



Oregon

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Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UM 1182 (PHASE II) – In the Matter of
PUBLIC UTILITY COMMISSION OF OREGON Investigation Regarding
Competitive Bidding.**

Enclosed for filing are replacement pages for Staff Reply Testimony. The errata pertain to the changes listed below.

Errata No. 1: Replace modal with median on page 13, line 20.

Errata No. 2: Replace modal with median on page 14, line 1.

Errata No. 3: Replace the sentence on page 15, lines 7-9.

Errata No. 4: Replace the sentence on page 22, lines 1-3.

Each of these changes are highlighted.

Thank you for your attention.

/s/ Robert J. Procter

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1 preferred to under-production given Kusters' argument that the utility is
2 obligated to purchase all the over-production at the fixed price established in
3 the contract. In contrast, under-production relative to expected output results
4 in greater risk to the utility in the form of under-recovery of fixed expenses.⁸

5 **Q. WHAT IS STAFF'S REACTION TO PGE'S ARGUMENT THAT SINCE ALL**
6 **BIDDERS OF WIND PLANTS WILL BE USING THE SAME WIND**
7 **FORECASTING TOOLS AND EXPERTS, THERE IS NO NEED TO EXAMINE**
8 **WIND CAPACITY FACTOR RISK FOR UTILITY-OWNED PLANTS VERSUS**
9 **IPP PLANTS? SEE PGE/100, OUTAMA-BETTIS-MODY-HAGER/8, lines 9-**
10 **11.**

11 A. Staff does not support PGE's point of view. The underlying risk is always
12 present and it may be different for utility versus IPP owned plants. At this
13 point, there are no data submitted in this docket that sheds light on this issue.

14 **Q. REFERRING TO PAC'S OPENING TESTIMONY ON THE CAPACITY**
15 **FACTOR METRIC (SEE PAC/100, KUSTERS/6-11), IN YOUR OPINION,**
16 **IS THE COMPANY'S APPROACH CONSISTENT WITH ACCOUNTING**
17 **FOR WIND CAPACITY FACTOR RISK?**

18 A. No. On the referenced pages, PAC discusses a consistent way to
19 determine the expected value for wind capacity factor for each bid on the
20 initial short-list. PAC witness Kusters explains that PAC uses the **median**
21 value for wind capacity factor. PAC/100, Kusters/8 lines 4-11. However,

⁸ Appendices A and B layout the math demonstrating that market purchases and sales cancel out. Those appendices also define the terms under which the utility and its ratepayers would be indifferent between the Benchmark Resource bid and the IPP bid.

1 using the **median** value is not the same as accounting for wind capacity
2 factor risk.⁹ In contrast, Staff set forth the definition of risk, and related risk
3 metrics, in its testimony at Staff/100, Procter/3-4.

4 **Q. REFERRING TO WIND CAPACITY FACTOR, KUSTERS ARGUES THAT**
5 **THE EFFECT ON CUSTOMERS OF LOWER OR HIGHER THAN**
6 **EXPECTED WIND CAPACITY FACTOR IS THE SAME FOR BOTH**
7 **UTILITY-OWNED AND IPP OWNED RESOURCES. SEE PAC/100,**
8 **KUSTERS/8-9. DOES STAFF AGREE?**

9 A. Not necessarily. If the total cost of wind plant with a lower wind capacity
10 performance under utility ownership equals the total cost with lower wind
11 capacity performance under IPP ownership, then Staff agrees with
12 Kusters.¹⁰ If the wind plant total cost with the higher capacity performance
13 under utility ownership equals the total cost with higher capacity
14 performance under IPP ownership, then Staff agrees with Kusters.¹¹

15 ***Staff Assessment of NIPPC'S Bid Adders***

16 **Q. WHAT IS STAFF'S OVERALL CONCLUSION ABOUT APPLYING NIPCC'S**
17 **BID ADDERS?**

18 A. NIPPC has not shown that its proposed bid adders are required at this time.

19 **Q. PLEASE EXPLAIN.**

⁹ Staff set forth the definition of risk, and related risk metrics, in its Opening Testimony at Staff/100, Procter/3-4.

¹⁰ Appendix A lays out the argument for this conclusion.

¹¹ Appendix B lays out the argument for this conclusion.

1 A. As was discussed in Staff's Opening Testimony, the Commission directed that
2 Phase II examine four specific risks and to determine how those risks are
3 addressed in the bid evaluation process. In particular, this examination is to
4 focus on how the Benchmark Resource bid is treated versus how an IPP bid is
5 treated for each of the four risks during bid evaluation. NIPPC assumes that
6 the existing bid evaluation methodology of the three electric jurisdictional
7 utilities is biased in favor of the Benchmark Resource bid. **However, this**
8 **investigation must first establish that bias exists in bid evaluation before**
9 **recommending any modification to guideline 10(d).**

10 **Q. WHY DID NIPPC'S BID ADDERS NOT INCLUDE BENEFICIAL**
11 **OUTCOMES?**

12 A. NIPPC implicitly assumes that only unfavorable outcomes need to be
13 addressed. Further, it assumes if the utility bid wins, and actual costs are
14 higher than forecasted costs, that cost increase is fully passed through to
15 ratepayers. Therefore, bid evaluation need only consider these downside
16 risks. They also assume that if the IPP bid won and actual costs exceeded
17 forecasted costs, the excess costs would remain with the IPP. Therefore, in
18 NIPCC's view, bid evaluation must account for this discrepancy by applying
19 adders only to the Benchmark Resource bid.

20 **Q. WHAT IS STAFF'S REACTION TO THOSE ASSUMPTIONS?**

21 A. Unless there is a logical reason to exclude the uncertainty in outcomes
22 favorable to the utility (Staff cannot think of one), Staff does not support
23 NIPPC's approach. In addition, Staff agrees with PGE and PAC that bid and

1 For those RFP's where the Benchmark Resource bid was the only winner,
2 reaching a conclusion that the bid evaluation process was biased in favor of
3 that bid must be based on an evaluation of each bid on the final short-list.

4 **Q. DOES BIAS EXIST IN PGE'S EXISTING RFP-RELATED BID EVALUATION**
5 **METHODOLOGY?**

6 A. Based on PGE's summary of their existing bid evaluation process²³, Staff has
7 not yet seen evidence that it contains bias. PGE states that each bid is scored
8 using the details laid out in that RFP and the specifics of a given bid. In turn,
9 the RFP's treatment of scoring and threshold criteria is developed in a public
10 process with input from all parties with the Commission ultimately
11 acknowledging the RFP. Since the IE assesses how well the bids are
12 evaluated and scored, along with the selection of the short list, this further
13 helps assure a level-playing field in how the criteria listed in the RFP are
14 applied. In addition, a separate team evaluates the Benchmark Resource bid
15 than the team that developed the RFP.

16 **Q. DOES BIAS EXIST IN IPC'S EXISTING RFP-RELATED BID EVALUATION**
17 **METHODOLOGY?**

18 A. Staff has not yet seen evidence that there is bias. Also, it does not appear
19 there was much potential for bias given the results of the RFP since the
20 Benchmark Resource bid won in only two of the six RFP's reviewed by Staff.
21 Of the RFP-related bid evaluations IPC has conducted since 2006, only one
22

²³ Staff relied on PGE/100, Outama-Bettis-Mody-Hager/10-15 to reach these conclusions.

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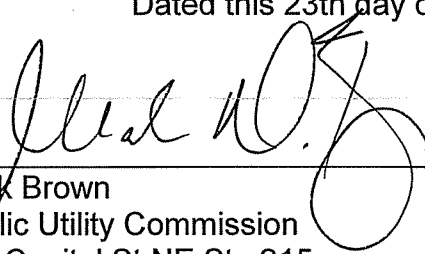
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CERTIFICATE OF SERVICE

UM 1182
Phase II
Errata

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 23th day of January, 2013 at Salem, Oregon



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