ORDER NO. 08-376

ENTERED 07/17/08

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1374

In the Matter of	)	
	)	
PACIFICORP, dba PACIFIC POWER	)	ORDER
	)	
Petition for Waiver of the Commission's Competitive Bidding Guidelines.	))	

DISPOSITION: PETITION GRANTED

Order No. 06-446 (Docket No. UM 1182) requires electric utilities to issue a Request for Proposals (RFP) for Major Resources or request a waiver. On April 1, 2008, PacifiCorp, dba Pacific Power, filed a petition to waive the Commission's RFP requirement in order to acquire the 520-megawatt Chehalis generating plant in Washington state. Pacific Power seeks a waiver under Guideline 2a: "Acquisition of a Major Resource … where there is a time-limited resource opportunity of unique value to customers." A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on July 8, 2008, the Commission adopted Staff's recommendation, and approved Petitioners' request.

ORDER

IT IS ORDERED that Pacific Power's petition for waiver of the Commission's competitive bidding guidelines is approved.

Made, entered, and effective JUL 17 2008.

Lee Beyer Chairman	**John Savage** Commissioner
	Ray Baum Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 8, 2008

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** N/A

DATE: July 2, 2008

TO: Public Utility Commission

FROM: Lisa Schwartz LS

THROUGH: Lee Sparling and Ed Busch LS EB

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UM 1374) Petition for waiver of competitive bidding guidelines.

STAFF RECOMMENDATION:

I recommend the Commission approve PacifiCorp's petition for waiver of the competitive bidding guidelines.

DISCUSSION:

Order No. 06-446 (Docket UM 1182) requires electric utilities to issue a Request for Proposals (RFP) for Major Resources[1] or request a waiver. On April 1, 2008, PacifiCorp (the Company) filed a petition to waive the Commission's RFP requirement in order to acquire the 520-megawatt (MW) Chehalis generating plant in Washington state.[2] PacifiCorp seeks a waiver under Guideline 2a: "Acquisition of a Major Resource … where there is a time-limited resource opportunity of unique value to customers."[3]

Opening Comments
Staff filed opening comments on May 14, 2008, based solely on the confidential testimony filed by PacifiCorp. Staff had not yet reviewed responses to data requests or received parties' comments. Staff preliminarily recommended the Commission approve

[1] Resources 100 megawatts or larger and for a term of five years or more.
[2] In addition to the name of the plant, its size and location, the following information has been publicly disclosed and is no longer confidential: the parent of the plant owner (SUEZ Energy North America), the fuel source (natural gas), the approximate operational heat rate ("near 6,700 Btu/kWh"), the plant's interconnection with the Bonneville Power Administration transmission system and balancing authority area, and PacifiCorp's intention to use the flexibility of the plant in part to support its owned and purchased wind generation capacity. *See* PacifiCorp's June 30, 2008, letter to the Commission.
[3] *Id.* at 4.

PacifiCorp's petition based on the following initial conclusions:

- Acquisition of the Chehalis plant is a time-limited opportunity.
- The Chehalis plant appears to provide a better economic value to the Company's system and its Oregon customers than resources that might be available through current RFPs.
- Staff's review of PacifiCorp's 2008 "all source" RFP (Docket UM 1360) showed a system-wide resource deficit significantly larger than the Chehalis plant. Therefore, PacifiCorp would still need additional resources in future years that can be filled by successful bidders in the Company's 2012 and 2008 RFPs.

Staff pointed out that "... any Commission decision to waive the Competitive Bidding Guidelines offers no assurance to the utility of future cost recovery for any capital investment and other expenses associated with acquisition of the subject resource."[4]

Industrial Customers of Northwest Utilities (ICNU) did not take a position on whether the Commission should grant the waiver, but proposed that "...the Commission should not resolve any factual issues or set any precedent regarding ratemaking issues."[5] In support of this recommendation, ICNU stated that no party other than PacifiCorp had filed testimony, and the schedule does not anticipate evidentiary hearings or briefs. Therefore, ICNU argued, the Commission has insufficient evidence to make a factual finding that the resource is a time sensitive, unique opportunity for ratepayers or that the acquisition of the plant is prudent, in the public interest or constitutes a net benefit for ratepayers.

Instead, ICNU recommended PacifiCorp be required to prove in an evidentiary proceeding the factual issues that it claims are the grounds for seeking the waiver. Further, ICNU recommended any order granting the waiver conclude that parties may raise all factual and legal issues associated with the proposed acquisition in a future rate proceeding.

Northwest and Intermountain Power Producers (NIPPC) notes this is the first request for a waiver of the Commission's RFP requirement. Therefore, how the Commission evaluates the request is as important as its decision. NIPPC found the information in PacifiCorp's filing and workpapers insufficient for the Commission to decide whether the plant offers unique value to utility customers or whether the plant was necessarily a time-limited opportunity. In confidential comments, NIPPC addresses assumptions underlying PacifiCorp's economic analysis and raises several issues that NIPPC

[4] *See* Staff's Opening Comments at 2.
[5] *See* ICNU's Opening Comments at 3.

recommended be further investigated by the Independent Evaluator (IE) appointed by the Commission for PacifiCorp's ongoing RFPs.

PacifiCorp's Reply Comments and Staff's Response

In reply comments filed May 21, 2008, PacifiCorp objected to what it viewed as ICNU's proposal to reserve for a future prudence proceeding whether the acquisition of the Chehalis plant is time-sensitive or a unique opportunity for ratepayers. PacifiCorp also found fault with NIPPC's recommendation to conduct what the Company considered a "prudence review-like investigation during the waiver process."[6] However, PacifiCorp did not object to a limited review of PacifiCorp's and NIPPC's confidential testimony by the IE in order to advise staff on the issue of whether the resource is a time-limited opportunity of unique value to customers.

Staff agrees with PacifiCorp that the Commission will decide in this proceeding whether the Company has met the requisite conditions for acting outside of the RFP requirement. PacifiCorp is requesting the waiver under Guideline 2a, which specifies that the utility must demonstrate the acquisition is a time-limited resource opportunity of unique value to ratepayers. At the same time, the Commission is not making any ratemaking decisions when waiving an RFP requirement.[7] Therefore, in granting a waiver, the Commission is not determining the prudence of the acquisition or conveying any type of resource preapproval.

IE's Initial Analysis of the Waiver Request

Pursuant to NIPPC's recommendation, staff asked Boston Pacific Company to provide a limited review of PacifiCorp's proposed acquisition of the Chehalis plant in order to determine whether the acquisition is a time-limited resource opportunity of unique value to customers.[8] Specifically, staff requested that the IE review parties' testimony as well as PacifiCorp's responses to data requests and summarize the IE's findings in a report to the Commission. Staff filed the report on behalf of the IE subject to Special Protective Order No. 08-326.[9] A redacted version of this filing is Attachment A to this staff report. See confidential Attachment B for the complete non-redacted report.[10]

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[6] *See* PacifiCorp's May 21, 2008, Reply Comments at 7.
[7] *See* Order No. 06-446 at 5.
[8] Work is being performed in conjunction with Boston Pacific Company's contract for PacifiCorp's 2008 all source RFP (Docket UM 1360).
[9] Craig R. Roach, Frank Mossburg and Stuart Rein, Boston Pacific Company, Inc., "An Analysis of PacifiCorp's Waiver Request for the Chehalis Power Generating Plant," presented to the Oregon Public Utility Commission, June 18, 2008.
[10] Boston Pacific Company will be in attendance at the July 8, 2008, public meeting to provide a non-confidential summary of its findings and to answer any questions from Commissioners.

Boston Pacific Company approached its review by asking, "Is the offer presented here likely to be a better deal than ratepayers would get in an open procurement, specifically the 2008 All Source RFP?"[11] The IE used bids from the 2012 base load RFP (Docket UM 1208) to determine what might be reasonably expected from the next RFP and whether the Chehalis plant has "unique value."

The IE's report confirms that the purchase price of the Chehalis plant is significantly less than the capacity/capital cost offers in the 2012 RFP. To consider how potential cost disadvantages of the plant might offset its capital cost advantage, the IE reviewed the following key components of the proposed acquisition of the plant:

1. Timing of the purchase – The plant would be acquired almost four years in advance of the required on-line date for current thermal resource RFPs — in September 2008 instead of June 1, 2012. PacifiCorp's analysis shows that this early acquisition increases costs to ratepayers through 2011, compared to market purchases. However, the report also points out the distinction between modeling short-term vs. long-term estimated benefits of the transaction.[12]
2. Transmission – See confidential Attachment B for the IE's initial review of PacifiCorp's assumptions on transmission benefits of the planned acquisition. The IE reviews the additional information it requested in its supplemental report.
3. Natural gas prices – NIPPC points out that natural gas prices on the west side of the Company's system may be higher than on the east side, where facilities that bid into a future RFP may be located. The IE's report confirms that prices at the Huntingdon/Sumas hub, from which the Chehalis plant takes gas delivery, have been higher on average than prices at the Opal hub in the Rocky Mountain Basin over the 2001 to 2007 period. In its supplemental report, the IE reviews PacifiCorp's gas price assumptions in greater detail using additional information provided by the Company.
4. Heat rates - See Attachment B for the IE's comparison of heat rates for the Chehalis plant, new plants, and facilities that bid into the 2012 RFP.
5. Operating and maintenance costs – The IE finds PacifiCorp's assumed operation and maintenance (O&M) costs for the Chehalis plant reasonable, but asked the Company to provide actual historical O&M costs for the plant for review in the supplemental report.
6. Age of the plant – The IE finds that PacifiCorp appropriately accounted for the difference in expected life between the Chehalis plant and a new combined-cycle

[11] Boston Pacific Company, June 18, 2008, report at 1. The Commission approved the 2008 RFP at its May 20, 2008, public meeting. *See* Order No. 08-310. PacifiCorp has not yet issued the RFP. The Company has requested reconsideration of a portion of the Utah Commission's order on the RFP.
[12] *Id.* at 7.

plant using real levelized fixed costs. Regarding availability, the IE notes a major outage in 2006 and availability of 92 percent or higher in other years.

7. Dispatch patterns and location - See Attachment B for the IE's review of this issue.

PacifiCorp's preferred portfolio in its 2007 Integrated Resource Plan (IRP) includes an east-side, combined-cycle natural gas plant in 2012. The IE points out that the Company's analysis of the benefits of acquiring the Chehalis plant, compared to the 2012 east-side plant, is based on the Capacity Expansion Model and Planning and Risk (PaR) model used in the IRP.[13] The IE states the PaR model accounts for all seven items above by projecting optimal dispatch on PacifiCorp's system over time and assessing changes in natural gas prices, wholesale market prices for electricity, loads, thermal outages and hydroelectric generation levels.

The IE points out that the Chehalis purchase would lower risk to ratepayers compared to acquisition of a new-build facility by avoiding the risks inherent in new construction. The IE explains that construction prices are rising to such a degree that it is difficult for developers to obtain fixed quotes on key pieces of equipment. PacifiCorp's thermal resource RFPs address this by allowing bidders to index up to 40 percent of their capital costs to public cost indices.

The IE also included policy points for the Commission's consideration. Among them:

- The waiver request is not a substitute for a full prudence review. PacifiCorp agrees.[14] The IE states, "If PacifiCorp was found later in a prudence review to have been fundamentally wrong in its assessment of the offsetting costs we discussed above, that would weigh against prudence and cost recovery."[15]
- The waiver request indicates that future RFPs should be more accommodating in accepting offers from existing resources before the solicitation's stated on-line date.
- The waiver request will likely have a negative effect on future RFPs. If PacifiCorp receives the regulatory approvals it is seeking, the Company will acquire another owned resource. Further, that resource would have been selected outside of a competitive procurement.

The IE states, "...based on what we saw in the 2012 RFP, we cannot conclude that denying the waiver, in the hope of being able to select a better offer in the upcoming

[13] PacifiCorp also uses these models in evaluating bids and utility benchmark resources for its RFPs.
[14] *See* PacifiCorp's Reply Comments, May 21, 2008, at 2-5.
[15] Boston Pacific Company, June 18, 2008, report at 8.

RFP, is in the best interest of ratepayers."[16] The IE finds it reasonable for the Commission to grant the waiver request subject to the IE's review of, and supplemental report to the Commission, on the following:

- Detailed documentation on the transmission component of PacifiCorp's analysis
- Documentation on the price forecasts used to determine fuel costs for the Chehalis plant and the proxy combined-cycle plant to which it was compared, along with an explanation of how the Company developed the forecasts, including the trading hubs used and analysis of any price excursions
- Actual historical operation and maintenance (O&M) costs of the Chehalis plant, with an explanation of any difference between these costs and the assumptions PacifiCorp used in modeling in support of the waiver request
- An analysis of the transaction using the GRID model

PacifiCorp provided these items to the IE, and they are the subject of the supplemental report (confidential Attachment C).

The IE made the following additional recommendations:

- In future RFPs the Company should explicitly accommodate potential offers from existing assets with start dates prior to the identified need.
- PacifiCorp should be held, within some reasonable degree, to the assumptions it has made concerning the plant in a future prudence review as if it was offering a pay-for-performance PPA [power purchase agreement].[17]

Reply Comments
On June 24, 2008, ICNU filed comments responding to PacifiCorp's reply comments and the IE report. ICNU maintains that, if the Commission grants PacifiCorp's waiver request, the Company should not rely on that decision to demonstrate prudence in the future. ICNU generally agrees with many of the conclusions in the IE's report. ICNU raised concerns related to a GRID model run of the plant, which the IE had not yet reviewed, as well as an issue related to O&M costs. The IE addresses these issues in its supplemental report. The IE also notes that in the Utah Public Service Commission's proceeding on the Chehalis plant, the Utah IE examined the transaction in a similar manner as the Oregon IE. Further, because the Utah IE's review is in the context of *approval* of a significant energy resource decision, the Utah IE recommended the Company re-run its analysis for the 2012 RFP, including the Chehalis facility as if the

[16] *Id.* at 9.
[17] *Id.* at 10.

plant was bid into the RFP.[18] The facility performed well enough in the analysis to be selected for the final short-list. The IE found the acquisition of the resource a reasonable choice, pending verification of PacifiCorp's revisions to its analysis to address a minor modeling error.[19]

PacifiCorp's June 24, 2008, reply comments addressed the policy issues raised by the IE. PacifiCorp agrees that the waiver request is not a substitute for a full prudence review. However, PacifiCorp finds inappropriate in this proceeding the IE's recommendation on addressing cost recovery treatment as if the Company were being held to a pay-for-performance PPA. The Company also states that current ratemaking treatment does not allow for such an arrangement.

A similar issue arose in Docket UM 1360. In that proceeding, staff pointed out that the Commission's competitive bidding guidelines allow for affiliate bidding, which would provide a means to achieve a pay-for-performance PPA. Staff raised the issue of whether other states served by PacifiCorp would allow such ratemaking treatment. Further, staff believes this issue would be best addressed in a general review of the competitive bidding guidelines.[20]

Regarding the IE's recommendation that future resource solicitations better accommodate offers of existing facilities prior to the requested on-line date, PacifiCorp suggests this issue be addressed in proceedings where specific RFPs are considered. Staff will pursue the IE's recommendation in subsequent utility requests for RFP approval as well as any general proceeding where the Commission reviews its competitive bidding guidelines.

IE's Supplemental Report
On July 2, 2008, staff filed a supplemental report by Boston Pacific Company under the special protective order (confidential Attachment C). The supplemental report summarizes the IE's review of issues raised in ICNU's reply comments as well as information provided by PacifiCorp in response to the IE's June 18, 2008, report. The IE asked the Company for additional clarifications and explanations after reviewing the material.

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[18] The portfolio PacifiCorp used for this analysis (2008 Business Plan with no coal plants) was different than the 2007 IRP preferred portfolio the Company used for analyzing bids and benchmark resources (coal plants) for the 2012 RFP.
[19] Redacted Direct Testimony of Wayne Oliver, June 20, 2008, Utah Public Service Commission, In the Matter of the Request of Rocky Mountain Power for a Waiver of Solicitation Process and for Approval of Significant Energy Resource Decision (Docket No. 08-035-35). Available at: http://www.psc.utah.gov/utilities/electric/elecindx/0803535indx.html
[20] *See* Staff's UM 1360 Reply Comments at 3.

The supplemental report further reviews transmission costs, natural gas prices, actual O&M costs of the Chehalis plant, other O&M costs, and GRID model results for 2009 including the plant. The IE states that it is generally satisfied with the information PacifiCorp provided, noting two exceptions that could reduce the benefits of the facility from the Company's estimates. The IE concludes that the Company's analysis shows the acquisition is a beneficial transaction.

Relying largely on the IE's review, just as staff would in a competitive bidding process, staff recommends the Commission approve PacifiCorp's waiver of the competitive bidding guidelines.

Future Prudence Review
As staff stated in opening comments, Commission approval of PacifiCorp's waiver request would provide no assurance of future cost recovery for any capital investment or other expenses associated with the Chehalis generating plant. Further, in any future prudence review, the Commission will use as its starting point the assumptions PacifiCorp made in this proceeding.

Given the nature of a request to waive the competitive bidding guidelines, staff, the IE and parties did not perform a thorough review of the purchase and sale agreement for the plant. The Commission may perform such a review in a future prudence proceeding. For example, if problems with the plant arise prior to PacifiCorp's acquisition, the Commission will review whether the agreement appropriately protected customers.

PROPOSED COMMISSION MOTION:

PacifiCorp's petition for waiver of the Commission's competitive bidding guidelines be approved.

UM 1374 pmm.doc

AN ANALYSIS OF PACIFICORP'S WAIVER REQUEST FOR THE CHEHALIS POWER GENERATING PLANT

Presented to

The Oregon Public Utility Commission

By
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June 18, 2008

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I. BACKGROUND

PacifiCorp has approached the Commission to seek a waiver of its competitive bidding rules in order to pursue the purchase of the Chehalis Power Generating Plant, a 500-MW gas-fired combined-cycle generating plant located in Chehalis, Washington, which came on-line in 2003.[1] The Commission allows a waiver of its competitive bidding rules if the offer in question is "a time-limited resource opportunity of unique value to customers."[2] PacifiCorp argues that this transaction meets these criteria citing: (a) a limited exclusivity agreement signed with the facility's owner Suez Energy North America (Suez) and (b) analyses which show that acquiring the plant this year as compared to the purchase of a new Combined-Cycle Combustion Turbine (CCCT) in 2012 has estimated benefits to ratepayers ranging from $142 million to $197 million over a 20-year period.

The Commission, acting upon the request of the Northwest and Intermountain Power Producer's Coalition (NIPPC),[3] has asked Boston Pacific Company, Inc. to conduct a limited review of the evidence offered for and against the requested waiver. The purpose of this report, then, is to offer our opinion as to whether or not this transaction does indeed represent a "time-limited" opportunity of "unique value", and therefore, warrants a waiver of the Commission's competitive bidding guidelines.

II. ANALYSIS OF KEY COSTS AND BENEFITS

As always, we take as a given that the Commission's goal is to get the best deal for Oregon ratepayers in terms of price, risk, reliability, and environmental performance. Therefore, we approach this task by asking the following question, "is the offer presented here likely to be a better deal than ratepayers would get in an open procurement, specifically the 2008 All Source RFP?" Put another way, would it be in the ratepayers' best interest to deny this waiver and wait to see if the results of an open procurement can provide a better offer?

NIPPC is correct when it notes that it is difficult to predict what sort of offers will come through a procurement, especially one so open-ended as the 2008 All Source RFP. Fortunately, the Company conducted an RFP for baseload resources (the 2012 RFP) over just this past year. The bids resulting from the 2012 RFP provide the core evidence for answering the questions of (a) what might be reasonably expected from the next RFP and (b) whether the Chehalis deal has "unique value". Detailed information on those bid results can be found in Confidential Attachment A.

[redacted] We think this focus is appropriate because: (a) PacifiCorp, according to its IRP analysis, will require resources to serve

[1] *See* PacifiCorp Confidential Testimony of Gregory N. Duvall (April 11, 2008) at page 2.
[2] *See* Oregon Public Utility Commission Order No. 06-446 (August 10, 2006) at page 4.
[3] *See* Comments of Northwest and Intermountain Power Producer's Coalition (May 14, 2008) at page 11.

future needs, (b) the only other viable technology type available to serve baseload needs would be coal-fired units, (c) there is great uncertainty surrounding the viability of new coal facilities, as evidenced by the Company's own termination of it's Benchmark proposals in the 2012 RFP, and (d) [redacted]

A. Discussion of Key Costs and Benefits

One of the most attractive aspects of the proposed transaction is the capacity price that is being offered for the Chehalis plant. [redacted] Not coincidentally, this is roughly the same range of prices that the Company used in its analysis of the cost savings of the Chehalis offer.

Looking at Attachment A, [redacted]

NIPPC legitimately notes that the existing Chehalis plant might have a shorter operating life than a new plant since it came on line five years ago. Typically the way that assets of unequal lives are compared is to compare cost annuities. [redacted]

Certainly the seller of the Chehalis plant is aware of market conditions, and PacifiCorp's offer was to some extent the best offer it could get. [redacted] Therefore, we can conclude that this capital cost advantage must be offset to some extent by some potential cost disadvantages to the plant. The question is, are these drawbacks enough to offset the significant savings in capital costs? In our opinion, there are seven key components that require consideration.

1. Timing of the Purchase

Through its analysis in its IRP planning process, PacifiCorp has concluded that it will need capacity within the next few years. It has used this conclusion as a requirement for offers in the 2012 and 2008 All Source RFPs, which solicit supply beginning June 1, 2012. The Chehalis plant would be acquired almost four years in advance of this date.

As pointed out by NIPPC, PacifiCorp's own analysis shows that this early acquisition increases cost to ratepayers; that is, in these years (i.e. prior to 2012) it would be less expensive to supply ratepayer needs predominately from market purchases. From the acquisition of the plant through 2011 the Chehalis facility would increase costs by about [redacted] as compared to waiting to purchase a new CCCT in 2012. While the plant offers some benefits (in the form of reduced long-term contracts and Front Office Transactions and revenue from sales of power) those benefits are, on balance, wiped away by the cost of fuel, capital, and O&M at the plant. Since the methodology for the market price forecasts is consistent with the IRP, we believe that the Company's calculation of these offsetting costs prior to 2012 can be seen as being reasonable.

2. Transmission

The plant is interconnected and integrated into the Bonneville Power Administration's (BPA) transmission system. As part of the transaction, the Company would have wheeling agreements for 600 MW which will allow it to utilize the plant by bringing power from the Chehalis facility to the PacifiCorp West (PACW) area. [redacted]

As pointed out by NIPPC, [redacted]

Because there is so little information on this issue, we cannot yet say whether the Company's assertions are valid. Because this is such an important cost component we think that it would be appropriate for the Company to be required to provide more detailed documentation. This documentation should include; (a) proof of the existing point-to-point arrangement, (b) proof of the new proposed wheeling agreements, (c) a description of the original rationale for extending the existing arrangement, and (d) a detailed description of how the new agreements remove the need for the current agreement.

[redacted] The

Chehalis facility would help fulfill this need. If for some reason this new transmission line was delayed or cancelled, this could weigh against cost recovery for Chehalis in a future prudence review.

3. Natural Gas Prices

NIPPC points out that natural gas prices at the Chehalis plant may be higher than prices at a facility with a different location which may bid into an upcoming RFP. In order to test whether this assertion was correct we reviewed historical day-ahead prices at the Huntingdon/Sumas (Sumas) hub (the hub from which the plant takes gas delivery) and the Opal hub. We chose the Opal hub for two reasons: first, it is located in the Rocky Mountain Basin, which is not only a source of cheap supply but also in the general area [redacted] and second, because it is a liquid market with a lengthy trading record, so longer-term comparisons are possible.

We looked at the average day-ahead price for the two markets from July, 2001 through the end of 2007. The average price for gas at each hub, averaged by year, is shown in the table below.

TABLE ONE
AVERAGE DAY-AHEAD GAS PRICES BY YEAR

Hub	Average Price ($/MMBtu)*							
	2001	2002	2003	2004	2005	2006	2007	Period
Huntingdon/Sumas	$2.22	$2.70	$4.72	$5.19	$7.45	$6.03	$6.51	$5.19
Opal	$2.12	$1.95	$4.36	$5.25	$7.28	$5.42	$4.06	$4.51
Difference	$0.10	$0.75	$0.36	-$0.06	$0.17	$0.61	$2.45	$0.67

** 2001 only includes July through December*
Source: ICE

Gas at the Sumas hub has, in recent years, been more expensive than gas at the Opal hub. Over the past several years the average difference between the two hubs was about $0.67 per MMBtu. It is important to note that this difference has hardly been constant over the years. Prior to 2006, the hubs were actually rather similar in price. In 2007, the gap between the two hubs reached over $2 per MMBtu. A more detailed view of the differences between these hubs can be seen in Attachment B, which shows monthly average prices for the July 2001 to January 2008 time period.

The difference between the cost of gas at Chehalis and at a potential new plant, which likely could draw supply from the Rocky Mountain Basin, could have real impacts for ratepayers. A hypothetical 500 MW plant with a 40% capacity factor (the percentage of actual plant output versus total possible output) and a 7,000 btu/kWh heat rate would spend about $12.26 million more per year in fuel costs for every one dollar cost increase in the price of gas. Furthermore, the additional cost would result in the plant being run less often.

There is little to document the prices that the Company used for fuel inputs in its analysis. [redacted]

Because this component could have measurable impacts on the cost and use of a facility we think that the Commission should require to Company to further document the assumptions used surrounding gas prices. Specifically the Company should: (a) confirm which price points they used to determine fuel costs for the Chehalis plant and for the proxy CCCT and (b) provide the fuel price forecasts that were used in the modeling process for these two facilities, along with explanations for how it derived the forecasts. If the Company used a price point for Chehalis different from the Sumas point it should explain why it did so. The Company should also provide its view on whether the 2007 gap between Sumas and Opal prices was an aberration or a portent for the future.

4. Heat Rates

Another potential drawback of the Chehalis plant, as compared to a new facility, is that a new facility could be more efficient in its use of fuel. This efficiency would be reflected in a lower heat rate, and would result in lower fuel costs being passed on to ratepayers.

[redacted]

5. Operating and Maintenance Costs

A fifth potential drawback to the facility is that its fixed and variable operations and maintenance (O&M) costs might be higher than those of prospective bidders. [redacted] This appears to be a reasonable assumption, since that facility is roughly similar in age to Chehalis and Chehalis will be operated and maintained by the Company in, we assume, a similar manner. We would request however, for the sake of completeness, that the Company also produce the actual historical O&M costs for the Chehalis facility along with an explanation of any difference between these costs and the Company's assumptions.

[redacted]

6. Age of the Plant

NIPPC notes correctly that the plant has already been in operation for five years. With this purchase, PacifiCorp would be buying a facility with roughly 30 years of useful life left, versus about 35 years for a new CCCT. PacifiCorp does take this into account in its analysis. The annual fixed costs of each facility are calculated on a *real-levelized* basis, a variation of our annuity method above. Each cost is converted into a *levelized* payment, adjusted for inflation, and spread out over the life of the asset. This has the effect of allowing comparisons of assets of different ages and assures that short-term assets are not overvalued relative to long-term assets.

We do note, as NIPPC pointed out, that the plant did have a major outage in 2006. However, in other years the facility had an availability of 92% or higher. We have no way of knowing, with the information at hand, whether the plant's problems will reoccur. Certainly, if the Company failed to perform proper mechanical due diligence on this asset they can be held accountable in a future prudence review.

7. Dispatch Patterns & Location

[redacted]

[redacted]

Therefore, any drawbacks to the location of the plant are included in the analysis.

[4] Note that the O&M costs in Attachment A are for the start of the contract, typically June 2012. Our estimated ranges include a rough discounting of these costs, using a 3% discount rate (a rough proxy for the CPI), to make them comparable to the 2008 costs used for Chehalis.

B. Comparison of Cost Versus Benefits

As noted above, the question remains whether these possible cost disadvantages that have been noted outweigh the clear capital cost advantage from the Chehalis purchase. The only real way to assess these costs and benefits is with sophisticated modeling that can weigh all of the competing impacts. PacifiCorp has done that and it is important to see that it has done so with models used for the 2007 IRP.

With its modeling, PacifiCorp found that there are net benefits – net cost savings -- for its acquisition of the Chehalis plant as compared to a hypothetical combined-cycle plant. [redacted] It is important to note that the Planning and Risk (PaR) and Capacity Expansion (CEM) models used by the Company (a) account for all of the seven possible disadvantages noted above through projecting optimal dispatch on PacifiCorp's system over time and (b) assess changes in future market conditions. The PaR model assesses changes in gas prices, wholesale market prices, loads, thermal outages and hydroelectric generation levels.

Assuming that the Company used reasonable inputs to its models, it seems fair to say that that the Chehalis plant appears to provide a net benefit to ratepayers over a new facility in 2012. Note that, as mentioned above, we would still recommend that the Commission obtain and examine more details concerning Company assumptions about gas prices, O&M costs and transmission contracts before granting the Company's waiver request.

Additionally, we note that the Industrial Customers of Northwest Utilities (ICNU) has inquired as to whether PacifiCorp has analyzed this transaction using a different model (the GRID model, used for ratemaking purposes). We think it would be useful to examine the output of this model to see how it compares with the analyses here. We note that because of the short-term nature of the GRID model and the longer-term estimated benefits to this transaction, the analysis may not show a benefit.

C. Additional Risks to Ratepayers

Something noted by the Company is that the Chehalis purchase lowers risk to ratepayers relative to the purchase of a new-build facility, specifically the risks inherent in new construction. The current construction market is characterized by steep increases in the prices of commodities and labor. Prices are rising to such a degree that it is hard for developers to obtain fixed quotes on key pieces of equipment. PacifiCorp's 2012 and 2008 All Source RFPs attempt to account for this risk by allowing bidders to index up to 40% of their capital cost to public cost indices. If a utility plant is building the plant on a cost-plus basis, the risk for cost overruns is even higher.

Even under less extreme market conditions the construction of a new facility is a major undertaking that can be prone to delays. The fact that the Chehalis unit is existing, operational, and integrated into the transmission system is, in our opinion, a major positive consideration when evaluating this waiver request.

III. POLICY POINTS

There are three broader policy points which should be drawn out as the waiver request is considered. These points have to do with the nature of this waiver request and the policy impact of this transaction on future RFPs.

First, we agree with PacifiCorp this waiver request is not, and should not be, a substitute for a full prudence review.[5] If PacifiCorp was found later in a prudence review to have been fundamentally wrong in its assessment of the offsetting costs we discussed above, that would weigh against prudence and cost recovery. Indeed, for purposes of cost recovery we suggest that PacifiCorp be held, within some reasonable bounds, to its assumptions made here as if it was offering a pay-for-performance PPA. This would serve to further reduce risks to ratepayers.

Second, this waiver request may have something to tell us about PacifiCorp's RFP design for future procurements. We cannot say for sure why Suez decided to offer Chehalis in a transaction outside of the 2012 RFP. One possible explanation is that Suez wished to sell the plant sooner than the June 1, 2012 start date that PacifiCorp was requiring in that RFP.

We understand why PacifiCorp would want to limit resources to a 2012 start date; indeed, as noted above, its own analysis shows increases in costs to ratepayers from 2008 through 2011 with the Chehalis acquisition. However, its analysis also shows that there are net savings to ratepayers from this transaction over the longer term. If PacifiCorp had been more accommodating in its RFP design, then this offer may have come through the RFP process instead. Therefore, we would recommend that, for future RFPs, PacifiCorp make sure to include a process by which existing resources can be offered immediately, even if the actual required start date is for a later year.

[redacted]

Third, it is important to see that this waiver will have an effect on future RFPs and the effect is likely to be negative. This will be another major resource owned by PacifiCorp rather than by a competitor, as well as a resource chosen outside the bounds of competitive procurement. Resource owners see that, if they wish to sell their asset, they can simply approach PacifiCorp directly without going through the rigors of competitive

5 *See* PacifiCorp's Reply Comments (May 21, 2008) at pages 2-5.

procurement. Through this they avoid being matched directly against competitors, can avoid many of the requirements inherent in an RFP (including requirements designed to protect ratepayers), and can obtain special privileges (e.g. selling off an asset four years before they otherwise could).

IV. CONCLUSION

Boston Pacific strongly prefers choosing resources through competitive procurement and having more competitors in the market. However, our top priority is getting the best deal for ratepayers in terms of price, risk, reliability and environmental performance. Given Chehalis' obvious benefits in capacity cost, risk mitigation and given the fact that those benefits are not clearly wiped away by its disadvantages, we think that it is reasonable to grant the Company's waiver request, subject to our review of the information below. More specifically, based on what we saw in the 2012 RFP, we cannot conclude that denying the waiver, in the hope of being able to select a better offer in the upcoming RFP, is in the best interest of ratepayers.

Prior to granting the waiver request we would recommend that the Commission request the following documentation. We will then review the documentation and provide a brief supplementary report.

- PacifiCorp should provide more detailed documentation concerning the transmission component of its analysis. This documentation should include; (a) proof of the existing point-to-point arrangement, (b) proof of the new proposed wheeling agreements, (c) a description of the original rationale for extending the existing arrangement, and (d) a detailed description of how the new agreements remove the need for the current agreement.

- PacifiCorp should confirm the gas prices that it used to determine fuel costs for the Chehalis plant and for the proxy CCCT and provide the fuel price forecasts that were used in the modeling process for these two facilities, along with explanations for how it developed the forecasts. If the Company used a price point for Chehalis different from the Sumas point it should explain why it did so. The Company should also provide its view on whether the 2007 gap between Sumas and Opal prices was an aberration or a portent for the future.

- The Company should produce the actual historical O&M costs for the facility along with an explanation of any difference between these costs and the Company's assumptions.

- The Company should provide an analysis of the transaction using the GRID model.

Additionally, we would make the following recommendations going forward.

- In future RFPs the Company should explicitly accommodate potential offers from existing assets with start dates prior to the identified need.

- PacifiCorp should be held, within some reasonable degree, to the assumptions it has made concerning the plant in a future prudence review as if it was offering a pay-for-performance PPA.

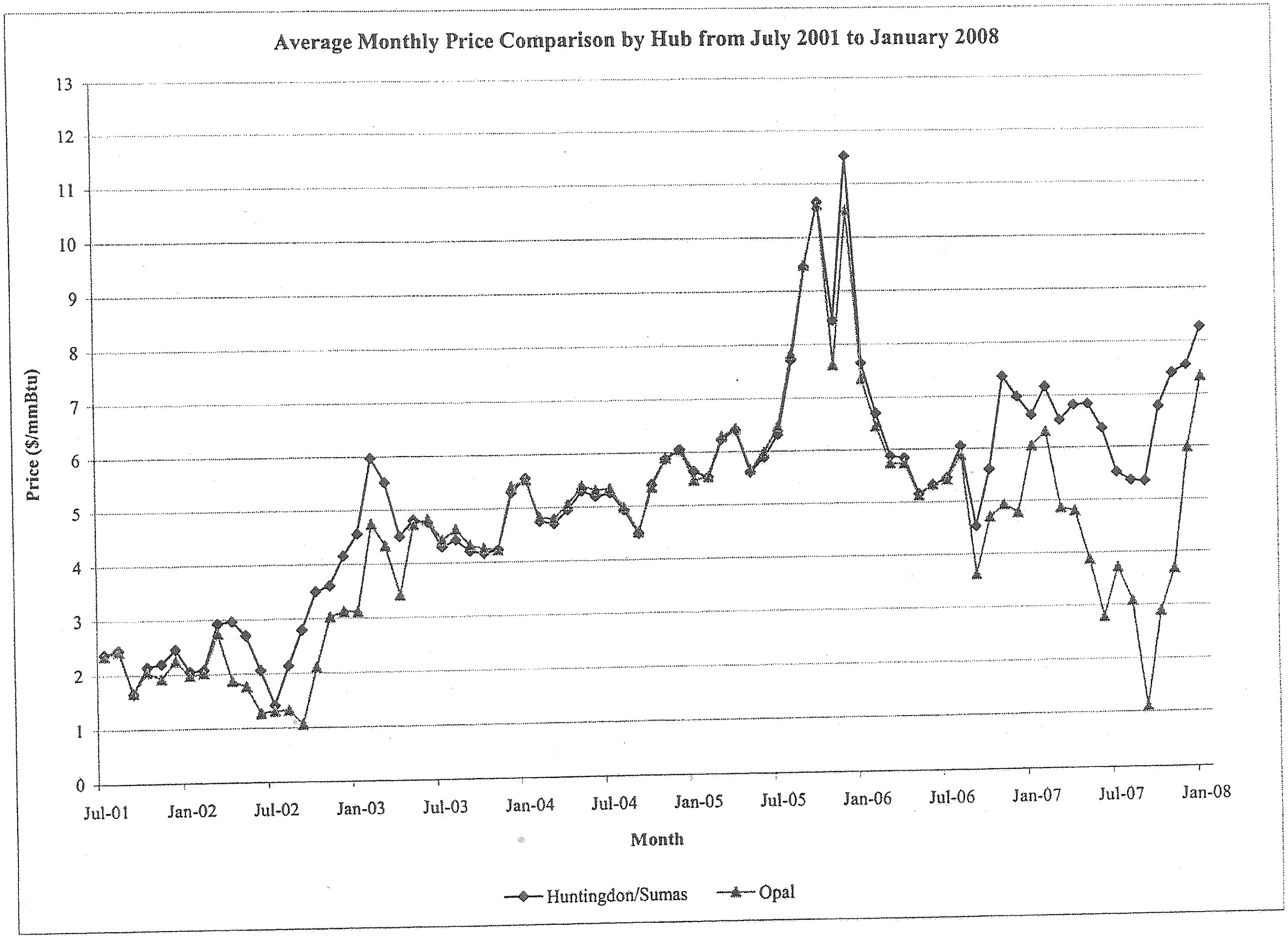
We should note, too, that going forward with the Chehalis acquisition does not preclude taking a good offer from the upcoming RFP because substantial need for capacity still exists even if the Chehalis offer is accepted. In the 2008 All Source RFP, Staff computed the Company's need for the 2012 to 2016 time frame as being between about 1,100 to 2,000 MW. We also note that the 2012 RFP process is ongoing, and resources may be acquired through that process as well.

ATTACHMENT A
BID RESULTS FROM 2012 RFP

Data From 2012 RFP Bids

[redacted]

ATTACHMENT B
MONTHLY AVERAGE GAS PRICES FOR HUNTINGDON/SUMAS AND OPAL HUBS



BOSTON PACIFIC COMPANY, INC.

NON-PUBLIC INFORMATION
SUBJECT TO SPECIAL PROTECTIVE ORDER NO. 08-326

AN ANALYSIS OF PACIFICORP'S WAIVER REQUEST FOR THE CHEHALIS POWER GENERATING PLANT

Presented to

The Oregon Public Utility Commission

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