These costs are reviewed for reasonableness by the IE. Beyond potential environmental regulation risk related to CO₂ emissions, PacifiCorp does not incorporate a risk premium in its benchmark proposal for unknown and difficult to measure future environmental regulations. The extent to which utility customers bear the risks associated with future environmental regulations depend

upon the utility's negotiations with a third party and that third party's creditworthiness. As part of its assessment, an IE will typically review and comment on the appropriateness of the relevant agreements, which would include change in law provisions. PacifiCorp therefore recommends that no additional directive to the IEs is necessary because the current process for reviewing environmental regulatory risk adequately accounts for the associated comparative risks between utility and third-party owned resources.

C. Construction Delays

1. The Company's RFP Evaluation of Construction Delays

Project construction delays, for utility or third-party owned projects, have the potential to increase the costs of a project—both in terms of construction costs and replacement power purchases. In PacifiCorp's bid solicitation process, benchmark and third-party owned resource proposals are assumed to meet their contractually proposed in-service dates. This is assessed as part of the non-price evaluation matrix. If a third-party will contractually agree to bear the risk associated with construction delay, a PPA or TSA receives a higher non-price score associated with construction delay. For a benchmark resource proposal, the construction schedule is evaluated based on the level of specificity in the schedule and a risk assessment of the schedule is developed. This is incorporated into the score of the benchmark proposal. In addition, the IE reviews project development activities and assesses the reasonableness of the construction schedule. Similarly, the IE reviews all of the non-price scores associated with project construction schedules. Where the benchmark is based on an underlying engineer, procure, and construct (EPC) contract, the IE can review the liquidated damages that apply in the event of a schedule delay.

2. Evaluating the Comparative Risks of Various Resources with Respect to Construction Delays

The comparative risks associated with construction delays are that a utility may seek to recover the prudent costs associated with any construction delays while a third-party resource

owner may not. In addition, as a result of its obligation to serve, a utility must make arrangements for replacement power associated with any construction delay, for both third-party and utility-owned resources, while a third-party does not have this obligation unless it is contractually bound. Accordingly, this risk item is also tied to resource ownership.

Similar to many elements discussed thus far in this docket, the comparative risks associated with construction delays are highly dependent on the individual projects and contractual terms and conditions in the agreement for each resource alternative. Typically, when negotiating with third parties, PacifiCorp will attempt to shield customers from any impacts of construction delays through liquidated damages for delays. Liquidated damages are negotiated and can be different depending on the terms and conditions of a PPA, TSA, build-own-transfer or EPC contract. Typically the liquidated damages for a PPA or TSA are calculated based on the replacement cost of power, less the cost that had been expected to be incurred had the resource not been delayed. If the contract price is higher than the market price plus delivery costs of replacement power then the liquidated damages may be zero, unless the new resource is needed by a certain date for reliability reasons. However, if the contract price is lower than the market price of replacement power then the liquidated damages would be calculated as the difference between the market price for delivered energy and the contract price of energy. Benchmark resources with a build-own-transfer arrangement or EPC contract typically include liquidated damages for construction delays. Third parties proposing to construct a resource would similarly have the option of mitigating potential damages due to construction delays through contractual provisions.

Assuming the utility is able to successfully negotiate liquidated damages provisions, customers are largely shielded from the risks associated with construction delays for both utility-owned and third-party owned resources.

3. Conclusions and Recommendations

Risks associated with construction delays exist for both utility-owned and third-party owned resources. It is therefore critically important to evaluate the project development construction schedule and in-service dates to ensure that each proposal is reasonable. In both scenarios, agreements will be structured to protect against construction delay through the application of liquidated damages. The current bid evaluation process takes into account the reasonableness of the project schedule and gives credit to third-parties who bear the risks associated with construction delays. Therefore, PacifiCorp recommends that no further action is necessary with respect to this risk item.

D. Changes in Forced Outage Rates Over Time

1. The Company's RFP Evaluation of Forced Outage Rates Over Time

Risks associated with changes to forced outage rates (FOR) over time are generally that the forced outage rate may ultimately be different than anticipated at the time the resource is evaluated during the bid evaluation process. With respect to a benchmark resource proposal, PacifiCorp makes FOR assumptions using values based on information provided by the Original Equipment Manufacturer (OEM) and industry experience. For third-party owned resources, PacifiCorp first evaluates the type of availability guarantee included in any third-party proposal. If the third-party intends to agree to a specific availability, this is incorporated into the evaluation as capacity and/or associated energy that will be physically or financially available. The IEs review and validate the FOR used in any benchmark resource proposal. In addition, the IE

reviews and validates any contractual guarantees and ensures that the bid evaluation includes these guarantees as part of the analysis.

2. Evaluating the Comparative Risks of Various Resources with Respect to Forced Outage Rates Over Time

The comparative risks associated with changes to the FOR included in a resource proposal are similar to those comparative risks of heat rate degradation, discussed in a previous phase of this docket. For utility-owned resources, customers may realize the costs of a worse-than-forecast FOR but may also benefit if the FOR is better than expected. With a third-party owned resource, customers may be shielded from costs associated with a worse-than-forecast FOR depending on the contractual provisions included in the PPA or TSA.

As with other elements of the bid evaluation process, the comparative evaluation of FORs among various resources is fact-specific and an accurate evaluation of resources at issue depends on the specific details of each resource alternative. PacifiCorp typically works to negotiate a PPA or TSA that includes a provision that clearly identifies whether or not any availability or output guarantees includes forced outages, and if so, what types of forced outages are excluded from availability guarantees. If a contract includes a full output guarantee, then the third party is responsible for providing replacement energy in the event of a forced outage. PacifiCorp includes into the price score for any particular proposal the value of capacity and associated energy consistent with either the expected FOR or the availability guarantee proposed, whether the proposal is a benchmark or third-party owned resource.

3. Conclusions and Recommendations

PacifiCorp has found that the best FOR data available comes from a mix of industry experience taking into account OEM data for specific types of rotating equipment. The most effective way to ensure that FORs are appropriately established as part of the competitive bidding process is for the IE to review and verify that FOR values are consistent with industry

experience and OEM values. In general, the Company finds that the current methods of evaluating FOR risk are appropriate. Accordingly, PacifiCorp does not recommend any changes to the current bid evaluation process with respect to the FOR risk item.

E. Increases in Fixed O&M Costs Over Time

1. The Company's RFP Evaluation of Fixed O&M Costs Over Time

Similar to assumptions made regarding FORs, the risks associated with fixed operation and maintenance costs over time is that those costs will ultimately be higher than predicted during the bid evaluation process. During the bid evaluation process assumptions are made regarding long-term fixed operation and maintenance expenses in the evaluation of each resource. For a benchmark resource proposal, PacifiCorp develops long-term fixed and variable cost estimates using information from its existing generation fleet as well as from contract-based costs provided by the OEMs for planned maintenance services of major equipment. This would include assumptions regarding expected escalation rates that would apply to fixed operation and maintenance costs. These assumptions are evaluated by the IE for reasonableness and consistency with industry experience. For a build-own-transfer resource proposal, PacifiCorp would also apply its fixed and variable cost assumptions to that proposal following review and validation by the IE. For a third-party owned resource, the bidder may be required to include its fixed operation and maintenance costs depending on the type of resource proposed. These costs are typically escalated over the life of the PPA or TSA. These costs are incorporated into the evaluation process as a line item over the term proposed. However, PacifiCorp does not evaluate the third party-owned resource proposal bid amounts for reasonableness, as each bidder may choose how to ascribe project costs into specific contract cost line items (i.e. capacity payments,

fixed operation and maintenance, variable operation and maintenance, start costs, etc.). The IE similarly reviews operation and maintenance costs that are bid as part of third-party proposals.

2. Evaluating the Comparative Risks of Various Resources with Respect to Fixed O&M Costs Over Time

Similar to FORs and heat rate degradation, the comparative risks associated with changes to the predicted fixed operation and maintenance costs are tied to resource ownership in that customers may bear costs or incur benefits associated with actual costs that differ from operation and maintenance costs estimated at the time the bid evaluation. For utility-owned resources, customers may realize the costs of worse-than-forecast fixed costs but may also benefit if the costs are lower than forecast. With a third-party owned resource, customers may be shielded from costs associated with higher than expected fixed operation and maintenance costs depending on the contractual provisions included in the PPA or TSA. However, with a third-party owned resource, customers will not have the opportunity to benefit from lower than expected fixed operation and maintenance costs.

3. Conclusions and Recommendations

Generally, PacifiCorp has found forecasted fixed operation and maintenance costs used to develop PacifiCorp's benchmark resource proposals to be reasonable. However, as with FORs and heat rate degradation, the most effective way to ensure that fixed operation and maintenance costs are appropriately established as part of the competitive bidding process is to continue to require the IE to verify that fixed and variable operation and maintenance values are reasonable. In general, PacifiCorp recommends that the current methods of evaluation of fixed and variable operation and maintenance costs account for the comparative risks for both benchmark resources and third-party proposals.

F. Capital Additions Over the Resource Life

1. The Company's RFP Evaluation of Capital Additions Over the Resource Life

The risks associated with the RFP evaluation of capital additions over the resource life is that the evaluation will not take into account these resource additions. With respect to a benchmark resource proposal, the Company's current practice is to obtain fixed price proposals from EPC contractors with fixed performance, scope, and schedule. The overall cost of a benchmark resource proposal also includes a contingency to account for potential EPC change orders for required scope modifications or other unforeseen project costs. Planned future capital additions are estimated for benchmark resources; these would include both periodic capital replacements as well as an annual allocation for blanket items typically expected over the life of the resource. Certain potential future capital additions, such as those that result in design modifications that improve performance or reduce the cost of operation, are not known and therefore not included in the preparation of the benchmark resource proposal. However, as part of the budgeting process, a utility will periodically evaluate capital improvements that may result in benefits to customers.

2. Evaluating the Comparative Risks of Various Resources with Respect to Capital Additions Over the Resource Life

The comparative risks associated capital additions over the resource life are that, assuming that the utility is able to negotiate a fixed price contract, a utility may seek recovery of prudent unplanned capital additions from customers while a third-party may not. Therefore this risk item is also tied to resource ownership. A risk associated with a third-party resource is that customers will not realize the benefits of any future capital additions that provide improved performance or cost efficiencies or other benefits related to operation of the resource. In addition, as with many risk items, the value of the fixed price guarantee varies with the financial

health of the party providing or guaranteeing it. The effectiveness of a fixed price guarantee is therefore also intertwined with a third party's creditworthiness.

Again, the comparative risks of unplanned capital additions associated with different resource options—whether a third-party or benchmark resource—are highly dependent on the facts specific to a particular bid solicitation and the nature of the bids received in response to that solicitation. The current bid evaluation process attempts to capture the relative risks that are specific to a given RFP.

3. Conclusions and Recommendations

When developing a benchmark resource proposal, the utility utilizes information known at the time of the bid proposal which includes a contingency allowance for unknown changes incurred during construction. A benchmark proposal will also include costs for known future capital requirements. These costs are reviewed for reasonableness by the IE. With respect to future capital additions, it is important to ensure that benchmark resource proposals include any planned capital additions that are part of a long-term maintenance program for major equipment. To that end, the Commission could instruct the IE to review the Company's long-term maintenance programs and assess whether or not the Company has included reasonably expected future capital additions. Unforeseeable future capital investments should not be assumed or estimated as part of the initial evaluation.

G. Changes in Allowed Return on Equity Over the Resource Life

1. The Company's RFP Evaluation of Changes in Allowed Return on Equity Over the Resource Life

Generally, the risks associated with assumptions related to changes in allowed return on equity (ROE) is that the actual ROE will vary from that assumed during the bid evaluation.

PacifiCorp's current practice is to apply the current allowed ROE as a component of its weighted average cost of capital (WACC) for a benchmark resource proposal. For a third-party owned resource, PacifiCorp does not request or evaluate the third party's expectation regarding the return on its investment.

2. Evaluating the Comparative Risks of Evaluation of Changes in Allowed Return on Equity Over the Resource Life

The comparative risks associated with changes to the allowed ROE over the resource life are that the Commission may direct a change to a utility's allowed ROE while the Commission cannot change contract costs by directing changes to a third-party's return on its investment. With respect to a utility-owned resource, the costs and benefits associated with a higher or lower than anticipated allowed ROE flow through to customers as part of the overall ratemaking process for a utility. With a third-party owned resource, the Commission does not set the rate of return, therefore costs and benefits associated with a higher or lower than expected return on investment do not flow through to customers.

Commission Staff previously concluded that the potential impact on bid scoring from changes in ROE over time is small.⁹ In addition, recovery lag and the fact a utility does not always earn its allowed ROE are issues that would also impact the extent to which costs assumed as part of the bid evaluation proposal are significantly different from actual costs.

3. Conclusions and Recommendations

A utility's allowed ROE is set by the Commission and PacifiCorp cannot make a unilateral change to its allowed ROE. The Commission's oversight with respect to ROE significantly reduces the risk to customers associated with changes to allowed ROE.

⁹ Staff's Recommendation for Initial Topics for Further Analysis at 6, Docket UM 1182 (March 19, 2012).

Furthermore, there is little ability to predict or anticipate changes in ROE over time. It is therefore reasonable to incorporate the current WACC when evaluating resource proposals. It would be impractical to speculate and make changes to ROE assumptions as part of the benchmark resource analysis process and the small risk to customers does not justify a complex analytical process. Therefore, PacifiCorp recommends that the Commission take no further action with respect to this risk item.

H. Output, Heat Rate, and Power Curve at the Start of Resource Life

1. The Company's RFP Evaluation of Changes in Output, Heat Rate, and Power Curve at the Start of Resource Life

The risks associated with changes in output, heat rate, and power curve at the start of resource life are that the initial performance parameters of the resource when placed into service will be different from those assumed during the bid evaluation process. There are also risks associated with long-term plant performance degradation, which can begin during the startup and commissioning phase. With respect to benchmark proposals, performance changes through the pro forma life of an asset are modeled as part of the resource assessment and included as part of the benchmark resource proposal. Performance changes include those related to capacity, heat rate, and part-load behavior. For the benchmark proposal, these capacity and heat rate degradation inputs are modeled based on OEM or other proxy performance degradation data. Performance adjustments are reviewed by the IE for reasonableness.

With respect to third-party resource proposals, PacifiCorp applies the same performance adjustments unless the third-party provides performance guarantees. If performance guarantees are provided by a third-party as part of its resource proposal, the bid evaluation will replace the equipment manufacturer specifications with the specific performance guarantees as part of the

bid evaluation. In some cases, PacifiCorp will direct that performance tests be conducted to ensure both initial and periodic compliance with performance guarantees.

2. Evaluating the Comparative Risks of Changes in Output, Heat Rate, and Power Curve at the Start of Resource Life

The comparative risks associated with changes in output, heat rate, and power curve at the start of resource life are that a utility may recover costs associated with lower than expected performance parameters from customers while a third-party may not. This risk item is tied to resource ownership in that customers may bear costs or realize benefits associated with changes to performance parameters over time. The risk associated with a third-party resource is that benefits associated with better-than-forecast resource performance will not be realized by customers. A third party may also seek contract provisions that shift resource performance risk to the utility. Therefore, as with many risk items, the extent to which customers are shielded from changes to performance factors at startup and over time depends upon the type of guarantees included in the relevant contract and the financial strength of the third party providing those guarantees.

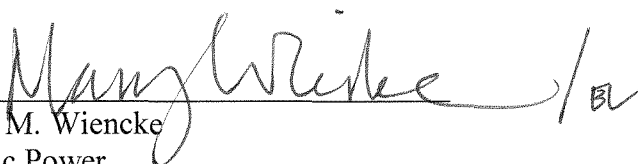
3. Conclusions and Recommendations

The most effective way to ensure that the output, heat rate, and power curve at the start of resource life are appropriately established as part of the bid evaluation process is to require the IE to review and validate that the long-term performance assumptions are reasonable. In general, PacifiCorp finds that the current methods of evaluation of performance expectations account for the comparative risks for both benchmark resources and third-party proposals. However, the Commission could recommend the IE to specifically address these items as part of its review process.

III. CONCLUSION

The Company recommends that systematic analysis of each of the remaining eight comparative risk items discussed above can lead to a more robust IE analysis of the risks of a utility's benchmark resource as compared to third-party proposals. In addition, PacifiCorp has identified instances where the assessment of relevant contract terms will be critical to ensure third-party bidders' contract provisions will mirror the protections that were a part of the assessed bid. The recommendations provided above are designed to assist the Commission in developing a more comprehensive accounting and comparison of all of the relevant risks, including consideration of construction risks, operation and performance risks, and environmental regulatory risks between benchmark resources and third-party resource proposals.

DATED: September 30, 2013



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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document, in Docket UM 1182, on the date indicated below by email and/or US Mail, addressed to said parties at his or her last-known address(es) indicated below.

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