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June 19, 2008

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

Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
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Attn: Vickie Bailey-Goggins
Regulatory and Technical Support

RE: UM 1368- In the Matter of PacifiCorp, dba Pacific Power Request for Approval
of a 2008R-1 Solicitation Process for New Renewable Resources

PacifiCorp, d.b.a. Pacific Power, hereby submits for filing the Company's Comments in
the above-referenced matter.

Informal inquiries may be directed to Joelle Steward at (503) 813-5542.

Very truly yours,

Andrea L. Kelly
Vice President, Regulation

Enclosures

cc: UM 1368 Service List

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of June, 2008, I caused to be served, via E-Mail and US Mail (to those parties who have not waived paper service), a true and correct copy of the foregoing document on the following named person(s) at his or her last-known address(es) indicated below.

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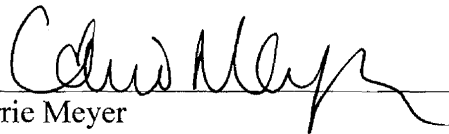
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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1368

In the Matter of PacifiCorp's Request for
Approval of a 2008R-1 Solicitation
Process for New Renewable Resources

COMMENTS OF PACIFIC POWER

1 Pursuant to Administrative Law Judge Kirkpatrick's May 9, 2008 ruling adopting a
2 schedule for this docket, PacifiCorp, d.b.a. Pacific Power ("PacifiCorp" or "Company")
3 respectfully submits comments in response to comments submitted by other parties on June
4 12, 2008. The Public Utility Commission of Oregon ("Commission") Staff ("Staff") and
5 Renewable Northwest Project ("RNP") submitted comments on the Company's draft
6 2008R-1 renewable resource Request for Proposals ("2008R-1 RFP").

7 **I. Reply to Staff's Comments**

8 In its opening comments, Staff includes initial recommendations regarding the
9 2008R-1 RFP. The Company provides the following in response to those recommendations:

10 **Staff Recommendation 1**

11 PacifiCorp's proposal to establish an RFP process for renewable resources that
12 enables the Company to call for new bidders or updated bids on an as needed basis to provide
13 flexibility in the procurement process should be approved, subject to the conditions below
14 and with a requirement that PacifiCorp file for approval on an expedited basis all requests for
15 new bidders or substantive RFP amendments.

16 **Company Response**

17 If the Commission approves the 2008R-1 RFP, the Company should be allowed to
18 use the form and process associated with the approved 2008R-1 RFP to solicit bids from the

1 market without the need for further approval. Following this process, PacifiCorp would
2 notify the Commission of its intent to re-issue an “update” to the approved 2008R-1 RFP and
3 provide the detail associated with such updates. However, should the Commission determine
4 that the updates are substantive modifications that require further Commission action, then
5 PacifiCorp agrees that adoption of an expedited review process would be appropriate.

6 **Staff Recommendation 2**

7 PacifiCorp must submit its detailed initial short-list scoring and weighting criteria
8 with the Commission, for review by staff and the Oregon Independent Evaluator (“Oregon
9 IE”), no later than one day before bidder responses are due. Specifically, the Company must
10 provide the methodology for translating each bid’s initial price score – percent of forward
11 price curve – into a score that can be blended with the non-price score. Further, the detailed
12 scoring must show how the Company will award points for the non-price factors within each
13 category.

14 **Company Response**

15 The Company agrees with Staff Recommendation 2 and will modify the 2008R-1
16 RFP to note that one day prior to the bidders’ responses being due, PacifiCorp will provide
17 the methodology for translating each bid’s initial price score into a score that can be blended
18 with the non-price score. Additionally, the Company will provide detailed scoring
19 information showing how the Company will award points for the non-price factors within
20 each category.

21 **Staff Recommendation 3**

22 Prior to the receipt of market bids, the Company must submit the detailed score for
23 benchmark resources, with supporting cost information, pursuant to Guideline 8.

24 **Company Response**

1 The Company agrees with Staff Recommendation 3 and will modify the 2008R-1
2 RFP to include language indicating that PacifiCorp will submit the detailed score for the
3 benchmark resources with the supporting cost information pursuant to Guideline 8.

4 **Staff Recommendation 4**

5 PacifiCorp must specify in the RFP the maximum quantities of bids that will be
6 included on the initial and final short-lists.

7 **Company Response**

8 The Company agrees with Staff Recommendation 4 and will modify the 2008R-1
9 RFP to specify the maximum quantities of bids that will be included in the initial and final
10 shortlists.

11 **Staff Recommendation 5**

12 No later than two weeks prior to the receipt of market bids, the Company must notify
13 the market regarding the specific site and size of any benchmark resources. The Commission
14 should clarify in its order in this proceeding whether a utility should disclose to the market
15 additional information on benchmark resources.

16 **Company Response**

17 The Company is concerned that Staff Recommendation 5 may result in biased bids
18 and does not adequately address the recovery of costs associated with a benchmark resource
19 that the Company expends in advance on long lead-time equipment. If desired by the
20 Commission, PacifiCorp will modify the 2008R-1 RFP to include notification to the market
21 regarding the specific site and size of any benchmark no later than two weeks prior to the
22 receipt of market bids. The Company, however, cautions the Commission that a wind project
23 bidder, armed with the knowledge of location and size, can reasonably be expected to bid
24 based on an estimate of the cost to construct, own, and operate a project of that size at that

1 location, and therefore, not based on a bidder's own project's fundamental cost with a
2 reasonable unregulated return.

3 **Staff Recommendation 6**

4 PacifiCorp must include in final short-list modeling the resources under consideration
5 in Docket Nos. UM 1374 and UM 1208 unless the subject resources are no longer viable at
6 that time.

7 **Company Response**

8 The Company will include any viable resources under consideration, to the extent
9 they have been selected and are in negotiations, in the final shortlist modeling in the 2008R-1
10 RFP.

11 **Staff Recommendation 7**

12 PacifiCorp must modify the RFP to allow Qualifying Facilities larger than 10 MW to
13 participate.

14 **Company Response**

15 The Company agrees with Staff Recommendation 7 and will modify the 2008R-1
16 RFP to allow Qualifying Facilities with a nameplate capacity greater than 10MW to
17 participate.

18 **Staff Recommendation 8**

19 PacifiCorp must modify the RFP to remove from "Reasons for rejection of a Bidder
20 or its bid" the following: "The transaction results in a third party owned asset being
21 consolidated on PacifiCorp's balance sheet." The company may consider direct and indirect
22 debt associated with bids on the final short-list, consistent with Guideline 9c.

23 **Company Response**

24 The Company is concerned that Staff Recommendation 8 does not adequately address

1 if the Company will be able to establish a regulatory asset for such debt being consolidated
2 on its balance sheet and recommends that the Commission provide guidance to the Company
3 if the cost associated with such debt is recoverable. PacifiCorp will modify the 2008R-1 RFP
4 to delete the following language from the section entitled “Reasons for rejection of a Bidder
5 or its bid” of the 2008R-1 RFP: “The transaction results in a third party owned asset being
6 consolidated on PacifiCorp’s balance sheet.”

7 **Staff Recommendation 9**

8 PacifiCorp must modify Section 9.6 of the pro forma power purchase agreement to
9 remove the requirement that the “Seller shall be the WREGIS Qualified Reporting Entity.”

10 **Company Response**

11 The Company will modify Section 9.6 of the pro forma power purchase agreement to
12 read as follows: “PacifiCorp shall have the right upon notice to Seller to perform the
13 Qualified Reporting Entity functions for the Facility.”

14 **Staff Recommendation 10**

15 PacifiCorp must explore with Staff and the Oregon IE use of a capped success fee
16 that assists in the recovery of IE costs. PacifiCorp must determine whether such an approach
17 is allowed under competitive solicitation requirements in other states. If allowed, the
18 Company must develop a success fee approach with the Oregon IE and solicit feedback on
19 the approach from potential bidders prior to implementation.

20 **Company Response**

21 At the Bidders and Stakeholder conference held on June 9, 2008, the Company
22 requested comments from the potential bidders and the Oregon IE on the success fee
23 approach. The Company will continue to work with the Oregon IE to determine if the success
24 fee approach is feasible from a market perspective. Once a structure is deemed viable, then

1 PacifiCorp will determine feasibility of implementation under the Multi-State Process
2 Revised Protocol.

3 **Staff Recommendation 13, items a. through p.**

4 On page 17 of its comments, Staff recommends the Oregon IE explore several issues
5 regarding draft RFP design.

6 **Company Response**

7 The Company intends to work closely with the Oregon IE on the items contained in
8 Staff Recommendation 13 and incorporate any necessary and reasonable modifications in the
9 2008R-1 RFP that are of benefit to customers and Company. The Oregon IE has indicated it
10 will be providing a redline of the draft RFP for the Company's review shortly and the
11 Company intends to schedule a meeting with the Oregon IE to review any additional
12 modifications to the RFP once the redline is reviewed.

13 **II. Reply to RNP's Comments**

14 RNP provided comments on several areas of the 2008R-1 RFP, including the
15 potential for bias, capacity contribution of renewable resources, energy storage, scoring and
16 RFP cancellation. PacifiCorp responds to the RNP's comments as follows:

17 **1. Potential for Bias**

18 RNP provided comments on its potential concern for bias between the Company's
19 treatment of the benchmark and build own transfer in the RFP process. RNP indicates that
20 there appears to be built-in advantages for benchmarks and ownership options vs. power
21 purchase agreements in the areas of performance, performance guarantee requirements; and
22 the potential production tax cost risk.

23 **Company Response:**

24 The Company recognizes that there is a difference in performance-based contracts

1 and company-owned assets. However, this difference reflects the traditional cost of service
2 regulation which only allows the Company to recover in rates its actual, prudently- incurred
3 costs at its allowed rate of return. As a result, if the assumptions in the RFP provide a benefit
4 that is higher than what was assumed in the RFP analysis on a company benchmark or build-
5 own-transfer project, the Company would not be entitled to seek recovery of the additional
6 benefits. However, if the cost exceeds the assumptions that are in the original RFP analysis
7 the Company is then required to demonstrate that those costs are prudent in order to seek
8 recovery of any additional costs. See e.g. Order 06-446 at 13.

9 RNP also indicates that the benchmark has an advantage to deliver to specific points
10 on the PacifiCorp system.

11 **Company Response:**

12 The Company has no such advantage. Bidders can develop and permit projects
13 within the same footprint as the Company. If a bidder chooses to develop outside the
14 Company's footprint, that is the bidder's choice.

15 **2. Purchase option at the end of the Term of the Project**

16 RNP comments that it has concerns with the purchase option at the end of the Term
17 of the Project and that it may increase the power purchase price.

18 **Company response:**

19 The Company's benchmark or build-own-transfer bids will result in the Company's
20 ownership. The purchase option in the power purchase agreement aligns the power purchase
21 agreement with the Company's alternatives. The Company does not believe that, in its
22 comments, RNP has adequately accounted for: (i) the market risk to Customers when a
23 power purchase agreement terminates; (ii) the market risk to Customers when a series of
24 power purchase agreements terminate in or around the same point in time and customers are

1 even further exposed to the then-current market; or (iii) the value to customers of asset
2 ownership at the end of the asset's initial life.

3 **3. Accounting Treatment**

4 RNP expressed concern over Section 5(I) of the 2008R-1 RFP, regarding assumption
5 of risk for accounting treatment.

6 **Company Response:**

7 The Company will work with the Oregon IE further assess the risks raised by RNP
8 regarding the assumption of risk associated with accounting treatment.

9 **4. Capacity Contribution of Renewable Resources**

10 RNP believes the bid scoring methodology does not contain an explicit way to
11 analyze a renewable resource's ability to contribute to meeting peak load and suggests the
12 use of the z-methodology.

13 **Company Response:**

14 The Company Avoided Compliance Cost ("ACC") methodology incorporates the z-
15 methodology in the preferred portfolio. The Integrated Resource Plan ("IRP")
16 establishes the preferred portfolio which is then used in the ACC method. The Company will
17 model its final shortlist using the ACC method. The proposals are evaluated against the IRP
18 preferred portfolio which uses the z-methodology to determine the capacity contribution to
19 the overall preferred portfolio. The value of incremental renewable resources from the
20 2008R-1 RFP will use the IRP avoided cost method to determine the final short listed
21 project(s). The IRP Planning and Risk ("PaR") model is run using the then-current IRP
22 preferred portfolio, or if applicable, the IRP preferred portfolio as modified by the
23 Company's then-current business plan. The model is run again with uncommitted renewable
24 resources removed from the portfolio. The net increase in monthly energy costs per

1 megawatt-hour in the second run represents the benefit of an incremental renewable resource
2 in each month. A cost/benefit analysis is performed. The energy benefit of a specific resource
3 is calculated based on forecasted generation levels and the IRP avoided cost per megawatt-
4 hour. This benefit is compared to the resource's costs and any other benefits (tax credits, for
5 example), excluding the potential benefit of renewable energy attributes. The ACC is
6 calculated. Another benefit is calculated, such that when it is included in the cost/benefit
7 analysis, the resource has a neutral impact on ratepayers (\$0 net present value revenue
8 requirement). This benefit, expressed in dollars per megawatt-hour, is the ACC, a measure of
9 the breakeven value of the resource's environmental attributes. The ACC reflects a
10 resource's value relative to the uncommitted renewable resources assumed in the IRP. A
11 negative ACC value suggests the resource compares favorably, while a positive value
12 suggests that the resource needs to be evaluated in the context of renewable portfolio
13 standard compliance.

14 **5. Energy Storage**

15 RNP states that the energy storage provision does not follow the purpose of the
16 2008R-1 RFP and suggests that the provision be deleted.

17 **Company Response:**

18 The Company is interested in feedback from the Oregon IE and other parties on this
19 issue. The Company is reluctant to remove this aspect of the RFP as it does not want to
20 arbitrarily remove the opportunity for customers if a bidder has the ability to provide storage
21 itself or via a third party. Some bidders operate a sophisticated portfolio of assets and/or have
22 a sophisticated presence in the wholesale power market and may be able to effectuate such
23 services for the benefit of the Company's customers.

24 **6. Cancellation of RFP**

1 RNP expresses concern over PacifiCorp's reservation of the right to cancel the
2 2008R-1 RFP without substituting another RFP.

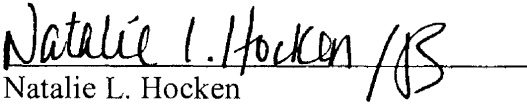
3 **Company Response:**

4 The Company will continue to solicit renewable resources through competitive
5 processes. The Company needs to preserve its right to cancel and or replace the 2008R-1 if it
6 determines it is prudent and in the best interest of customers. It is the Company's experience
7 that a reservation of a company's right to cancel an RFP is standard practice in competitive
8 procurement processes. The ability to cancel an RFP for a utility is even more critical in
9 order to manage risk to customers and the Company. Immediate replacement of a canceled
10 RFP may not be in the best interest of customers or the Company and therefore, cancellation
11 of an RFP should not be tied to immediate replacement.

12 The Company understands the importance of developing a transparent and fair
13 process consistent with the Commission's RFP Guidelines and believes the draft 2008R-1
14 RFP accomplishes these goals. The Company appreciates the comments provided by parties
15 to date and looks forward to receiving the IE's assessment of the draft 2008R-1 RFP.

DATED: June 19, 2008

Respectfully submitted,


Natalie L. Hocken
Vice President & General Counsel,
Pacific Power

Counsel for PacifiCorp