

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1360

In the Matter of

PACIFICORP, dba PACIFIC POWER

Request for Acknowledgement of Final  
Shortlist of Bidders in the 2008 Request for  
Proposals.

ORDER

**DISPOSITION: MODIFIED STAFF RECOMMENDATION ADOPTED**

On October 11, 2010, PacifiCorp, dba Pacific Power (Pacific Power), filed a request for acknowledgement of the final shortlist of bids in its 2008 request for proposal (RFP). On October 29, 2010, the Oregon Independent Evaluator, Accion Group, filed its Final Report of Pacific Power's 2008 All Source RFP with the Public Utility Commission of Oregon (Commission). On November 10, 2010, the Oregon Independent Evaluator, Boston Pacific, filed its Closing Report on Pacific Power's All Source RFP with the Commission.

On December 14, 2010, the Staff of the Commission presented its Staff Report, attached as Appendix A, at the Commission's regularly scheduled Public Meeting. Staff originally provided a two-part recommendation to the Commission: (1) acknowledge the final shortlist of bidders in Pacific Power's 2008 RFP; and (2) direct the company to continue to access the prudence of acquiring a specific number of resources. At the Public Meeting, Staff limited its recommendation to acknowledgment of the final short list.

The Commission declined to address the specific number of resources needed by Pacific Power. Instead, it indicated that Pacific Power should continue to evaluate its resource need and make prudent resource decisions. The Commission acknowledged that Pacific Power had conducted a fair and open bidding process and had selected the best resources for the final shortlist. The Commission adopted Staff's revised recommendation.

**ORDER**

ORDER NO. 10-494

IT IS ORDERED that the final shortlist of bidders in Pacific Power's 2008 request for proposal is acknowledged.

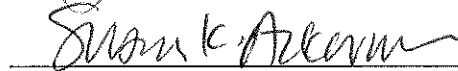
Made, entered, and effective DEC 27 2010.



**Ray Baum**  
Chairman



**John Savage**  
Commissioner



**Susan K. Ackerman**  
Commissioner



PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 14, 2010

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: December 8, 2010

TO: Public Utility Commission

FROM: Kelcey Brown *[Signature]*

THROUGH: Lee Sparling *LS* and Maury Galbraith *MG*

SUBJECT: PACIFICORP: (Docket No. UM 1360) Requests Acknowledgment of Final Shortlist of Bidders in 2008 Request for Proposals.

**STAFF RECOMMENDATION:**

Staff recommends the Commission acknowledge the final shortlist in PacifiCorp's 2008 request for proposal (RFP). Staff also recommends the Commission direct the Company to continue to assess the prudence of acquiring a [REDACTED] resource [REDACTED] timeframe.

**DISCUSSION:**

Pursuant to Guideline 13, in Order No. 06-446, PacifiCorp requests Commission acknowledgement of the final shortlist in its 2008 RFP which includes the following resource options:

[REDACTED]

PacifiCorp's 2008 RFP has been a long and complex process. Staff's discussion of this process is organized in three sections: a procedural history; a summary of PacifiCorp's shortlist selection process, and Staff's analysis of the final shortlist. The key substantive issue in this shortlist acknowledgment request is whether it is reasonable [REDACTED]

Much of the information contained in Docket No. UM 1360 is highly confidential; therefore the memo is heavily redacted.

Three attachments are included with Staff's public meeting memo. Attachment A includes the highly confidential Oregon Independent Evaluator Final Reports from Boston Pacific and Accion Group. Attachment B includes additional tables from PacifiCorp's filing referenced in the memo. Attachment C includes Staff's highly confidential Data Request (DR) Nos. 29-46.

### **Procedural History**

On December 24, 2007, PacifiCorp filed an application with the Commission to open a docket to address a RFP for energy resources that the Company planned to file. PacifiCorp also requested that the Commission select, on an expedited basis, an Oregon Independent Evaluator (IE) to review the 2008 RFP.

On January 16, 2008, the Commission opened Docket No. UM 1360 to address PacifiCorp's 2008 RFP. The Commission also directed PacifiCorp to negotiate a contract with Boston Pacific Company, Inc. and Accion Group for IE services for the 2008 RFP.<sup>1</sup>

On February 15, 2008, PacifiCorp filed an initial Draft 2008 RFP to solicit up to 2,000 megawatts (MW) of unit contingent or firm resource capacity and associated energy for delivery to the east or west sides of PacifiCorp's system. The types of resource and timing were: base load, intermediate load and summer peaking resources available for dispatch or scheduling by June 1 of 2012 to 2016. Intermittent renewable resources and unspecified purchases were not eligible.

On May 20, 2008, the Commission adopted staff's recommendation and approved PacifiCorp's proposed RFP with conditions.<sup>2</sup>

On October 2, 2008, PacifiCorp issued the 2008 RFP to the market and received bidders' proposals on December 16, 2008.

On February 27, 2009, PacifiCorp provided the Commission with a notice of suspension of its 2008 RFP.

On November 16, 2009, the Commission approved PacifiCorp's request to resume and re-issue its 2008 RFP with nonmaterial changes.

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<sup>1</sup> See Order No. 08-019.

<sup>2</sup> See Order No. 08-310.

Request to Acknowledge 2008 RFP (UM 1360)  
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The RFP was issued to the market on December 2, 2009 and sought up to 1,500 MW from base load, intermediate load and summer peak resources to meet the Company's system position during calendar years 2014 to 2016.

On October 11<sup>th</sup>, 2010 PacifiCorp filed a request for acknowledgement of the final shortlist of bids in its 2008 RFP.

On October 29, 2010 the Oregon Independent Evaluator, Accion Group, filed its Final Report of PacifiCorp's 2008 All Source RFP with the Commission.

On November 10, 2010 the Oregon Independent Evaluator, Boston Pacific, filed its Closing Report on PacifiCorp's All Source RFP with the Commission.

### **PacifiCorp's Acknowledgment Request**

On February 27, 2009, PacifiCorp provided the Commission with a notice of suspension of its 2008 RFP. Within its notice, the Company cited the dramatic economic downturn in 2008 which impacted not only customer loads, but also reductions in the price of commodities and costs of construction. The Company stated that there was a reasonable possibility that more favorable bids may be received in the future, as economic and market conditions continued to change.

In its request to resume and re-issue its 2008 RFP the Company stated that the reduction in customer loads had changed the timing of the resource need, as stated in its 2008 Integrated Resource Plan (IRP), and that it also was a good time to take advantage of favorable economic conditions with regard to commodity prices and construction costs.

### PacifiCorp's 2008 IRP

On February 24, 2010 the Commission issued Order No. 10-066 (Docket No. LC 47), acknowledging the 2008 IRP Action Plan with the following agreed-upon modification shown in underline below:

In recognition of the unsettled U.S. economy, expected volatility in natural gas markets, and regulatory uncertainty, continue to seek cost-effective resource deferral and acquisition opportunities in line with near-term updates to load-price forecasts, market conditions, transmission plans and regulatory developments. PacifiCorp will reexamine the timing and type of gas resources and other resource changes as part of a comprehensive

assumptions update and portfolio analysis to be conducted for the 2008 RFP final short-list evaluation in the RFP, approved in Docket UM 1360, the next business plan and the 2008 IRP update.

The acknowledged 2008 IRP Preferred Portfolio Action Plan includes the acquisition of a Combined Cycle Combustion Turbine (CCCT) in 2014. This action item designated a span of time, 2012-2016, during which the Company intended to procure a resource. According to the Company, this procurement was to be based on a "prospective evaluation of loads, market conditions, prices, and regulatory activity."<sup>3</sup>

PacifiCorp filed its 2008 IRP Update on March 31, 2010. The 2008 IRP update showed a deferral of the 2014 CCCT to 2015, reflecting lower load growth expectations than those assumed for the 2008 IRP.

#### RFP Resource Need Update

Based on a July 2010 load forecast, PacifiCorp's peak loads are forecasted to be higher than projected in the 2008 IRP Update by up to 256 MW in 2011 to 35 MW in 2016. These peak load forecasts incorporate forecasted load reductions from the IRP energy efficiency resources and a 12 percent planning reserve margin. With no new resources added PacifiCorp expects to experience a 1,300 MW capacity deficit in 2012, reaching just over 2,400 MW by 2016. However, this system position does not take into consideration other supply side investments beyond this RFP. Once you take into consideration all existing and planned resources the deficit in 2012 shrinks to 908 MW and the deficit in 2016 shrinks to 1,700 MW.

Lastly, the Company considers the impact of short term firm purchases or front office transactions (FOT). If you include maximum available FOT's, including the impact of all major planned transmission expansion, PacifiCorp's resource gap does not occur until 2014 with a 38 MW gap and a 254 MW gap in 2016. The table below includes the system position for 2011 through 2016, taking into consideration a 12 percent planning reserve margin, existing resources, planned resources and maximum available FOT's on the system position of the Company.

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<sup>3</sup> See Oregon Docket LC 47, Response to Oregon Party Comments, at 2.

<b>PacifiCorp July 2010 load forecast</b>			
<b>Year</b>	<b>System Position w/Existing Resources</b>	<b>System Position w/Existing and Planned Resources</b>	<b>System Position and MAX FOT's</b>
<b>2011</b>	90 MW	363 MW	1,777 MW
<b>2012</b>	(1,297) MW	(908) MW	506 MW
<b>2013</b>	(1,699) MW	(1,181) MW	233 MW
<b>2014</b>	(2,075) MW	(1,452) MW	(38) MW
<b>2015</b>	(2,233) MW	(1,541) MW	(127) MW
<b>2016</b>	(2,428) MW	(1,668) MW	(254) MW

### Short List Development

Step one of the RFP process is the initial shortlist evaluation. The initial shortlist ranking is determined by a point score. The point score is broken down into a price score (worth up to 70 points) and a non-price score (worth up to 30 points). The price score takes into consideration the costs and benefits of the bid as compared to the avoided cost of wholesale market purchases. The non-price score consists of development feasibility, site control and permitting, and operational viability/risk impact.

The bids were then divided into the categories of Base Load, Intermediate Load, and Summer Peak resources. PacifiCorp selected the initial shortlist based on the detailed rankings of each bid. The Oregon IEs independently verified the scoring results. The IE concurred with PacifiCorp on its initial shortlist selection. For a detailed review of this analysis please see the attached IE Final Closing Report.

Once bidders from the initial shortlist submitted their final bid prices, the second step is the selection of the final shortlist of bids. To develop the final shortlist, final bid prices from the initial shortlist were screened using a System Optimizer Capacity Expansion Model, also known as the CEM. Using the CEM, PacifiCorp developed a portfolio capacity load and resource balance that included the major resources from the preferred portfolio identified in PacifiCorp's 2008 IRP Update. PacifiCorp then removed the following IRP resources to create the capacity gap for modeling of the bids.

- East Power Purchase Agreement (200 MW) with a 2012 in-service date,
- CCCT plant, 607 MW with a 2015 in-service date,
- Front Office Transactions (FOT) for the following years:
  - 2012 – 604 MW

- 2013 – 932 MW
  - 2014 – 1,223 MW
  - 2015 – 794 MW
  - 2016 – 923 MW
- Turbine upgrade capacities were updated to reflect the most recent planning schedule.

[REDACTED]

Removing the East PPA, the FOT's, and the CCCT in 2015 from the model creates a resource need in the 2012 to 2016 timeframe. The model then selected from the initial shortlisted bids and FOT's to meet this need at the lowest possible cost.

[REDACTED]

[REDACTED] resulted from the CEM model runs. [REDACTED]

The IE concurred with PacifiCorp's modeling results, and stated that [REDACTED]

Risk Analysis

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<sup>4</sup> [REDACTED]



What the CEM model does not address is risk, as determined by volatility in prices, loads, unit availability, and associated correlations among model inputs. PacifiCorp [REDACTED] stochastic risk assessment. The term stochastic refers to assumptions being randomly varied along a given distribution using a Monte Carlo method. The Planning and Risk (PAR) Model varies the assumptions randomly over 100 model runs for each case. [REDACTED]

The following table shows the average (mean) portfolio cost estimate, as measured by the present value of revenue requirement (PVRR) over the 100 model runs using the PAR model.

[REDACTED TABLE]

[REDACTED]

According to PacifiCorp, the primary reason [REDACTED]

The final step in the evaluation process was to use the CEM model to deterministically assess the risk of [REDACTED] and to compare the results to the stochastic results of the PAR model. Under this deterministic analysis, [REDACTED]

[REDACTED]

[REDACTED]

Supplemental Analysis

Lastly, the Company provided a supplemental analysis that looked at the possibility of displacing a future resource not considered within the context of the 2008 RFP. Specifically, the Company looked at displacing the Currant Creek 2 resource modeled as a 597 MW combined cycle resource currently slated to go into service in 2018 in the 2008 IRP update.

Using the PAR model, the Company [REDACTED]

PacifiCorp's Request for Acknowledgement

Based on the bid evaluation modeling and [REDACTED] PacifiCorp is requesting acknowledgment of its final shortlist which includes the following resource options:

[REDACTED]

<sup>5</sup> The removal of the 200 MW PPA from 2012 changed the CEM selection of Currant Creek 2 from 2018 to 2016.

[REDACTED]

IE evaluation

The IE's, Boston Pacific and Accion Group, both concur in their review that PacifiCorp met the following standards:

- The RFP complied with the Commissions Guidelines;
- The process was open and fair to all bidders;
- The IE was provided open access to PacifiCorp personnel and evaluation modeling information;
- The Company appropriately and equitably evaluated all bids; and,
- The Company's evaluation process adequately assessed the risks associated with various bids.

Both Boston Pacific and Accion Group recommend the Commission acknowledge the final shortlist. Specifically, Boston Pacific makes its recommendations for the following six reasons:

1. The bids represent the lowest cost resource for customers when accounting for risk;
2. These bids represent the best offers from a fairly competitive procurement process;
3. Boston Pacific's own analysis confirmed that the selected bids represent the lowest cost alternatives for customers;
4. The RFP aligns with the Company IRP process;

[REDACTED]

6. [REDACTED]

**Staff's Analysis**

Standards of Review

Staff considers three questions when it reviews a utility's request for RFP shortlist acknowledgement:

1. Has the utility conducted the RFP fairly and properly?

2. Has the utility selected the best resource(s) on behalf of customers for the final RFP shortlist based on overall system cost and risk and the decision criteria used to develop the utility's acknowledged IRP Action Plan?

3. Is continued utility negotiation with the final shortlist of bidders reasonable based on the information provided to the Commission at this time?

The first question addresses the procedural fairness of the RFP. Guideline 10(b) in Order No. 06-446 instructs the IE to oversee the RFP process to ensure that it is conducted fairly and properly.

The second question addresses the substantive evaluation of the competing bids. Guideline 9(b) in Order No. 06-446 states that the selection of the final RFP shortlist must be consistent with the modeling and decision criteria used to develop the utility's acknowledged IRP Action Plan. The emphasis placed on consistent modeling and decision criteria promotes flexibility in achieving the Commission's competitive bidding goals. It does this by providing a means to promote and improve upon the roadmap established in the utility's IRP Action Plan.<sup>6</sup> Deviations from the IRP roadmap should be evaluated, in part, in terms of overall system cost and risk. Guidelines 10(c-e) instruct the IE to independently review the utility's bid scoring and shortlist selection, including the evaluation of a Benchmark resource.

The third question addresses the overall reasonableness of the utility's continued negotiations with the final shortlist bidders. Guideline 13 in Order No. 06-446 states that final shortlist acknowledgment will have the same meaning, legal force, and effect as IRP acknowledgement. For a final RFP shortlist to be acknowledged, the Commission must find that the utility's continued negotiation with final shortlist bidders is reasonable based on the information known at the time.<sup>7</sup>

### Analysis and Recommendation

First, Staff agrees with the Oregon IE's that PacifiCorp conducted the 2008 RFP fairly and properly. In addition, Staff concurs with the Oregon IE's that PacifiCorp conducted its analysis of the benchmark resource consistent with Guideline 10(d).<sup>8</sup>

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<sup>6</sup> See Order No. 06-446 at 2.

<sup>7</sup> For an IRP Action Plan to be acknowledged, the Commission must find that the utility's continued implementation of the plan is reasonable based on information known at the time of acknowledgment.

<sup>8</sup> See Order No. 06-442 at 3.

The PacifiCorp RFP filing is complicated. [REDACTED]

As shown above, PacifiCorp's load/resource balance, provided as part of the 2008 RFP, shows a capacity need of 908 MW in 2012 increasing to 1,668 MW in 2016. This gap indicates that a single baseload resource is needed in the 2012 to 2016 time period. [REDACTED]

[REDACTED] Therefore, Staff's analysis, data requests, meetings and discussions with the Company on the RFP focused [REDACTED] in this timeframe.

[REDACTED]

[REDACTED] What the deterministic model results show is that if the current [REDACTED]

On a stochastic basis, [REDACTED] The Company claims that the results of the stochastic production cost modeling serve as the primary means for distinguishing portfolio performance. As characterized by the Company, a single CEM run does not address risk as determined by volatility in prices, loads, and unit availability.

[REDACTED]

Consistent with the Commissions IRP and RFP Guidelines, the utility is required to test and evaluate the performance of candidate portfolio's, ultimately selecting a portfolio that represents the best combination of cost and risk for the utility and its customers.

PacifiCorp conducted its risk analysis consistent with its modeling and decision criteria in the most recently acknowledged IRP.

The last piece of the decision criteria is contained in the supplemental analysis provided by the Company that looks at the displacement of the 597 MW Carrant Creek 2 resource, currently slated to be on-line in 2016. When the Company

[REDACTED]

Using the PAR model, PacifiCorp

Staff Data Request No. 43 asked PacifiCorp to provide a

[REDACTED]

The Company responded that the

[REDACTED]

[REDACTED]

<sup>9</sup> [REDACTED]

<sup>10</sup> See Attachment C.

<sup>11</sup> See Attachment C.

<sup>12</sup> See Attachment C, Staff DR No. 46.

[Redacted]  
[Redacted]  
[Redacted] With regard to acknowledging

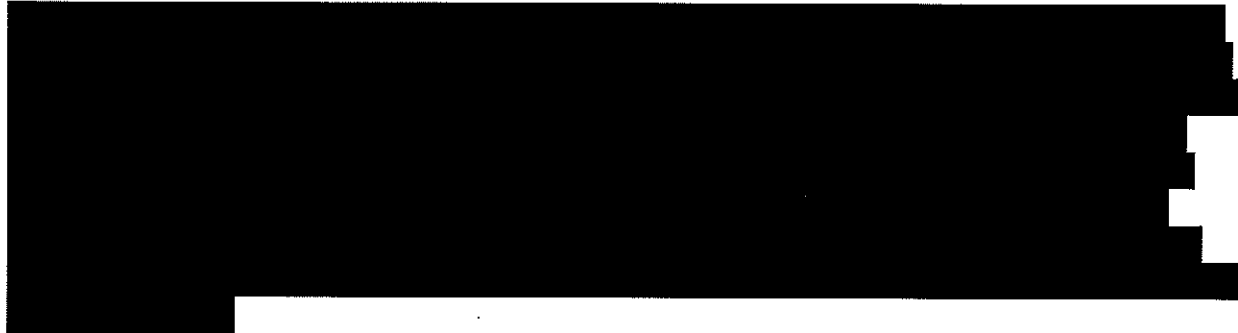
[Redacted] Staff decided not to recommend these alternatives for several reasons.  
[Redacted]  
[Redacted] Staff considered alternative recommendations, including

[Redacted]  
[Redacted]  
[Redacted] Staff recommends that the Commission acknowledge the final shortlist

[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]

[Redacted]  
[Redacted]

[Redacted]  
[Redacted] Staff is concerned with PacificCorp's  
[Redacted] For example, in its IRP the Company does not model  
planned transmission projects that are not Company projects. The Company has stated  
that due to the fact that these outside resources are not under its control it cannot  
reliably consider them when planning for its own resource needs. Therefore, Staff  
recommends that the



**PROPOSED COMMISSION MOTION:**

PacifiCorp's request for Commission acknowledgement of the final shortlist in PacifiCorp's 2008 RFP be approved. PacifiCorp be directed to continue to assess the prudence of acquiring [REDACTED]

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