PACIFIC POWER
A DIVISION OF PACIFICORP

825 NE Multnomah, Suite 2000
Portland, Oregon 97232

September 27, 2019

***VIA ELECTRONIC FILING***

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-3398

Attn: Filing Center

**RE: PacifiCorp's Notice of Exception under OAR 860-089-0100**

In accordance with OAR 860-089-0100(3) and (4), PacifiCorp d/b/a Pacific Power provides the enclosed report detailing the circumstances related to a time-limited opportunity to acquire a resource of unique value to PacifiCorp's customers.

The enclosed report contains commercially-sensitive information and is provided as confidential under OAR 860-001-0070.

PacifiCorp respectfully requests that all communications related to this filing be addressed to:

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Please direct informal inquiries regarding this filing to Cathie Allen, Regulatory Affairs Manager, at (503) 813-5934.

Sincerely,

Etta Lockey
Vice President, Regulation

cc: Service lists of dockets UE 263, UM 1845 and LC 70

## CERTIFICATE OF SERVICE

I certify that I filed a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail and/or overnight delivery in compliance with OAR 860-001-0180.

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Dated September 27, 2019.

Mary Penfield
Adviser, Regulatory Operations

## CERTIFICATE OF SERVICE

I certify that I electronically filed a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail in compliance with OAR 860-001-0180.

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Dated September 27, 2019.

Mary Penfield
Adviser, Regulatory Operations

## CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail and/or overnight delivery in compliance with OAR 860-001-0180.

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Dated September 27, 2019.

Mary Penfield
Adviser, Regulatory Operations

# Report

Pryor Mountain Wind Project

**September 27, 2019**


## Introduction

Consistent with the requirements of OAR 860-089-0100(3) and OAR 860-089-0100(4), PacifiCorp, d/b/a Pacific Power, is filing this report explaining the circumstances related to a time-limited opportunity to acquire a resource of unique value to PacifiCorp's customers.

Under the competitive-bidding rules, an electric company must comply with the competitive-bidding requirements for the acquisition of a resource or contract for 80 megawatts (MW) or more and longer than five years, subject to certain exceptions.[1] One of these exceptions is when "there is a time-limited opportunity to acquire a resource of unique value to the electric company's customers."[2] When this language was originally adopted as part of the competitive-bidding guidelines, the Public Utility Commission of Oregon (Commission) explained that sometimes specific time-limited opportunities occur, and utility action is required without a request for proposal (RFP) process.[3] However, "[w]hen those events occur…we want to be notified, in some detail, as to why the utility did not use an RFP process for acquiring a major resource."[4] The Commission's preference for notification is contained in OAR 860-089-0100(4), which requires an electric company that acquires a resource under an exception to the competitive-bidding rules contained in OAR 860-089-0100(3) to file a report with the Commission within 30 days of seeking to acquire the resource; the required report must explain the circumstances surrounding the acquisition. Although PacifiCorp is acquiring this resource consistent with an exception to the competitive bidding rules, this acquisition does not alter the Commission's role in performing a prudence review of the acquisition.

## Background

On May 17, 2019, PacifiCorp executed an assets purchase and sale agreement with Sunrise Wind Holdings, LLC, Bowler Flats Energy Hub, LLC, Horse Thief Wind Project, LLC, Mud Springs Wind Project, LLC, and Pryor Caves Wind Project, LLC (Sellers) for the development rights associated with the Pryor Mountain Wind Project[5] (*e.g.*, permits, land contracts, etc.) (Agreement). Subsequently on June 27, 2019, PacifiCorp and Vitesse, LLC (Vitesse) (a wholly-owned subsidiary of Facebook, Inc.) executed an agreement for the purchase of all renewable energy certificates (REC) generated by the Pryor Mountain Wind Project under PacifiCorp's Oregon Schedule 272 – Renewable Energy Rider Optional Bulk Purchase Option (Schedule 272 Agreement). The Schedule 272 Agreement outlines pricing, terms, and conditions for purchase[6] of the RECs by Vitesse over a 25-year period. Subsequently, on September 24, 2019 and

[1] OAR 860-089-0100(1)(A), adopted August 31, 2018.
[2] OAR 860-089-0100(3)(b).
[3] *In Re Investigation Regarding Competitive Bidding*, Docket UM 1182, Order No. 06-446 (Aug. 10, 2006).
[4] *Id.*
[5] The Pryor Mountain Wind Project is referred to as the Mud Spring Project and defined in the Agreement as development of the 80 MW wind-powered electricity generation projects known as Pryor Caves Wind Project, Horse Thief Project, and Mud Springs Project all located in Carbon County, Montana (totaling 239.8 MW nameplate capacity in the aggregate) together with the associated Tie-Line (as defined in the Agreement) to be located on the site situated in Carbon County, Montana and Park County, Wyoming.
[6] Pursuant to the Schedule 272 Agreement terms, PacifiCorp will retire all RECs generated by the Pryor Mountain Wind Project on behalf of Vitesse.

September 6, 2019, PacifiCorp reached agreement on the final terms and conditions for the Engineering, Procurement, and Construction Contractor (EPC) and wind turbine supplier agreements, respectively.[7]

The costs associated with the Agreement are comprised mainly of a fixed price of $[redacted] and success fees (fees to be paid to Sellers on per MW basis upon achievement of commercial operations of the Pryor Mountain Wind Project).[8] If PacifiCorp is able to successfully develop the full 239.8 MW of nameplate capacity, the total cost associated with the project development rights is $[redacted]. The total costs associated with the EPC and turbine supplier agreements are approximately $[redacted] and $[redacted], respectively. As detailed below, the company has estimated that the costs for the project will be reduced by an estimated $[redacted] (present value) after payments for the RECs are taken into account.[9] This amount will be further reduced by an estimated $[redacted] on a present-value basis when PacifiCorp qualifies the project for federal production tax credits (PTCs). On a nominal basis, expected PTC benefits total $[redacted] through the first 10 years of operation, which represents approximately [redacted] of the combined cost of the Agreement [redacted]), the EPC agreement ($[redacted]) and the turbine supplier agreements ($[redacted]).

To qualify for 100 percent PTC eligibility, the Pryor Mountain Wind Project must be in service by December 31, 2020. To achieve this in-service date, construction activities must begin as soon as possible, which required the Agreement to be executed as described above. Further, the Agreement was necessarily required to be in place before execution of the Schedule 272 Agreement. Expedited negotiations of the EPC and wind turbine supply agreements was required to ensure that the Pryor Mountain Wind Project will achieve commercial operations by the end of 2020 to qualify for PTCs. Execution of the EPC and wind turbine supplier agreements constitute the last of the major agreements necessary for the company to move forward with the development and construction of the Pryor Mountain Wind Project. The importance and timing of each of these events is described in greater detail below.

**The Pryor Mountain Wind Project Opportunity and Benefits**

Pryor Mountain Wind Project Represents a "Unique Value to Customer"

The Pryor Mountain Wind Project, including the associated Schedule 272 Agreement, will provide significant customer benefits. The methodology used to perform the economic analysis of the Pryor Mountain Wind Project is consistent with the methodology used to perform the economic analysis of bids submitted into the 2017R RFP in docket UM 1845. In that proceeding, PacifiCorp

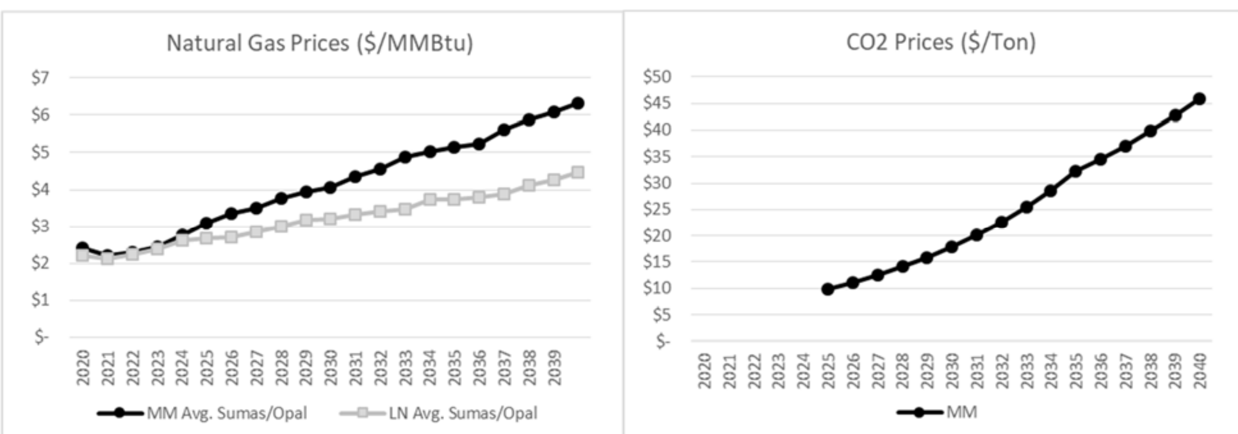
[7] PacifiCorp is purchasing turbines from two suppliers: Vestas Wind Systems A/S and BHE Wind LLC, a PacifiCorp affiliate.
[8] PacifiCorp is also responsible for Post-Closing Land Contract and Reimbursable Development Costs, as applicable.
[9] Unlike a power purchase agreement where a price per MW is contractually set, here there will be some variation in the cost to customers based on performance of the project (*i.e.*, based on actual wind conditions). To account for this variability, the company has performed an economic analysis that assumes a P50 wind resource developed by a third-party consultant. Even with this variability, the company has determined that customers will receive a benefit from development and operation of this resource.

performed its economic analysis under a range of price-policy scenarios to quantify how net benefits or net costs change with changes in natural-gas price and carbon dioxide ($CO_2$) price assumptions. These studies showed that net benefits for new renewable projects are lowest when low natural gas price assumptions are paired with no $CO_2$ price and that net benefits are greatest when high natural gas price assumptions are paired with high $CO_2$ price assumptions.

The economic analysis of the Pryor Mountain Wind Project relies on an assessment of system value based on two Planning and Risk model (PaR) runs with a simulation period covering the 2019-2038 time frame. This is the same modeling tool used to perform cost and risk analysis in PacifiCorp's integrated resource plan and is the same modeling tool that was used to develop the economic analysis that informed selection of a final shortlist of bids in docket UM 1845. System benefits from the development of the Pryor Mountain Wind Project, which includes sale of the associated RECs in accordance with the Schedule 272 Agreement, are based on two PaR simulations—one with incremental generation from the project and one without incremental generation from the project.

These simulations were performed using two different price-policy scenarios—one assuming medium natural gas price and medium $CO_2$ price assumptions (the "MM" price-policy scenario) and one assuming low natural gas price and no $CO_2$ price assumptions (the "LN" price-policy scenario). These assumptions are summarized in Figure 1.

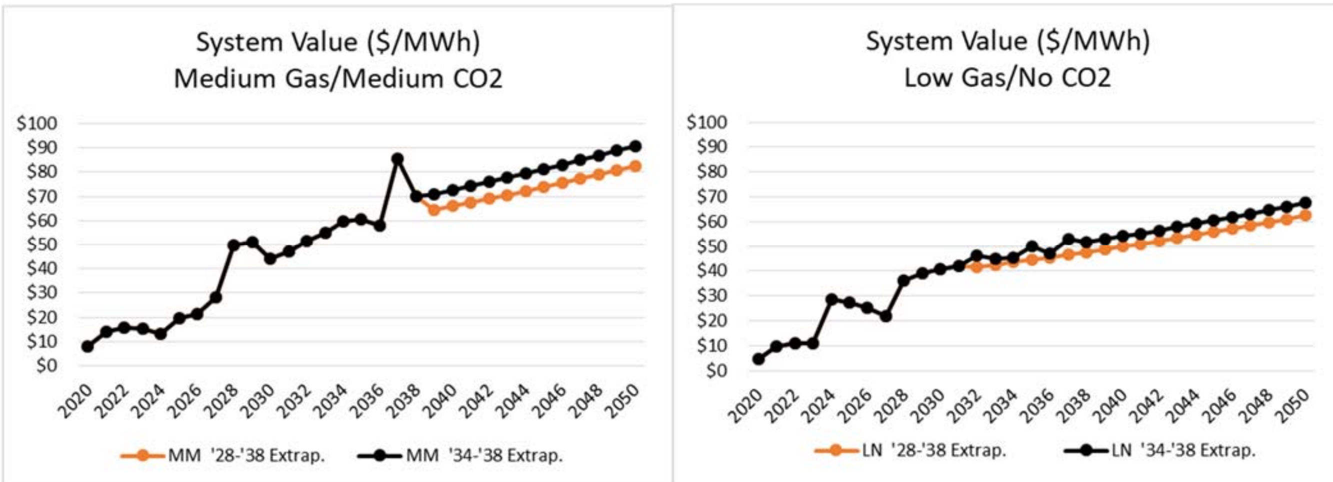
*Figure 1. Price-Policy Assumptions in the Economic Analysis of the Pryor Mountain Wind Project*




The system value of incremental energy is converted to a dollar-per-megawatt-hour value by dividing the reduction in annual system costs associated with the Pryor Mountain Wind Project by the change in incremental energy from the Pryor Mountain Wind Project. This analysis was performed for the MM and LN price-policy scenarios through 2038. The value of energy is extended out through 2050 by extrapolating the system values calculated from modeled data over two different time frames—2028-2038, and 2034-2038. The assumed system value, expressed in dollars-per-megawatt-hour, is applied to the incremental energy output from Pryor Mountain Wind

Project. The system value of the Pryor Mountain Wind Project is summarized for both price-policy scenarios in Figure 2.

*Figure 2. System Value Used in the Economic Analysis of Pryor Mountain Wind Project*



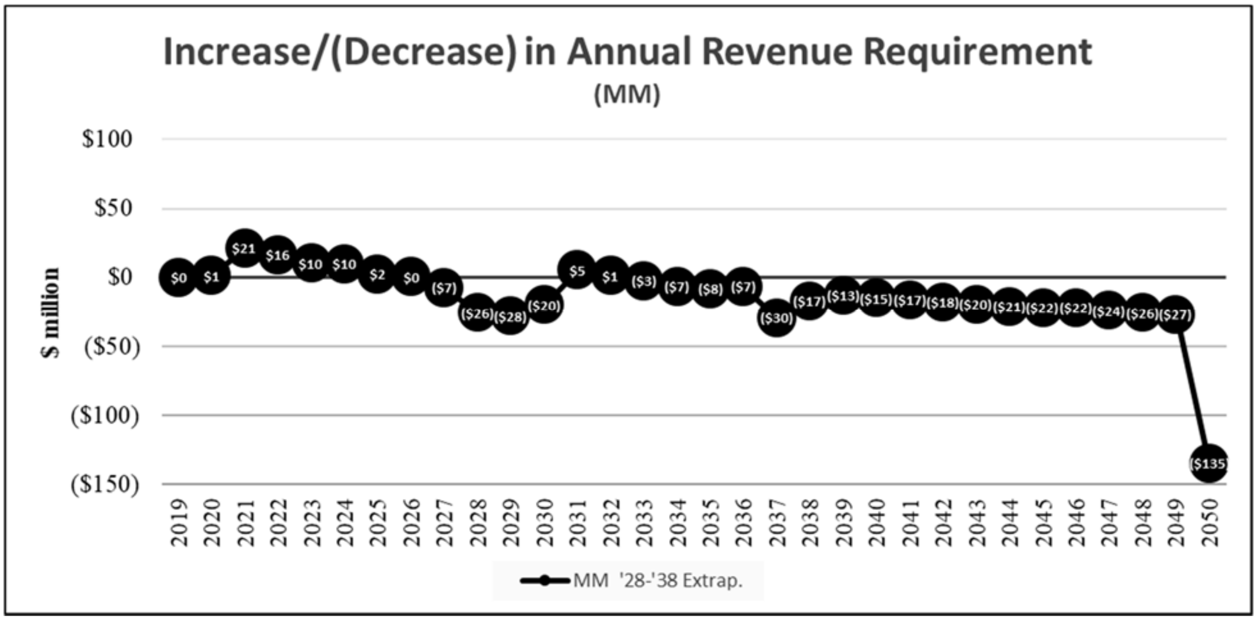

The Pryor Mountain Wind Project is expected to provide significant net benefits for customers. Table 1 summarizes present-value revenue-requirement differential (PVRR(d)) benefits calculated from changes in system costs through 2050. This table also presents the same information on a levelized dollar-per-megawatt-hour basis. Under the MM price-policy scenario, net benefits range between $71 million and $84 million. Under the LN price-policy scenario, the PVRR(d) varies between a $9 million benefit and a $6 million cost, depending upon the period used to extrapolate benefits beyond 2038. The execution of the Schedule 272 Agreement with Vitesse was a necessary milestone to ensure the Pryor Mountain Wind Project could move forward and mitigates the risk of deteriorating value under a variety of price and policy scenarios, including the most conservative LN price policy scenario. Additionally, while not explicitly analyzed, customer benefits would increase significantly with high natural-gas price and/or high $CO_2$ price assumptions.

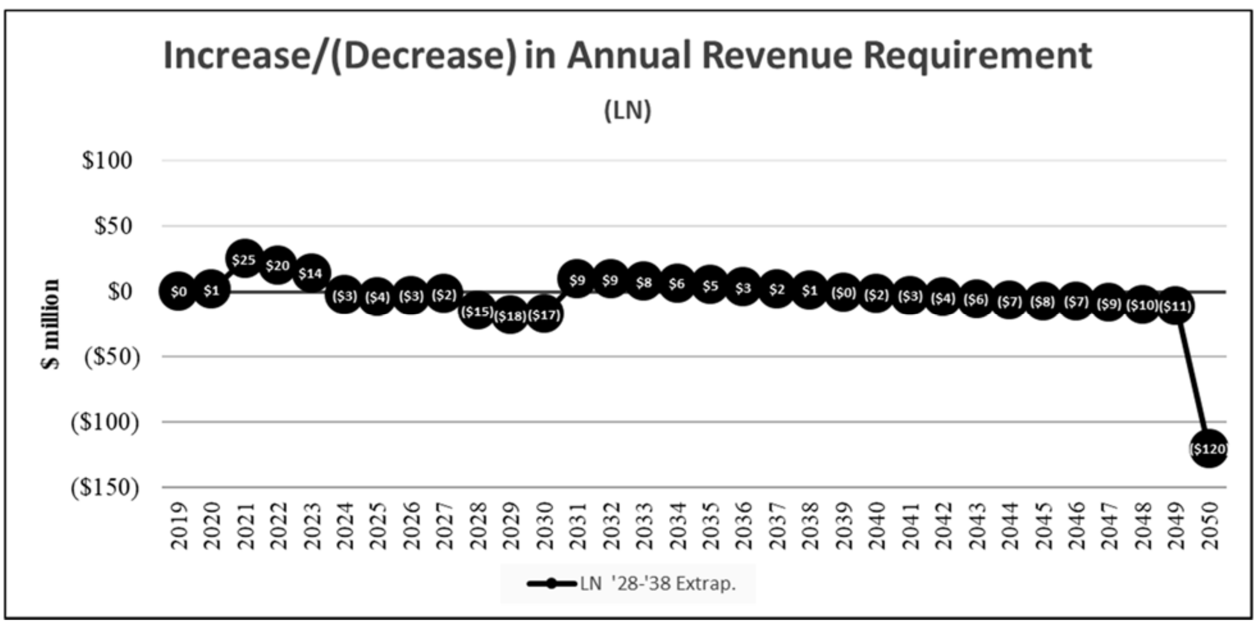
*Table 1. Net Benefits from the Pryor Mountain Wind Project*

| **Price Policy Scenario** | **PVRR(d) Net (Benefit)/Cost ($million)** | **Nom. Lev. Benefit ($/MWh of Incremental Energy)** |
|---|---|---|
| MM ('28-'38 Extrapolation) | ($71) | ($7.43) |
| MM ('34-'38 Extrapolation) | ($84) | ($8.77) |
| LN ('28-'38 Extrapolation) | $6 | $0.66 |
| LN ('34-'38 Extrapolation) | ($9) | ($0.93) |

Figure 3 shows the estimated change in nominal annual revenue requirement due to the Pryor Mountain Wind Project for the MM and LN price-policy scenarios. This figure reflects the change in nominal revenue requirement associated with Pryor Mountain Wind Project netted against system benefits, which were calculated as described above. Considering both the MM and LN cases illustrated below, the Pryor Mountain Wind Project reduces nominal revenue requirement during a majority of its depreciable life.

*Figure 3. (Reduction)/Increase in Total-System Annual Revenue Requirement from the Pryor Mountain Wind Project*



Pryor Mountain Wind Project is a "Time-Limited Opportunity"

The opportunity to enter into the Agreement and associated Schedule 272 Agreement evolved over a very compressed timeline, beginning in October 2018, with final terms on all material agreements (*i.e.*, the EPC and wind turbine supplier agreements) completed before September 30, 2019. For example, negotiation of the associated Schedule 272 Agreement began in December 2018 with initial discussions and final terms were reached in late June 2019. Finalization of the Schedule 272 Agreement served as a necessary milestone for determining that the company would go forward with development of the Pryor Mountain Wind Project. The process from initial discussions to negotiation of final terms of the Schedule 272 Agreement occurred in under six months.

To meet the December 31, 2020 commercial operations date, PacifiCorp determined that issuing a RFP under Oregon's competitive bidding rules would not allow for the prompt contracting required to ensure 100 percent PTC eligibility. A RFP process would have taken many months to complete and would have exceeded the timeline necessary to capture the unique value of this opportunity. This is especially true in light of the competition for contractors due to the impending expiration of PTCs (*i.e.*, many entities are competing for the same resources in an effort to complete projects before the December 31, 2020 commercial operations date). To secure contractors and other resources, it was necessary to move quickly.

Executing the Agreement and associated Schedule 272 Agreement allowed PacifiCorp to finalize certain contractual arrangements (*i.e.*, turbine-supply agreements and EPC agreements) that are required to achieve a commercial operations date of no later than December 31, 2020. Failure to execute the agreements within this time frame risks forgoing the opportunity to secure a low-cost resource that will provide a unique value for customers.

In addition, the Schedule 272 Agreement represents a unique opportunity to leverage Vitesse's desire to purchase RECs from a specified resource while providing a cost-effective energy resource to serve the company's customers. The cost reduction that will result from Vitesse's purchase of all RECs generated by the project mitigates risks under the various price-policy assumptions, including the most conservative price-policy assumptions. This opportunity to mitigate economic performance risk and PacifiCorp's ability to take advantage of PTCs for our customers are unique characteristics of the Pryor Mountain Wind Project, which will provide significant value to customers.

**Conclusion**

PacifiCorp was presented with a unique time-limited opportunity to provide significant value to customers by incorporating an additional resource at an attractive price that will generate significant customer benefits even when applying conservative price-policy assumptions. PacifiCorp has prudently and appropriately pursued this opportunity, which requires executing the agreements and developing the Pryor Mountain Wind Project in a time frame that could not have been achieved through a RFP process. The Pryor Mountain Wind Project agreements will deliver significant net benefits and are of a unique value for customers.