

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1208

In the Matter of)	
)	
PACIFICORP)	THE INDUSTRIAL CUSTOMERS OF
)	NORTHWEST UTILITIES' REPLY
Draft 2009 Request for Proposals pursuant to)	COMMENTS ON REVISED REQUEST
Order No. 91-1383.)	FOR PROPOSALS
)	
_____)	

I. INTRODUCTION

Pursuant to Administrative Law Judge Grant's October 26, 2006 Conference Memorandum, the Industrial Customers of Northwest Utilities ("ICNU") submits these reply comments responding to PacifiCorp's revised request for proposals ("Revised RFP"). ICNU appreciates PacifiCorp's apparent recognition that its original RFP contained significant faults, and the Company's efforts to modify its RFP by removing two of the proposed four new thermal generation resources. Despite PacifiCorp's decision to remove two of the proposed new resources, ICNU continues to recommend that the Oregon Public Utility Commission ("OPUC" or the "Commission") not approve PacifiCorp's Revised RFP. PacifiCorp's decision to build or acquire two new resources is still inconsistent with the Company's acknowledged integrated resource plan ("IRP"), and PacifiCorp has not demonstrated a need for more than one new thermal resource.

The Revised RFP raises other important issues. ICNU is concerned that PacifiCorp may be prematurely hastening the development of integrated gasification combined cycle (“IGCC”) coal plants before the technology has been demonstrated to be feasible or the least cost. The Revised RFP also includes scoring and other design modifications that should be carefully reviewed by the Oregon independent evaluator (“IE”) before the Commission issues its final order regarding consistency with the competitive bidding rules and the fairness of the RFP process.

II. BACKGROUND

On October 25, 2006, PacifiCorp filed its supplemental comments stating that the Company would soon revise its 2012 RFP. Originally, the Company’s 2012 RFP proposed that PacifiCorp acquire 1775 megawatts (“MW”) over a three-year period (2012-2014). Until filing its supplemental comments, PacifiCorp had vigorously argued that its proposal to acquire four new baseload thermal resources was consistent with its 2004 IRP and that the Company was facing a large capacity deficit.

On November 1, 2006, PacifiCorp filed its Revised RFP. PacifiCorp changed its RFP and is now proposing to acquire two thermal resources, which would represent up to 915 MWs of capacity for 2012 and 2013. First, PacifiCorp has proposed a 340 MW coal plant for 2012 instead of the 600 MW coal plant proposed in the original RFP. Next, for 2013, PacifiCorp has proposed to build or acquire either a 500 MW IGCC coal plant or a 575 MW traditional coal plant. In total, PacifiCorp would add 840 to 915 MWs of baseload thermal resources. Nothing prevents PacifiCorp from filing a new RFP to build or acquire additional resources.

PacifiCorp's Revised RFP also focuses on potentially acquiring an IGCC resource. PacifiCorp accelerates consideration of an IGCC benchmark resource from 2014 to 2013. PacifiCorp will allow an IGCC plant to bid and attempt to replace either of the traditional coal plants. Finally, PacifiCorp will ensure that IGCC proposals, regardless of their cost, will make it through the initial short list to be considered when PacifiCorp makes its final resource decisions. Cost is an important component that cannot be overlooked.

III. COMMENTS

1. **PacifiCorp's Revised RFP Is Still Not in Alignment with the Company's Acknowledged IRP**

PacifiCorp has still not justified a need to acquire two new thermal resources. PacifiCorp asserts that the "redesign of the RFP largely resolves . . . whether the resource need reflected within [the RFP] is consistent with PacifiCorp's acknowledged 2004 IRP." PacifiCorp Supplemental Comments at 1. ICNU disagrees with this claim because PacifiCorp's Revised RFP does not resolve this issue, but instead simply makes the RFP less out of compliance with its acknowledged IRP.

Although the proposal to acquire 840 to 915 MWs in the Revised RFP is an improvement from the original RFP, PacifiCorp has not provided any additional information to explain why the acquisition of more than one resource is consistent with its acknowledged 2004 IRP. As ICNU has consistently pointed out in this proceeding, the Commission explicitly acknowledged that PacifiCorp was likely to need one new thermal resource to serve its load on the eastern side of the system. ICNU Opening

Comments at 6; Re PacifiCorp, OPUC Docket No. LC 39, Order No. 06-029 at 50 (Jan. 23, 2006). PacifiCorp has not justified or even explained in detail the need for two resources.

PacifiCorp's Revised RFP does not contain any new information that establishes the Company actually has an 840 to 915 MW capacity deficit. For the past few months PacifiCorp has steadfastly asserted that it needed to build approximately 1775 MWs of new resources. Now PacifiCorp has implicitly recognized that its need is far lower. PacifiCorp's sudden turnabout demonstrates that the Commission should carefully scrutinize PacifiCorp's claimed resource need and take the Company's numbers with a grain of salt until proven to be accurate. A close examination demonstrates that the Company does not have a capacity deficit that would warrant building more than one new resource.

In support of its Revised RFP, PacifiCorp asserts that, based on its "acknowledged 2004 IRP," the Company has a capacity deficit of 1,038 MWs in 2012 and 1,347 MWs in 2013. PacifiCorp Supplemental Comments at 4. These numbers should be ignored because they appear to be based on PacifiCorp's original filed 2004 IRP. PacifiCorp Response to ICNU data request ("DR") No. 6.1. As ICNU previously explained, the resource deficit in PacifiCorp's original 2004 IRP was reduced by PacifiCorp when the Company filed its 2004 IRP update. ICNU Reply Comments at 5-6. For example, the 2004 IRP update reduced PacifiCorp's capacity need by 354 MWs because of new contracts. PacifiCorp 2004 IRP Update at 9, 21. The 2004 IRP resource deficit is also inflated because it relied upon a 15% planning margin, which the

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Commission rejected. OPUC Docket No. LC 39, Order No. 06-029 at 50. Using of a 12% planning margin would further reduce the 2012-2013 resource deficit assumed in the 2004 IRP by approximately 230 MWs. PacifiCorp Response to ICNU DR No. 6.3. The capacity deficit would be further reduced by using a 10% planning margin, and by the incorporation of distributed generation, transmission expansions, and demand side management recommended by the Commission in its order on the 2004 IRP.

PacifiCorp also has not rebutted the fact that its Utah load growth estimates have shrunk and that its 2006 IRP forecasts smaller capacity deficits. ICNU Opening Comments at 9-10. Based on PacifiCorp's 2006 IRP projections and a 12% planning margin, PacifiCorp would experience a 264 MW capacity deficit in 2012 and 442 MW capacity deficit in 2013. PacifiCorp Response to ICNU DR No. 2.2. Essentially, reliance upon the 2004 IRP data and the 2006 IRP projections demonstrates, at most, a capacity deficit that could be filled with one new thermal resource. PacifiCorp's decision to scale down its RFP to acquire two rather than four new resources does not change the fact that Company has failed to show a capacity deficit of more than 500 MWs.

Finally, ICNU notes that there remain important unresolved concerns about whether it is appropriate for PacifiCorp to acquire baseload resources to meet its capacity needs at every hour of the year and to become energy surplus. Thus, although the acquisition or building of one new resource may be in alignment with its 2004 acknowledged IRP, there may be significant prudence questions to resolve when

PacifiCorp seeks to include in rates any costs associated with resources acquired in the RFP.

2. The Revised RFP Should Not Be Biased in Favor of IGCC Resources

PacifiCorp has made significant revisions to its RFP to include IGCC resources and ensure that they are considered before the Company makes its final resource decision. ICNU does not believe it is appropriate to bias the RFP in a manner that would result in PacifiCorp selecting an IGCC resource over a competing coal resource that is determined to be lower cost based on the established least cost planning standards. Since the RFP changes related to the consideration of IGCC resources were only filed a week ago, ICNU recommends that this issue be considered by the Oregon IE.

An IGCC plant does not appear to be the least cost resource for PacifiCorp. PacifiCorp is currently holding technical workshops that have raised major concerns regarding the costs, feasibility, and commercial opportunities associated with IGCC technology and carbon sequestration. IGCC technology does not appear to be any more economic now than when it was considered in PacifiCorp's 2004 IRP, even if the concerns regarding technical feasibility and unexpected costs associated with using an unproven technology are ignored. For example, PacifiCorp's 2004 IRP update estimated a 12% cost premium for an IGCC plant without carbon sequestration as compared to a traditional coal plant. OPUC Docket No. LC 39, Order No. 06-029 at 50 n.9.

PacifiCorp currently estimates that the cost premium for an IGCC plant may be larger and range from 10% to 25% more expensive than a traditional coal plant. PacifiCorp Response to ICNU DR No. 6.7. The cost premium for an IGCC plant with carbon

sequestration rises dramatically to 45% to 70%. PacifiCorp Response to ICNU DR No. 6.8. These cost premiums for IGCC plants may even exceed the costs of carbon sequestration at a new coal plant. PacifiCorp Response to ICNU DR No. 6.9.

ICNU is not opposed to ensuring that IGCC resources are reviewed in the bidding process. The RFP, however, should not change the established resource evaluation methodology, include any higher carbon adders, or adopt other biases that have not been reviewed and approved in the integrated resource planning process. ICNU requests that the Oregon IE carefully review whether IGCC resources are evaluated in a manner consistent with PacifiCorp's acknowledged IRP and are not provided any unfair advantages. Further, substantial cost contingencies guaranteeing the bidders' costs may be appropriate in the evaluation of the IGCC plants given the immature state of development of this technology.

3. The Commission Should Defer Final Resolution of the Fairness of the RFP Until After the Oregon IE Completes Its Review

ICNU is continuing to defer any substantive comments on whether the RFP fully complies with the Commission's competitive bidding requirements and on the fairness of the RFP design until after the parties have had an opportunity to work with and review the report of the Oregon IE. The parties have had only one week to review PacifiCorp's Revised RFP and cannot be expected to fully understand the changes contained therein. For example, PacifiCorp appears to have increased the value of the non-pricing scoring criteria from 20% to 30% of the overall score and added a new non-price criterion. This and any other changes should be carefully reviewed by the parties

and the Oregon IE. The parties should not be precluded from raising any concerns regarding compliance with the competitive bidding rules or the fairness of the RFP design prior to the Commission ruling on the Oregon IE's report.

IV. CONCLUSION

ICNU appreciates the changes that PacifiCorp has made to its RFP, which reduce the number of thermal resources the Company is planning to build or acquire from four to two resources. The removal of two resources makes the RFP less out of alignment with PacifiCorp's acknowledged 2004 IRP, but does not resolve the fundamental problem that the Company has not demonstrated a need for more than one new resource. Therefore, ICNU continues to recommend that the Commission not approve PacifiCorp's Revised RFP because it is not in alignment with PacifiCorp's acknowledged IRP, and the Company has not demonstrated a resource deficit that would warrant the acquisition of multiple resources. In addition, the Commission should defer its final ruling regarding consistency with the competitive bidding rules and the fairness of the Revised RFP, including whether the Revised RFP is unfairly biased in favor of IGCC resources, until the Oregon IE is able to complete its report.

Dated this 9th day of November, 2006.

Respectfully submitted,

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November 9, 2006

Via Electronic and U.S. Mail

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Re: In the Matter of PACIFICORP Draft 2009 Request for Proposals pursuant to
Order No. 91-1383
Docket No. UM 1208

Dear Filing Center:

Enclosed please find the original and two copies of the Reply Comments of the Industrial Customers of Northwest Utilities ("ICNU") in the above-referenced docket.

Please return one file-stamped copy of the document in the self-addressed, stamped envelope provided. Thank you for your assistance.

Sincerely,

/s/ Christian Griffen
Christian W. Griffen

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Reply Comments of the Industrial Customers of Northwest Utilities upon the parties on the service list via Electronic Mail and U.S. Mail, postage-prepaid, or via electronic mail to those parties who waived paper service in this proceeding.

Dated at Portland, Oregon, this 9th day of November, 2006.

/s/ Christian Griffen

Christian W. Griffen

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