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GENERAL COUNSEL DIVISION

November 12, 2008

Mike Grant
Administrative Law Judge
Public Utility Commission of Oregon
550 Capitol St NE – Suite 215
PO Box 2148
Salem OR 97308-2148

Re: UM 1368 – Submission from the Oregon Independent Evaluators - Boston Pacific
Comments on PacifiCorp's Final 2008R-1 RFP

Dear Judge Grant:

Enclosed with this letter is a document that staff is submitting in PUC Docket UM 1368 on behalf of the Oregon Independent Evaluators (Boston Pacific). Boston Pacific's document entitled, "Comments on PacifiCorp's Final 2008R-1 RFP," is a public document that contains no confidential or highly-confidential information, although a Memorandum dated July 24, 2008 is labeled confidential, Boston Pacific has assured us that it not a confidential matter. Please note that I am serving this document on the UM 1368 parties via electronic mail only.

Sincerely,

Michael T. Weirich
Assistant Attorney General
Regulated Utility & Business Section

MTW:nal/#11455292

Enclosures

C: All parties by email only w/o enc.

MEMORANDUM

November 7, 2008

TO: Lisa Schwartz
Oregon PUC

FROM: Frank Mossburg
Andrew Gisselquist

SUBJECT: Comments on PacifiCorp's Final 2008R-1 RFP

BACKGROUND

On March 4, 2008, PacifiCorp filed an application with the Public Utility Commission of Oregon (Commission) for a solicitation for renewable resources. PacifiCorp filed an initial draft RFP on April 28, 2008. Subsequent to comments by Staff, Boston Pacific as the Independent Evaluator, and Interveners, PacifiCorp filed a revised RFP on July 28, 2008. Following further comments, on September 15, 2008 PacifiCorp submitted a letter detailing proposed changes to be made to the RFP on outstanding issues. On September 23, 2008, in Order 08-476, the Commission approved with specified conditions PacifiCorp's RFP as revised on July 28, 2008. The purpose of this memorandum is to (a) show how the final RFP, issued to the market on October 6, 2008, meets each condition in Order No. 08-476, (b) show how the final RFP addresses other issues the Oregon IE raised in comments to the Commission and the Company, and (c) provide the IE's review of other changes in the RFP, compared to the July 28, 2008 version approved by the Commission with conditions.

HOW THE FINAL RFP MEETS THE COMMISSION'S CONDITIONS

In Order No. 08-476, the Commission approved the July 28, 2008 RFP filed by PacifiCorp with conditions. Below we list the Commission's 11 conditions in bold. We then show how each is or is not met in the Final RFP. For most of the conditions we do this by providing an italicized quote directly from the Final RFP to show adherence to the Commission's Order.

- 1. Pacific Power must remove the provision in the pro forma power purchase agreement giving Pacific Power the right to acquire the facility at the end of the contract term or upon termination.**

(Appendix E, Power Purchase Agreement, p. 27-28) *5.6 Purchase Option. (SECTION 5.6 IS APPLICABLE ONLY IF SELLER ELECTS TO OFFER A PURCHASE OPTION) On the last day of the Term, PacifiCorp shall have the option to purchase the Facility and all rights of Seller therein or relating thereto, for _____.* Such option

shall be exercised by notice from PacifiCorp to Seller provided no less than 30 days prior to the last day of the Term. Seller covenants that in the event PacifiCorp provides such notice of its exercise of this purchase option, that Seller shall sell, transfer, assign and convey to PacifiCorp all of the Facility, Wind Turbines and Wind Turbine Equipment and all rights of Seller therein or relating thereto, free and clear of all liens, claims, encumbrances, or rights of others arising through Seller on the last day of the Term, including good and valid title to the Facility and Seller's rights in the Premises. In connection with such sale, transfer, assignment and conveyance, Seller shall (a) assign or otherwise make available, to the extent permitted by Requirements of Law and not already assigned or otherwise transferred to PacifiCorp, Seller's interest in all material Required Facility Documents and licenses, permits approvals and consents of any Governmental Authorities or other Persons that are then in effect and that are utilized for the operation or maintenance of the Facility; (b) cooperate with all reasonable requests of PacifiCorp for purposes of obtaining or making, or enabling PacifiCorp to obtain or make, any and all material Permits and licenses, permits, approvals and consents of any Governmental Authorities or other persons that are or will be required to be obtained by PacifiCorp in connection with the use, occupancy, operation or maintenance of the Facility or the Premises in compliance with Requirements of Law; (c) provide PacifiCorp copies of all documents, instruments, plans, maps, specifications, manuals, drawings and other documentary materials relating to the installation, maintenance, operation, construction, design, modification and repair of the Facility, as shall be in the Seller's possession and shall be reasonably appropriate or necessary for the continued operation of the Facility. Seller shall not take any action during the Term that would inhibit Seller's ability to comply with this provision.

PacifiCorp has removed the section of the PPA that gave it the right to acquire the facility at the end of the contract term or upon termination. That section has been replaced with the above text providing bidders the option of offering PacifiCorp a purchase option at a price of the bidder's choosing. This meets the Commission's condition 1.

Note that while Boston Pacific sees the above as acceptable as contract language, we think it unlikely that sellers will enter a specific price for which PacifiCorp may purchase the facility. Rather, it is more likely that sellers will treat this as an opportunity to price the asset at that time at either salvage value or "fair market value" to be determined at the end of term.

2. Pacific Power's Benchmark Resources must be subject to the same standard as bids for demonstrating a contract to purchase major equipment and a process to adequately acquire other equipment with a long lead-time.

The RFP requires bidders to demonstrate a contract to purchase major equipment and a process to adequately acquire other equipment with a long lead-time.

(RFP p. 14) *Bidders may be disqualified for failure to comply with the RFP if any of the requirements are not met. To the extent proposals do not comply with these requirements they will be deemed ineligible and will not be considered for further evaluation. Reasons for rejection of a Bidder or its bid include:*

... j) Failure to demonstrate a contract to purchase major equipment (i.e., wind turbines) and a process to adequately acquire other critical long lead time equipment.

PacifiCorp clarified this issue in the online Q&A on its website.

Question 9:

A bidder who was on the phone wanted clarification on the level of access to/security of turbines necessary to submit a bid. For example a must the TSA be signed? In negotiation?

Answer to Question 9:

Yes, turbines are necessary to submit a bid. On page 9 of the RFP it states the following: PacifiCorp will evaluate the proposals based on cost effective economics, a viable implementation schedule, verifiable major equipment availability (such as wind turbines or other long lead- time equipment), appropriate ability to provide security for the Bidders proposed obligations, transmission and interconnection status, and conformance to the pro forma contracts attached as Appendices to this RFP. This means that the bidder must have turbines and be able to demonstrate that they have turbines.

PacifiCorp had stated that it will hold itself to the same standard to demonstrate a contractual right to purchase long lead-time equipment.

(Letter of PacifiCorp, September 15, 2008, p. 1) *Second, Staff and the IE questioned the requirement that bidders demonstrate a contractual right to purchase long lead-time equipment because the same requirement would not apply to PacifiCorp. PacifiCorp proposes to extend the requirement to demonstrate a contractual right to purchase long lead-time equipment to PacifiCorp and PacifiCorp will file a request for an accounting order. The Commission granted a similar accounting order to Portland General Electric for wind turbine reservation costs. See Docket No. UM 1323, Order No. 07-451.*

Note also that while there is no specific mention in the RFP of benchmarks being held to the same standard on long lead-time equipment as are other bids, this issue is moot as PacifiCorp has made clear its intention not to file benchmarks. (See p. 7, 2008R-1 Renewable Request for Proposals Bid Conference, October 23, 2008, Attached)

3. Unless the federal production tax credit for renewable resources is extended through 2011 prior to RFP issuance, Pacific Power must require bidders to provide two sets of prices—one assuming the federal production tax credit will continue and another assuming it will not. Pacific Power must submit

estimated costs for its Benchmark Resources in the same manner and evaluate bids and Benchmark Resources under both assumptions.

(RFP p. 24-25) For projects with online dates in years in which the federal production tax credit has not been extended for the Bidder's resource type, Bidders and Benchmarks must provide pricing information with and without the production tax credits extended through the end of the calendar year in which the proposed project will reach commercial operation.

While PacifiCorp requests bidders to submit with and without production tax credit (PTC) pricing if the bid will come online at a time for which PTC extension is uncertain, it is not expressly stated in the RFP that bids will be evaluated using both of the with and without PTC prices. Boston Pacific is assuming that such bid evaluation will actually take place. PacifiCorp further stated in its September 15, 2008 letter that separate evaluations will be completed using bid prices computed with and without the PTC. Bids with online dates for which the PTC has been extended will not have to submit with and without PTC pricing and these bids will be evaluated only as if PTC pricing will be in place.

(PacifiCorp letter, September 15, 2008, p. 2) PacifiCorp will also modify the evaluation process to include an evaluation of bids with and without the PTC.

Additionally, p. 13 of the PacifiCorp 2008R-1 Renewable Request for Proposals Bid Conference October 23, 2008 presentation makes clear that "Bidders must included [sic] pricing with and without extension of the Production Tax Credits post 2009".

Finally, note that the 'Emergency Economic Stabilization Act of 2008', signed into law on October 3, 2008, did extend various tax credits for renewable energy generation. Federal production tax credits were extended until January 1, 2010 for wind and refined coal facilities. The federal production tax credits were extended until January 1, 2011 for closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, landfill gas, trash combustion, qualified hydropower, and marine and hydrokinetic renewable energy facilities.

4. If short-listed bids have positive Alternative Cost of Compliance values, Pacific Power must perform additional analysis to assess the market value of renewable energy credits, compliance with RPS requirements, and potential regulation of carbon dioxide emissions, consistent with the Company's acknowledged 2007 IRP.

(RFP, p. 33) If Initial Shortlist bids result in a positive ACC value, the Company will perform additional analysis to assess the market value of renewable energy credits, compliance with renewable portfolio standard requirements, and potential regulation of carbon dioxide emissions, consistent with the Company's acknowledged 2007 IRP.

The RFP complies with Condition 4. Note that the use of the term “Initial Shortlist” may be incorrect, as it is only in the Final Shortlist stage that the ACC method will be applied and that this additional analysis may take place. This view is supported by page 19 of the Company’s pre-bid presentation as well as the fact that the discussion, excerpted above occurs in the section of the RFP that discusses the Final Shortlist.

Finally, though it is not clear in the RFP, we assume that the additional analysis, if carried out, will be applied to all bids regardless of whether the bid had a positive or negative ACC value. To do otherwise would be to give a bonus to those bids that had a positive ACC value.

5. Pacific Power must reflect the incremental value of capacity in its evaluation. Incremental capacity value means the difference between: a) the capacity value reflected in the Avoided Cost of Compliance method based on the IRP proxy wind resources; and b) Bids that have a high capacity factor (geothermal and biomass), bids that are solar resources, and wind bids or Benchmark Resources that have higher capacity values due to locational advantages. The RFP must describe the methodology Pacific Power will use to determine the incremental capacity value. The Oregon IE should advise the Commission whether the Company’s methodology appropriately accounts for this value.

(RFP, p. 33) Within the evaluation, bids will be assigned extra value for expected capacity contributions over and above the generic proxy resources in the Company's IRP which are being replaced by the bids. The capacity value will be determined by first calculating the difference in capacity contribution between a) the bidder's resource and b) an IRP proxy resource of the same size. This incremental capacity contribution will then be multiplied by the annual carrying cost of a new simple-cycle combustion turbine. Incremental capacity will be assessed for all resources, including geothermal, biomass, solar and wind resources.

The RFP complies with Condition 5. Boston Pacific believes that the methodology described herein for valuing extra capacity value is, generally, acceptable. We will be monitoring the actual calculations performed when PacifiCorp evaluates such capacity value for specific bids, including the assumptions made about the capacity factors of specific bids and the annual carrying cost of a new simple-cycle combustion turbine, and will advise the Commission whether such calculations are appropriate.

Boston Pacific has had discussions with the Company on a couple of occasions concerning how to value capacity. We presented our thoughts in a memo to the Company (see attached) in July. We also provided a draft of the language above for inclusion in the RFP. Beyond these interactions we have not discussed this topic with PacifiCorp any further.

6. Pacific Power must file for approval all requests for new bidders or substantive RFP amendments. Filings will be treated on an expedited basis upon request.

(PacifiCorp letter, September 15, 2008, p. 2) Sixth, Staff requested that if PacifiCorp reissues the 2008R-1 RFP in subsequent years that PacifiCorp re-file the updated 2008R-1 RFP for Commission approval on an expedited basis. In response, PacifiCorp proposes that it will agree to meet with Staff thirty days prior to any reissuance to determine if any of the changes are material. To the extent that Staff determines that the changes are material then PacifiCorp will refile with the Commission and seek approval on an expedited basis.

PacifiCorp has agreed to meet with Commission Staff thirty days prior to any reissuance of the RFP – a circumstance that will cover all requests for new bidders or substantive RFP amendments, as requested by condition 6. We note that it is important this meeting take place at least 30 days prior to the reissuance of an updated RFP 2008R-1 to give Staff and any IE sufficient time to review and assess any changes.

7. Pacific Power must adjust the submitted capital costs of Benchmark Resources for risk in the following manner:

- a. Establish with the Oregon IE the indexes and percentage split between the indexes.**
- b. Add to the expected mean escalation of the indexes the 95th percentile escalation adjusted for the probability of its occurrence.**
- c. Include the risk adjustment for the Benchmark Resources in the initial and final short-list evaluation, applying the agreed-upon escalator to 100 percent of the submitted capital costs—except to the extent the Company demonstrates it has purchased equipment at a fixed price and commits to using that equipment for the Benchmark Resources.**

(RFP, p. 26) Prior to the receipt of market bids, the Company will submit the detailed score of the Benchmark Resource(s) with supporting information to the Oregon IE and Oregon Staff. The Company will adjust the submitted capital costs of Benchmark Resource(s) for risk in the following manner:

- Establish with the Oregon IE the indices and percentage split between the indices*
- Add to the expected mean escalation of the indices the 95th percentile escalation adjusted for the probability of its occurrence*

- *Include the risk adjustment for the Benchmark Resource(s) in the final shortlist evaluation, applying the agreed-upon escalator to 100 percent of the submitted capital costs of the submitted capital costs- except to the extent the Company demonstrates it has purchased equipment at a fixed price and commits to using that equipment for the Benchmark Resources.*

The RFP complies with condition 7. Note that the question of adjusting Benchmark Resource capital costs appears to be moot as PacifiCorp has stated they will not submit a benchmark bid.

8. Pacific Power must modify Section 9.6 of the pro forma power purchase agreement to remove the requirement that the Seller must be the Western Renewable Energy Generation Information System Qualified Reporting Entity unless Pacific Power opts to provide this service.

(RFP, Attachment E, p. 41) 9.6 WREGIS Metering. PacifiCorp shall have the right upon notice to Seller to perform the Qualified Reporting Entity (as defined by WREGIS) functions for the Facility to implement all necessary generation information communications in WREGIS, and report generation information to WREGIS pursuant to a WREGIS-approved meter that is dedicated to the Facility and only the Facility.

Section 9.6, previously, required the seller to be the Western Renewable Energy Generation Information System (WREGIS) Qualified Reporting Entity (QRE) if PacifiCorp did not choose to take on that role. Section 9.6 of the PPA has been modified, as per condition 8, to remove the requirement that, unless PacifiCorp opts to provide the service, the Seller must be the WREGIS QRE. It is unclear what will happen if the seller cannot be or chooses not to be the QRE and the Company refuses the job. Presumably, a third party that meets the requirements in the WREGIS Operating Rules will have to be found to perform the role. Possible candidates include but are not limited to “balancing authorities, the interconnecting utility, scheduling coordinator, independent third-party meter reader, Generator Owner, or Generator Agent”. (WREGIS Operating Rules, p. 33)

9. Pacific Power must reduce the success fee to an amount commensurate with its contract with the Oregon IE.

(RFP, p. 10) A Success Fee will be charged to successful bid(s). The Success Fee will be assessed after the final amount of Bid Fees and the IE and Consultant costs are known, provided that in no event shall the Success Fee exceed \$300,000.00, plus escalation, per successful bid.

The RFP complies with condition 9.

10. RFP approval does not imply endorsement of any of the Company’s Benchmark Resources.

11. The Commission is neither approving the pro forma agreements included in the RFP in their entirety, nor endorsing any specific term therein.

The above two conditions are not mentioned in the RFP. This is acceptable as these conditions apply to the Commission's endorsements, not PacifiCorp.

HOW THE FINAL RFP ADDRESSES ISSUES THE OREGON IE RAISED IN COMMENTS TO THE COMMISSION AND THE COMPANY

Boston Pacific submitted three reports: an assessment of PacifiCorp's RFP design on July 3, 2008, further suggestions for RFP design on July 24, 2008, and supplemental comments on August 22, 2008. We list below comments from these reports that we believe deserve discussion and that were not discussed above.

Comments from our Reports

The Draft RFP allowed non-asset backed bids, with restrictions, and also had a prohibition against a bid which bundles wholesale market purchases with RECs. This prohibition meant that, in all likelihood, non-asset backed bids could not participate in this RFP. Boston Pacific recommended that PacifiCorp should either explicitly prohibit non-asset backed bids from participating or eliminate the prohibition against bundling wholesale market purchases with RECs, which is likely the only way in which these bids can participate. The following satisfies this recommendation.

(RFP, p. 14) Reasons for rejection of a Bidder or its bid include: ... r) Submission of a PPA that is not backed by an asset."

Boston Pacific also recommended that the requirement for maintaining Green-e certification of all RECs should be made optional. Such a requirement may prevent some facilities from bidding that would otherwise be eligible. The portion of the following section in bold was removed from the draft of Appendix E, Power Purchase Agreement. This satisfies our request.

*(RFP Appendix E, p. 25) Without limiting the generality of the foregoing, Seller shall, on or before the tenth (10th) day of each month, deliver to PacifiCorp a Green Tags Attestation and Bill of Sale in the form attached as Exhibit 4.5 for all Green Tags delivered to PacifiCorp hereunder in the preceding month, **along with any attestation that is then-current with the Center for Resource Solution's Green-e program.***

Boston Pacific also recommended that the RFP consider resource diversity in the initial shortlist to comply with the Commission's Competitive Bidding Guideline 9a. Though PacifiCorp is accounting for resource diversity by holding a separate RFP for renewables and inviting multiple technology types to bid, nevertheless, in order to more fully comply with this Guideline, Boston Pacific recommended that PacifiCorp should

create separate wind and non-wind categories for the initial shortlist. The following modification of the RFP satisfies our request.

(RFP, p. 19) There will be three Initial Shortlists in order to capture location resource diversity and the different sources of renewable resources. These three Initial Shortlists will comprise of 1) west wind resource(s), 2) east wind resource(s), and 3) all other renewable resource(s). If provided, up to 500 megawatts or 5 viable bids will be shortlist in each of the three Initial Shortlists. The three Initial Shortlist will then move to the Final Shortlist.

Boston Pacific noted that in order to be in compliance with Commission Competitive Bidding Guideline 6, PacifiCorp must provide a draft asset sale agreement. In the RFP PacifiCorp refers asset sale bidders to Attachment F, which consists of two documents, a Wind Development Asset Acquisition and Sales Agreement and a Balance of Plant Wind Energy Project Agreement. These are the same documents that BOT bidders must use. It appears that the Company wants asset sale bidders to use the Asset Acquisition and Sale Agreement. We presume that bidders will be able to mark up the document if it does not conform to their needs as an asset sale.

While most of the non-price categories were reasonably self-evident, Boston Pacific saw the descriptions given in the Draft RFP of these categories as lacking. Thus, Boston Pacific recommended that the Company should provide a few lines of description concerning what it will be looking for in each section. PacifiCorp asked for and Boston Pacific provided some definitions for and comments on these terms, chiefly in our July comments.

The difference between the two tables below, the first from the April 28, 2008 Draft RFP and the second from the October 6, 2008 Final RFP, as well as additional explanations on pages 31-33 of the October 6, 2008 Final RFP, satisfies this request. Also, note that additional options for scoring each non-price factor have been added. The original three weightings that bidders could receive of 0%, 50%, and 100% are now a more subtle five categories of possible weightings of 0%, 25%, 50%, 75%, and 100% in response to intervener suggestions.

CHART 4 – NON-PRICE FACTORS

Non-Price Factor	Non-Price Factor Weighting
Conformity to RFP requirements	6%
Conformity to pro forma PPA or BOT	6%
Status of project development	6%
Bidder's experience	6%
Performance guarantees	6%

CHART 4 – NON-PRICE FACTORS

Non-Price Factor	Non-Price Factor Weighting
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<p>1) Conformity to RFP requirements - has the bidder provided all the requirements pertaining to their proposals in Appendix B, C-1,C-2 or C-3, D and J</p>	<p>6%</p>
<p>2) Conformity to pro forma PPA,BOT or Asset Acquisition and Sale Agreement- has the bidder required any additions or deletions that impose additional costs and or risks to customers.</p>	<p>6%</p>
<p>3) Development and feasibility of proposal- Bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstration of sufficient detail regarding the quality of their environmental compliance plan and any environmental impact of each proposal consistent with the proposed technology. Bids must demonstrate that the project can be reasonably developed within the appropriate timeframe to meet the proposed in service date and with limited risk to the customers. Bids which have achieved commercial operation will be awarded percentage weight consistent with the risk associated with each non-price category. For example, an existing project will be awarded 100% of the percentage weight associated with the Critical Path Schedule.</p>	<p>6%</p>
<p>4) Site control and permitting - Bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstration of sufficient detail on the status of permitting, and site control. Bids which can demonstrate little or no risk associated with these criteria will be more highly valued</p>	<p>6%</p>
<p>5) Operational Viability - Bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstrate sufficient detail of their ability to comply with environmental permits and requirements and their operating experience with similar renewable projects and technology.</p>	<p>6%</p>

**PROVIDE THE IE'S REVIEW OF OTHER CHANGES IN THE RFP,
COMPARED TO THE JULY 28, 2008 VERSION APPROVED BY THE
COMMISSION WITH CONDITIONS**

The changes resulting from the Commission's Order No. 08-476 and the IE's recommendations account for most of the changes to the RFP between the April 28, 2008 and October 6, 2008 versions. These are discussed above. However, a few other substantial issues have occurred since the July 28, 2008 RFP was approved with conditions by the Commission.

Benchmark

In its 2008R-1 Renewable Request for Proposals Bid Conference October 23, 2008 presentation PacifiCorp announced that it will not be submitting a benchmark bid. (see p. 7, Attached). It is Boston Pacific's understanding that this decision is the result of indications that wind integration costs will be higher than previously expected. We are pleased that PacifiCorp chose to continue with the RFP rather than delay or cancel it as a result of these indications.

Wind Integration Costs

In its 2008R-1 Renewable Request for Proposals Bid Conference October 23, 2008 presentation PacifiCorp announced that it is reassessing wind integration costs. (see p. 8, Attached)

The Company is currently re-assessing the total cost associated with integrating intermittent resources, including costs associated with intra-hour deviations and/or system stability requirements:

- *PacifiCorp's most recent study was in the 2007 IRP*
 - *Total integration cost assumed to be \$5.10 per MW/h (2007\$)*
- *PGE has recently undertaking a similar study and BPA's upcoming rate case will also re-assess integration costs;*
 - *For example, PGE estimates an integration cost of \$13.50/MWh (2014\$)*

In discussions with Staff and the IE it was proposed that PacifiCorp, similar to what PGE did, gather an independent panel to review PacifiCorp's upcoming wind integration cost study. Boston Pacific has not heard anything more on this matter since. PacifiCorp is holding a workshop on transmission integration costs next week, but the workshop materials do not indicate that wind integration costs will be addressed. We would hope that the Company is making progress on this matter, since this could seriously impact the net benefits of wind resources.

We will continue to monitor this issue and would hope to review the study when it is published. To the extent that integration costs differ greatly from the Company's current estimates, or that independent review suggests a range of potential costs for integration, we may suggest sensitivity analyses be conducted to determine the effect of this cost update on bid selection.

Terminal Value

PacifiCorp is now going to hire a consultant to assess the "terminal value" for bids. See PacifiCorp's 2008R-1 Renewable Request for Proposals Bid Conference October 23, 2008 presentation, p. 20:

- *Residual or "terminal value" will be assessed during the final shortlist evaluation:*
 - *Value will be ascribed to power purchase agreement proposals where PacifiCorp has the option to purchase the asset at the end of the power purchase term,*
 - *Value will be ascribed to Build Own Transfer proposals,*
 - *Value will be ascribed to Asset Acquisition and Sale Agreement proposals where appropriate*
- *The Company is in the process of hiring a consultant who will provide a methodology to determine terminal value which will be used during the Final Shortlist*
 - *This methodology will be shared with the Independent Evaluator and the Consultant prior to receiving bids in response to 2008R-1 RFP*

Boston Pacific's recommendation on "terminal value" of plants is the same as in our August 22 Supplement Comments (p. 3):

While we agree that there is some end-of-life or salvage value to a renewable asset (typically from the site) it is extremely difficult to state this value with any certainty twenty years ahead of time. This is particularly true when the asset value is so dependent on legislation (such as the Production Tax Credit and Carbon Emissions legislation) to drive value. PacifiCorp states that the value is "substantial" but we again note that their original offer price was \$1. Furthermore, as Renewable Northwest Project (RNP) notes in their comments, site values are different depending on the nature of the permitting and lease agreements in the proposal.

The danger with this proposal is that it could improperly tilt the selection decision. If evaluators attach a significant salvage value to BOTs and Benchmarks we could end up selecting an asset that is more expensive over a twenty or twenty-five year period in the hope that we "guessed right" and that salvage values really are high. Because of this difficulty we think that the salvage value of BOTs and Benchmarks should only have a "tiebreaker" effect on the asset purchase decision. PPA bidders would, of

course, be free to offer asset purchase options if the wished, but these too would only have a “tiebreaker” effect.

As noted above, the Company’s pre-bid presentations maintain that the residual or terminal value of the project will be determined in the Final Shortlist. We presume this value will be added as a lump-sum to the project’s ACC benefit.

We will review how the selected consultant chooses to calculate terminal value, and, if necessary, comment on it in future reports. More importantly, we will look during the bid evaluation process to see whether this terminal value adder becomes a significant advantage to BOTs and sales of existing assets.

2008R-1
Renewable Request for Proposals
Bid Conference
October 23, 2008



Pacific Power | Rocky Mountain Power | PacifiCorp Energy

Agenda

- Overview
- Schedule for RFP 2008R-1
- Resource Requirements
- Overview of RFP 2008R-1
 - ▶ Bidder Fees
 - ▶ Delivery Points
 - ▶ Pricing input sheet
- Initial Shortlists
- Final Shortlists
- Residual or “Terminal Value”
- Credit Requirements

Overview

- RFP 2008R-1 was approved by the Oregon Public Utility Commission on September 23, 2008 (Order No. 08-476)
 - ▶ The Oregon PUC approved Boston Pacific as the Independent Evaluator
- Approval of the RFP 2008R-1 is not required in Utah
 - ▶ Utah Commission approved Merrimack as the consultant for the RFP 2008R-1
- PacifiCorp released the RFP to the market on October 6, 2008

Anticipated Schedule for RFP 2008R-1

<u>Event</u>	<u>Anticipated Date*</u>
RFP issued	October 6, 2008
RFP bid conference	October 23, 2008
Intent to Bid Forms due	November 3, 2008
Responses due	December 22, 2008
Evaluation complete	March 9, 2009
Oregon Commission acknowledgement of Final Shortlist	April 9, 2009
Bidder negotiation complete	June 30, 2009
PacifiCorp decision	July 9, 2009

* - Dates subject to change

Resource Requirements

- Up to a total of 500 MW of Renewable Resources with a limit of 300 MW per resource/project
- Renewable Resources are defined as:
An electric generation facility or generation capability or upgrade that becomes operational on or after January 1, 1995 that derives its energy from one or more of the following:
 - (A) wind energy;
 - (B) solar photovoltaic and solar thermal energy (i.e., concentrated solar);
 - (C) wave, tidal and ocean thermal energy;
 - (D) except for combustion of wood that has been treated with chemical preservatives such as creosote, pentachlorophenol or chromated copper arsenate, biomass and biomass byproducts, including
 - (I) organic human or animal waste;
 - (II) spent pulping liquor;
 - (III) forest or rangeland woody debris from harvesting or thinning conducted to improve forest or rangeland ecological health and to reduce wildfire risk;
 - (IV) agricultural residues;
 - (V) dedicated energy crops; and
 - (VI) landfill gas or biogas produced from organic matter, wastewater, anaerobic digesters or municipal solid waste;

Resource Requirements (cont)

(E) geothermal energy;

(F) certified low-impact hydro-electric energy with a nameplate capacity less than fifty megawatts, without regard to the date upon which the facility becomes operational, if the facility is certified as a low-impact hydroelectric facility on or after January 1, 1995, by a national certification organization;

(G) waste gas and waste heat capture or recovery;*

(H) efficiency upgrades to a hydroelectric facility, without regard to the date upon which the facility became operational, if the upgrades become operational on or after January 1, 1995;

(I) geothermal energy if located within the state of Utah, without regard to the date upon which the facility becomes operational; or

(J) hydroelectric energy if located within the state of Utah, without regard to the date upon which the facility becomes operational.

* PacifiCorp reserves the right to reject waste gas and waste heat capture or recovery

Overview of RFP 2008R-1

- Transaction Structures
 - (1) Power Purchase Agreement
 - with or without a Purchase Option
 - (2) Build Own Transfer
 - A Bidder may incorporate PacifiCorp-supplied turbines,
 - Turbine specifics will be provided to BOT Bidders who request them and execute a confidentiality agreement.

Note: turbines will not be held for a particular bidder and are subject to prior sale, assignment or other use
 - (3) Asset Acquisition and Sale Agreement
- The Company will not be submitting a Benchmark for use in 2008R-1

Overview of RFP 2008R-1

- The Company is currently re-assessing the total cost associated with integrating intermittent resources, including costs associated with intra-hour deviations and/or system stability requirements:
 - ▶ PacifiCorp's most recent study was in the 2007 IRP
 - Total integration cost assumed to be \$5.10 per MW/h (2007\$)
 - ▶ PGE has recently undertaking a similar study and BPA's upcoming rate case will also re-assess integration costs;
 - For example, PGE estimates an integration cost of \$13.50/MWh (2014\$)
 - ▶ Resources connected to third-party transmission providers will include integration costs per current and anticipated tariffs;

Overview of RFP 2008R-1 (cont)

- Delivery Points for the eastern and western control area
 - ▶ Eastern Control Area (PACE)
 - Salt Lake Valley
 - Mona 345 kV
 - Glen Canyon 230 kV
 - Nevada/Utah Border
 - Wyoming
 - Borah, Brady or Kinport if such resource is interconnected to PacifiCorp's Southwest Idaho electrical system near the Goshen 161 kV area.
 - ▶ Western Control Area (PACW)
 - Mid Columbia
 - Paul 500 kV
 - California Oregon Border
 - PACW System
 - Within the Western Control Area – The point of interconnection between the resource, or the electrical system to which the resource is connected, and PacifiCorp's transmission system.
 - Scheduled to the point (s) of interconnection between PacifiCorp's western control area and the Bonneville Power Administration or Portland General Electric such that transfer limitations are not exceeded. If the source located within the Bonneville the Bidder must show they have control area service from the resource to the delivery point.

Overview of RFP 2008R-1

- ▶ Relationship to RFP 2008R
 - RFP 2008R was issued on January 31, 2008 and is now closed
 - RFP 2008R-1 solicits online dates prior to December 31, 2011
 - RFP 2008R-1 will be evaluated incremental to the RFP 2008R

- ▶ Notice of Intent to Bid – Due November 3, 2008

- ▶ A resource in RFP 2008R-1 **must** be less than 300 MW but have an expected annual output of at least 25,000 MWhs per year

- ▶ PURPA Qualifying Facilities greater than 10MW are an exception and are eligible to participate

Overview of RFP 2008R-1 (cont)

- ▶ Proposed bidder fees
 - \$10,000 bid fee allows for one base proposal in addition to two alternatives
 - » Bidders will have the option of submitting up to three additional alternatives for a fee of \$1,000 per alternative
 - » Alternatives will be limited to different bid sizes, contract terms, in service dates, and/or pricing structures

- ▶ A Success Fee will be charged to successful bid(s).
 - The Success Fee will be assessed after the final amount of Bid Fees and the IE and Consultant costs are known, provided that in no event shall the Success Fee exceed \$300,000.00, plus escalation

Overview of RFP 2008R-1 (cont)

- Proposals which require third party transmission
 - If a third party transmission wheel is required in order to deliver to PacifiCorp's transmission system, the third party transmission details, including costs and availability, **must** be included in the proposal
- At this point in time and subject to the Independent Evaluator, the Company will manage the Q&A process, the documentation, amendments and or announcements
- All RFP 2008R-1 material and updates are currently located on PacifiCorp web site under: <http://www.pacificorp.com/Article/Article81264.html>
- Appendix K in the RFP 2008R-1 outlines the role and responsibility of the Independent Evaluator and the Consultant
- Appendix L provides the Company self-imposed code of conduct

Pricing Input Sheet

- The Form 1 Pricing Input Sheet is an interactive Excel spreadsheet
 - ▶ Provides critical inputs that will be used for the financial evaluation of each bid
 - ▶ It is critical to that bidders enter inputs by order of Field ID.
 - ▶ A Form 1 can be used for both the power purchase option, the build own transfer option, and the asset acquisition and sale option
 - ▶ The Pricing Input Sheet contains definitions which are cross-referenced by Field ID
 - ▶ Bidders must included pricing with and without extension of the Production Tax Credits post 2009
- An electronic version of the Pricing Input Sheet must be submitted for each bid or bid will be rejected and returned to the IE
 - ▶ To the extent that information does not conform to the Pricing Input Sheet, bidders are to supplement the additional information

Initial Shortlist

- There will be three Initial Shortlists to capture location resource diversity and the different sources of renewable resources
 - ▶ There will be three Initial Shortlists
 1. west wind resources,
 2. east wind resources, and
 3. all other renewable resources
 - ▶ If provided, up to 500 megawatts or 5 viable bids will shortlist into each of the three Initial Shortlists
 - ▶ The three Initial Shortlists will then move to the Final Shortlist for further analysis

Initial Shortlist Screening

– Step 1: Initial Shortlist Bid Evaluation - RFP Base Model

▶ PRICE FACTOR EVALUATION (UP TO 70%)

- PacifiCorp will utilize the RFP Base Model to screen the proposals and to evaluate and determine the price ranking
- Comparison Metric - The comparison metric will be the projected net present value revenue requirement (net PVRR) per kilowatt month (Net PVRR/kW-mo)
- The net PVRR component views the value of the energy and capacity as a positive, and the offsetting costs are negative
 - » The more positive the net PVRR, the more valuable a given resource is to PacifiCorp's customers
 - » The percentage range of 80% to 140% may be adjusted based on the bids received

Bid Cost Relative to Adjusted Price Curves	Price Factor Weighting
Less than or equal to 80% of adjusted price projections	70%
Greater than 80% of adjusted price projections but less than 140% of adjusted price curves	Linearly interpolated
Equal to or greater than 140% of the adjusted price projection	0%

Initial Shortlist Screening (cont)

- ▶ Non-price factor evaluation (UP TO 30%)
 - There are five non-price criteria
 - Each of the five non-price factor is weighted for a total of 6% each (for a total of 30%)
 - Each of the non price factors will be evaluated using point system - 1 through 5 (0%, 25%,50%,75%,100%)

- ▶ Non-Price Factors
 - 1)Conformity to RFP requirements - has the bidder provided all the requirements pertaining to their proposals in Appendix B, C-1,C-2 or C-3, D and J

 - 2)Conformity to pro forma PPA, BOT or Asset Acquisition and Sale Agreement- has the bidder required any additions or deletions that impose additional costs and or risks to customers

 - 3)Development and feasibility of proposal- Bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstration of sufficient detail
 - ▶ Bidders are required to provide
 - » an environmental compliance plan and any environmental impact of each proposal consistent with the proposed technology
 - » demonstrate that the project can be reasonably developed within the appropriate timeframe to meet the proposed in service date and with limited risk to the customers
 - » achieved commercial operation demonstrated with a critical path schedule

Initial Shortlist Screening (cont)

4) Site control and permitting - bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstration of sufficient detail on the status of permitting, and site control. Bids which can demonstrate little or no risk associated with these criteria will be more highly valued

5) Operational Viability - bids will be evaluated based on the quality of their proposal, their responsiveness to the information requested and demonstrate sufficient detail of their ability to comply with environmental permits and requirements and their operating experience with similar renewable projects and technology

- Bids will be evaluated based on their ability to demonstrate the proposal is thorough, comprehensive and provides limited risk to the customers prior to PacifiCorp performing due diligence on any given Bid
- Bids which have a demonstrated track record or are mature proposals will be more highly evaluated

Final Shortlist

– Step 2: Integrated Resource Plan – Final Shortlist

- ▶ The Company will use a production cost simulation system
- ▶ In determining the company's alternative, the Company first runs the production cost simulation system (the Planning and Risk, or PaR model) in stochastic mode using the then-current IRP preferred portfolio
- ▶ The PaR model is then run a second time with the uncommitted future renewable resources removed from the preferred portfolio
- ▶ The resulting production costs from this second model run reflect the market- and re dispatch-based energy costs incurred as a result of no longer adding renewable resources to the IRP preferred portfolio
- ▶ Next, other costs and benefits of the specific bid resource being considered are compared against the PaR model results. This comparison is in the form of a bid resource ACC value (“next highest Alternative Cost for Compliance”), which represents the resource cost, over the life of the project that yields a zero net PVRR difference with respect to the PaR model's market-based resource alternative

Final Shortlist (cont)

- ▶ The Company will evaluate the best 500 MW, which may include negative and positive ACC values
- ▶ If there are bids with positive ACC value, the Company may perform additional analysis to assess the market value of renewable energy credits, compliance with renewable portfolio standard requirements, and potential regulation of carbon dioxide emissions, consistent with the Company's acknowledged 2007 IRP
- ▶ Bids will be assigned extra value for expected capacity contributions over and above the generic proxy resources in the Company's IRP which are being replaced by the bids
- ▶ The capacity value will be determined by first calculating the difference in capacity contribution between a) the bidder's resource and b) the east or west side IRP proxy resource of the same size
- ▶ This incremental capacity contribution will then be multiplied by the annual carrying cost of a new simple-cycle combustion turbine
- ▶ Incremental capacity will be assessed for all resources, including geothermal, biomass, solar and wind resources

Residual Value

- Residual or “terminal value” will be assessed during the final shortlist evaluation:
 - Value will be ascribed to power purchase agreement proposals where PacifiCorp has the option to purchase the asset at the end of the power purchase term,
 - Value will be ascribed to Build Own Transfer proposals,
 - Value will be ascribed to Asset Acquisition and Sale Agreement proposals where appropriate

- The Company is in the process of hiring a consultant who will provide a methodology to determine terminal value which will be used during the Final Shortlist
 - ▶ This methodology will be shared with the Independent Evaluator and the Consultant prior to receiving bids in response to 2008R-1 RFP

Credit Requirements

- Credit Requirements will be determined by:
 - ▶ Credit quality of the Bidder or the entity providing credit assurances on behalf of the Bidder
 - ▶ Type of Resource Category and Transaction Type
 - Power Purchase Agreement, Build Own Transfer, or Asset Acquisition and Sale Agreement
 - Power Purchase Agreements which must be backed by an asset
 - Power Purchase Agreements may or may not include a purchase option
 - ▶ Size of Resource and the number of MW to be delivered (nameplate MW multiplied by the capacity factor)
 - ▶ Date the renewable resource comes online

- The Credit Matrix included in Appendix D displays the maximum value of credit assurances required based on the factors above
 - ▶ Credit assurances may be provided in the form of a parental guaranty, a letter of credit, or cash escrow
 - ▶ Commitment letters to provide credit assurances on behalf of the Bidder will be required 20 business days after the Bidder is selected for the Final Shortlist

Questions/Comments & Information Sources

RFP Questions and Answers
RFP2008R-1@PacifiCorp.com

PacifiCorp Transmission

Attention: Kenneth Houston, Director, Transmission Services
825 NE Multnomah, Suite 1600
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Kenneth.Houston@pacificorp.com

MEMORANDUM

July 24, 2008

TO: Stacey Kusters
PacifiCorp

FROM: Craig Roach
Frank Mossburg
Andrew Gisslequist

SUBJECT: Suggestions for 2008R-1 RFP Design

The purpose of this memo is to provide requested comments on specific aspects of the Company's 2008R-1 RFP design. Within the memo we suggest some possible improvements related to (a) capacity pricing and (b) non-price scoring issues. We note that the Company has also asked us about VIE treatment being triggered by a mandatory asset purchase offer. At this time we do not have anything further to add beyond what was put forth in our RFP Design report.

CAPACITY PRICING

Staff and the IE have raised concern that the proposed ACC method does not take into account capacity values. In our report we suggested that PacifiCorp devise some method for valuing capacity for this RFP. In our phone call on Monday, July 21, we clarified that this would yield two benefits (a) giving more benefit to schedulable resources such as geothermal or biomass facilities and (b) creating a more complete account of the value for all resources.

In order to assist in this effort we would make the following suggestion. First, PacifiCorp could assign a capacity amount to all resources based upon the methods used in the 2007 IRP. For wind resources, this would include a value based on location, as laid out in Appendix J of the 2007 IRP. Second, convert this capacity amount into a dollar value by multiplying the amount times the annual carrying cost for a new combustion turbine. This value, too, could come from the IRP, so as to be as transparent as possible. This calculation could be added into the ACC model for each month, discounted back to the present day, and divided by the net MWh, just like all other costs and benefits.

Note again that we would propose using this method for all resources, not just biomass and geothermal. While there will likely not be great difference in benefit for wind resources it is important to assign them some value for two

reasons. First, it more accurately reflects their true value. Second, it avoids over-valuing geothermal and biomass resources, which could happen if only these resources were assigned a capacity value.

NON-PRICE FACTORS

The Company has requested input from us regarding the non-price factors used in the scoring decision. Specifically, the Company was interested in further defining the non-price categories to make them clearer and also more specifically applicable to PPA, BOT or existing asset bidders.

We think that most of the categories are reasonably self-evident; however, the Company should provide a few lines of description concerning what it will be looking for in each section. For instance, for the “Status of project development” category the Company could state that it will award maximum points to projects which are operational and minimal points to projects which are only in the conceptual stage.

One category which we think may require some further distinction is that of “Bidder’s experience.” For a BOT, or a PPA supported by a new-build asset, we would be interested in the bidder’s experience in bringing on line the type of project which they are proposing. However, for an asset sale or a PPA from an existing asset, this experience is not relevant.

We would therefore suggest that the “Bidder’s experience” category be changed to “feasibility of proposal.” For new-build assets this could include consideration for items such as (a) bidders experience building the proposed type of project, (b) maturity of technology used, (c) reasonableness of proposed output, and (d) realism of project time frame. For existing assets this would refer to the feasibility of operational projections given the past performance of the asset and, if the bidder was proposing to operate the asset (i.e. offering a PPA), the bidder’s experience in plant operations.

One final area that could use some clarification is the Performance guarantee section. We think that it should be made clear that this category also includes price guarantees.

CERTIFICATE OF SERVICE

I certify that on November 12, 2008, I served the foregoing OIE submissions upon all parties of record in this proceeding by delivering a copy by electronic mail to:

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