

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1368

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER)	ORDER
)	
Request for Approval of Draft 2008R-1 Request for Proposals for New Renewable Resources.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On March 4, 2008, PacifiCorp, dba Pacific Power (Pacific Power or the Company) filed an application with the Public Utility Commission of Oregon (Commission) to open a docket to address a Request for Proposals (RFP) for new renewable resources that the Company planned to file. Pacific Power also requested that the Commission select an Oregon Independent Evaluator (IE) to review the 2008R-1 RFP. Commission Staff (Staff) recommended that Boston Pacific Company, Inc. (Boston Pacific Company) serve as the IE.¹

The RFP will solicit up to 500 megawatts (MW) of renewable resources on-line by 2011. The eligible resource size is between 100 MW and 300 MW, and the minimum term is five years. Resources must include the associated Renewable Energy Credits and comply with Renewable Portfolio Standard (RPS) requirements in the Company’s six-state service area. The Company requests the Commission approve a form of draft RFP that would allow the Company to issue RFP “updates” in future years without Commission approval, unless the Commission determines the update is a substantive modification of the initially approved RFP.

The Commission focuses its consideration of RFP approval on three criteria: 1) The alignment of the utility’s RFP with its acknowledged Integrated Resource Plan; 2) Whether the RFP satisfies the Commission’s competitive bidding guidelines; and 3) The overall fairness of the utility’s proposed bidding process. A full description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

¹ Order No. 08-248, issued May 12, 2008, approved Boston Pacific Company as the IE.

On September 18, 2008, the Commission considered the Final Draft 2008R-1 RFP at a Public Meeting. At this Public Meeting, public comment was taken and Staff presented its final recommendations. The Staff Report, attached as Appendix A, contains a more detailed description of the Final Draft 2008R-1 RFP.

At its Public Meeting on September 18, 2008, the Commission adopted Staff's Recommendation and approved Pacific Power's proposed RFP with the specified conditions.

ORDER

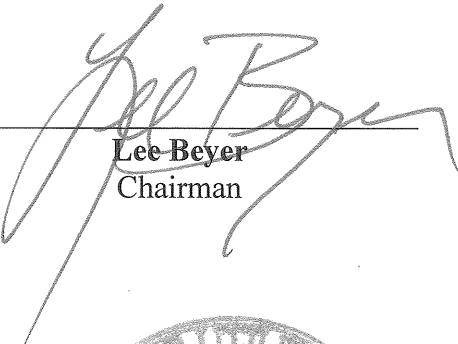
IT IS ORDERED that the Draft 2008R-1 Request for Proposals for New Renewable Resources filed by PacifiCorp, dba Pacific Power, on April 28, 2008, and revised on July 28, 2008, is approved, with the following conditions:

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.
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.
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.
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.

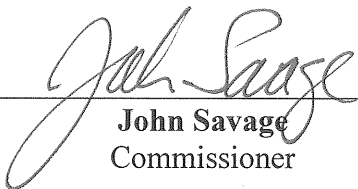
5. Pacific Power must reflect the incremental value of capacity in its evaluation. Incremental capacity value means the difference between:
 - a) the capacity value reflected in the Avoided Cost of Compliance method based on the IRP proxy wind resources; and
 - b) Bids that have a high capacity factor (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.
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.
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.
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.
9. Pacific Power must reduce the success fee to an amount commensurate with its contract with the Oregon IE.
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.

Made, entered, and effective SEP 23 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: September 18, 2008

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: September 15, 2008

TO: Public Utility Commission

FROM: Lisa Schwartz 
li *EB*

THROUGH: Lee Sparling and Ed Busch

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UM 1368) Request for Approval of Draft 2008R-1 Request for Proposals for New Renewable Resources.

STAFF RECOMMENDATION:

I recommend the Commission approve PacifiCorp's Draft 2008R-1 Request for Proposals for New Renewable Resources, as filed on April 28, and revised on July 28, 2008, with conditions.

DISCUSSION:

PacifiCorp filed an application on March 4, 2008, requesting the Commission open a docket to consider the company's request to approve its draft Request for Proposals (RFP) for new renewable resources. The company filed the initial version of its draft RFP on April 28, 2008.

The RFP will solicit up to 500 megawatts (MW) of renewable resources on-line by 2011. The eligible resource size is between 100 MW¹ and 300 MW, and the minimum term is five years. Resources must include the associated Renewable Energy Credits and comply with Renewable Portfolio Standard (RPS) requirements in the company's six-state service area.

PacifiCorp requests the Commission approve a form of draft RFP that would allow the company to issue RFP "updates" in future years without Commission approval, unless the Commission determines the update is a substantive modification of the initially approved RFP.

¹ Qualifying Facilities that are least 10 MW are eligible, pursuant to Guideline 6 in Order No. 06-446.

UM 1368
September 15, 2008
Page 2

The Commission focuses its consideration of RFP approval² on three criteria:

- The alignment of the utility's RFP with its acknowledged Integrated Resource Plan (IRP)³
- Whether the RFP satisfies the Commission's competitive bidding guidelines
- The overall fairness of the utility's proposed bidding process

Staff provided its initial assessment of each of these items in opening comments filed on June 12, 2008, following preliminary comments provided by the Commission-selected Independent Evaluator (IE), Boston Pacific Company, at a workshop for parties.

On June 19, 2008, PacifiCorp filed its reply to opening comments from staff and Renewable Northwest Project (RNP). Parties held another workshop shortly thereafter.

On July 3, 2008, staff filed the IE's assessment of the draft RFP. PacifiCorp filed a revised RFP on July 28, 2008, along with its reply to the IE's assessment. Staff and RNP filed reply comments by August 13, 2008. On August 25, 2008, staff filed the IE's supplemental comments on the revised draft RFP.

Staff's reply comments summarized five contentious issues in this proceeding and expressed concern about the proposed level of the success fee – up to \$1 million per successful bid. PacifiCorp filed a letter on September 15, 2008, resolving these issues to staff's satisfaction with three exceptions:

1. A method for determining any incremental capacity value of wind resources due to locational advantage also should be established. See staff's opening comments at 10, 12; RNP's reply comments at 3; and the IE's supplemental comments at 4. Staff has incorporated this recommendation in proposed condition 5 for RFP approval.
2. Staff is not prepared to endorse PacifiCorp's proposed method for incremental valuation of PacifiCorp-owned resources – i.e., Benchmark Resources, build-own-transfer bids, and power purchase agreements (PPAs) with a facility purchase option – compared to PPAs offered without a purchase option.

² See Guideline 7, Order No. 06-446 (at 9).

³ On April 24, 2008, the Commission acknowledged PacifiCorp's 2007 IRP in part, including the company's plan to acquire 2,000 MW of renewable resources by 2013, with 400 MW expected to be on-line by the end of 2007 and remaining resources to be acquired at a rate of 200 MW per year. See Order No. 08-232 in Docket LC 42.

UM 1368
September 15, 2008
Page 3

3. PacifiCorp proposes to evaluate the best 500 MW of bids on each of the initial short-lists – one for wind bids and another for all other renewable resources. The company proposes to exceed that amount if necessary to ensure “a minimum of 5 counter parties secured by distinct parental hierarchy.” If some of these bids have positive Alternative Cost of Compliance (ACC) values (unfavorable compared to the market-based energy value of the bid), the company will assess values not accounted for in the ACC method – the market value of Renewable Energy Credits, compliance with RPS requirements and mitigating risk of potential regulation of greenhouse gas emissions. See PacifiCorp’s September 15, 2008, letter to the Commission at 2. Staff agrees with the IE that the company should specify in the RFP that up to 1,000 MW bids will be included on each initial short-list, given that facilities as large as 300 MW are eligible. See IE’s supplemental comments at 6.

In addition, staff recommended the Commission require PacifiCorp to file for approval all requests for new bidders or substantive RFP amendments and that such requests be reviewed on an expedited basis. See staff’s opening comments at 3. Staff has incorporated this recommendation in proposed condition 6 for RFP approval. PacifiCorp proposes instead to meet with staff 30 days prior to any “reissuance” to determine if any of the changes are material. If so, PacifiCorp would file the RFP amendment with the Commission and seek approval on an expedited basis. See PacifiCorp’s September 15, 2008, letter to the Commission at 2.

Staff continues to believe that parties, as well as staff, should have the opportunity to review and comment on any requests for new bidders or substantive RFP amendments, addressing consistency with Commission orders, current IRPs, updated information, and regulatory and market issues as they change over time.

Staff also continues to recommend that PacifiCorp account for the risk of various transaction types, including risk-adjusting capital costs of utility Benchmark Resources. See staff’s opening comments at 14; IE’s assessment of draft RFP design at 13. Staff has incorporated this recommendation in proposed condition 7 for RFP approval.

PacifiCorp has agreed to modify the RFP to remove the requirement that the Seller must be the WREGIS⁴ Qualified Reporting Entity unless PacifiCorp opts to provide this service. See proposed condition 8 for RFP approval.

Staff recommends the Commission grant PacifiCorp’s request to approve its draft RFP 2008R-1 for new renewable resources subject to the conditions below.

⁴ Western Renewable Energy Generation Information System.

UM 1368
September 15, 2008
Page 4

PROPOSED COMMISSION MOTION:

PacifiCorp's Draft 2008R-1 Request for Proposals for New Renewable Resources, as filed on April 28, and revised on July 28, 2008, be approved with the following conditions:

1. PacifiCorp must remove the provision in the pro forma power purchase agreement giving PacifiCorp the right to acquire the facility at the end of the contract term or upon termination.
2. PacifiCorp'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.
3. Unless the federal production tax credit for renewable resources is extended through 2011 prior to RFP issuance, PacifiCorp must require bidders to provide two sets of prices – one assuming the federal production tax credit will continue and another assuming it will not. PacifiCorp must submit estimated costs for its Benchmark Resources in the same manner and evaluate bids and Benchmark Resources under both assumptions.
4. If short-listed bids have positive Alternative Cost of Compliance values, PacifiCorp 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.
5. PacifiCorp 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 PacifiCorp 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.
6. PacifiCorp must file for approval all requests for new bidders or substantive RFP amendments. Filings will be treated on an expedited basis upon request.
7. PacifiCorp must adjust the submitted capital costs of Benchmark Resources for risk in the following manner:

UM 1368
September 15, 2008
Page 5

- 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.
8. PacifiCorp must modify Section 9.6 of the pro forma power purchase agreement to remove the requirement that the Seller must be the WREGIS Qualified Reporting Entity unless PacifiCorp opts to provide this service.
 9. PacifiCorp must reduce the success fee to an amount commensurate with its contract with the Oregon IE.
 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.

UM 1368 pmm.doc