ORDER NO. 12 111

ENTERED MAR 27 2012

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1540

In the Matter of PACIFICORP, Request for Approval of Final Draft 2011 All Source Request for Proposals.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on March 27, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ORDER NO. 12 111

ITEM NO. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 27, 2012

REGULAR X **CONSENT** ___ **EFFECTIVE DATE** **Upon Commission Approval**

DATE: March 19, 2012

TO: Public Utility Commission

FROM: Erik Colville

THROUGH: Bryan Conway and Maury Galbraith

SUBJECT: PACIFICORP: (Docket No. UM 1540) Request for Approval of Final Draft 2011 All Source Request for Proposals.

STAFF RECOMMENDATION:

Staff recommends that PacifiCorp's final draft 2011 All Source Request for Proposals (RFP) be approved with the following requirements:

- The Company diligently pursue the maximum amount of cost-effective demand-side resources through the acknowledged 2011 Integrated Resource Plan (IRP) Action Plan.

- The Company continue to evaluate the resource need under this RFP based on updated load and resource balances reflecting the results of diligently pursuing the maximum amount of cost-effective demand-side resources, maximizing front office transactions, and utilizing a 12 percent planning reserve margin.

- The Company include flexibility in selection of combustion turbine types in addition to that provided in its Statement of Work and Specifications, as an alternate Engineer, Procure and Construct (EPC) or Asset Purchase and Sale Agreement (APSA) bid.

DISCUSSION:

Staff's report is organized into four sections. The first section is a summary of the Oregon Independent Evaluator's (IE) assessment of the final draft RFP. The second section is a summary of the parties' comments. The third section provides a summary of

APPENDIX A
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Staff's discussion and recommendations. Finally, the fourth section discusses the criteria that the Commission focuses on in approving an RFP.

On October 5, 2011, PacifiCorp filed, for review and comment, its draft 2011 All Source RFP. The purpose of the RFP is stated as fulfilling a portion of the capacity and energy resource needs identified in the Company's 2008 IRP,[1] as updated, [2] and the 2011 IRP[3] which was pending acknowledgement in Docket No. LC 52. PacifiCorp filed for review, comment, and approval its final draft RFP on October 27, 2011.

The procedural schedule in this docket called for PacifiCorp to bring its request for approval of the final draft RFP to the Commission on January 10, 2012. Due to a delay in issuance of an IRP acknowledgement order in LC 52, PacifiCorp elected not to bring its request to the Commission on the tentatively scheduled date. The order in LC 52 acknowledging the 2011 IRP was issued March 9, 2012, so the Company is now bringing this matter before the Commission.

Summary of the Oregon IE Assessment

On November 10, 2011, the IE (Boston Pacific Company, Inc) submitted an assessment[4] of PacifiCorp's final draft RFP. Its key findings are grouped into four areas concerning: Fairness and Transparency; Risk Measurement and Assignment; Producing a Positive Result; and Compliance with Commission Guidelines.

Fairness and Transparency

The IE supports PacifiCorp's decision to not put forth a Company self-build bid, also known as a Benchmark resource. In addition, the final draft RFP provides for third-parties to bid a resource under an EPC on the Company's Currant Creek site. The IE notes that the owner's costs, which are added to the Currant Creek site EPC costs to get the full cost of the project, are still not definite. However, those costs are transparently listed in the final draft RFP and will be vetted with the IE. Should an EPC at the Currant Creek site be chosen, the IE suggests the Commission hold the Company to its owner's cost estimates in future ratemaking cases.

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[1] 2008 IRP Action Item 3 called for a 261 MW east-side simple cycle combustion turbine by the summer of 2016.
[2] The 2008 IRP Update Action Item 3 called for a Utah gas combined cycle plant with a capacity rating of 607 MW, acquired by the summer of 2015.
[3] 2011 IRP Action Item 2 calls for acquisition of a 597 MW combined cycle combustion turbine by summer 2016.
[4] *See* Attachment 2, the Independent Evaluator's Assessment.

Beyond the Benchmark resource issue, the final draft RFP has several other factors that address fairness and transparency:

- The final draft RFP is open to a wide range of products, requesting base load, intermediate load and summer peak products.
- The final draft RFP also allows for many different transaction types.
- The evaluation method is a "price mostly" evaluation, meaning that the selection of bids is based mostly on their price offer.

The IE also notes two areas for potential improvement:

- For transparency's sake, a maximum threshold of 2,000 megawatts (MW) should be represented on the Initial Shortlist. This will provide bidders some indication of how seriously their offer is being considered.
- One Company edit in the final draft RFP clarified, correctly, that all units used to supply power purchase agreements will be assessed for environmental costs (as opposed to just coal-fired units) and that all environmental costs will be considered (as opposed to just CO_2 emissions costs). The final RFP should make it clear that this applies to all transaction types.

Risk Measurement and Assignment

The IE states that, overall, the final draft RFP does an excellent job of addressing risk. It uses both single-path "scenario" and multi-path "stochastic" analyses to value bids under a variety of changes in key variables such as: natural gas prices; emissions costs; wholesale market prices; demand; hydroelectric generation; and thermal outages. This, the IE believes, assures that the portfolio selected will be robust, that is, it will perform well under a variety of circumstances. This emphasis on risk is important not only because no one knows what the future holds but also because it incents bidders to manage risk and thus reduce risks to ratepayers.

The IE had two other points on this issue:

- Once the Final Shortlist modeling has been completed, the Company should consider whether uncertainties surrounding the ultimate path of the Energy Gateway transmission project will have any effect on the final selection of winning bidders.

- The final RFP should make clear that bidders who wish to absorb some or all of the risk of future CO_2 emissions costs will be rewarded in the bid evaluation.

Producing a Positive Result

The IE concludes that the final draft RFP appears to have no barriers toward producing a positive result. It notes the final draft RFP is substantially similar to the 2008 All Source RFP, which saw a good bidder turnout and resulted in a signed contract for construction of a new facility.

An additional observation is that bidders offering an EPC contract on the Currant Creek site are restricted to using three types of turbines. The IE suggests that, as an altemate bid, bidders be permitted to offer other turbine types with their EPC bid. PacifiCorp (with input from the IE) would have to determine whether any proposed alternate turbines would be acceptable.

Compliance with Commission Guidelines

The IE concludes that the final draft RFP satisfies the Competitive Bidding Guidelines.[5] Importantly, it aligns with the Company's 2011 IRP and 2008 IRP, both in the resources requested and in the manner in which bids will be evaluated. The final draft RFP also sets forth minimum bidder requirements and scoring criteria, as required by the Guidelines. It allows for resource diversity (by requesting all schedulable and dispatchable sources of supply) and properly allocates roles between the Company and the IE.

The IE suggests that any changes or modifications made by the Commission in the 2011 IRP acknowledgement order be reflected in the final RFP.

The one other aspect the IE notes is that, even with an acknowledged 2011 IRP, the Company will still have to analyze the need for the selected resource or resources at the time it seeks acknowledgment of the Final Shortlist. The IE will work with the Company to review this analysis, and parties will have an opportunity to conduct discovery and provide commentary.

Summary of Party Comments

On December 1, 2011, Citizens' Utility Board of Oregon (CUB), Industrial Customers of Northwest Utilities (ICNU), Northwest and Intermountain Power Producers Coalition (NIPPC), and Renewable Northwest Project (RNP) filed comments in response to

[5] As presented in Order No. 06-446.

PacifiCorp's final draft RFP. PacifiCorp filed reply comments December 15, 2011. The primary issues raised in comments are summarized and discussed in Staff's Discussions and Recommendations below. Two secondary issues raised in comments are summarized following Staff's Discussions and Recommendations.

Staff's Discussion and Recommendations

Staff presents and discusses below the following primary issues: 1) Need for the 597 MW 2016 Combined Cycle Combustion Turbine (CCCT) Proxy Resource; 2) Additional Flexibility in CCCT Technology Selection; 3) Expanded Use of the Currant Creek Site; and 4) Improved Solicitation of Geothermal Resource Bids.

1. Need for the 597 MW 2016 CCCT Proxy Resource

   At the time of initial and final comments, CUB, ICNU, RNP and Staff recommended that the Commission not approve the final draft RFP. These recommendations stemmed primarily from the fact that the need for the 597 MW 2016 CCCT Proxy Resource (the 2016 CCCT) was not proven through the 2011 IRP, and the IRP had not yet been acknowledged. The 2016 CCCT is the primary resource sought in the final draft RFP. Since that time, the parties supported, and the Commission acknowledged, a Revised 2011 IRP Action Plan to acquire a 2016 CCCT on the condition the Company continues to evaluate the resource need.

   Based on Staff's recognition that a capacity deficit is forecast and given the absence of demand-side resources that are ramped up and ready to produce results, there may be no reasonable altemative to meeting that deficit with a 2016 CCCT. Accordingly, Staff recommends that PacifiCorp's final draft RFP be approved with the following requirements:

   - The Company diligently pursue the maximum amount of cost-effective demand-side resources through the acknowledged 2011 IRP Action Plan, and

   - The Company continue to evaluate the resource need under this RFP based on updated load and resource balances reflecting the results of diligently pursuing the maximum amount of cost-effective demand-side resources, maximizing front office transactions, and utilizing a 12 percent planning reserve margin.

   The acknowledgement order (Order No. 12-082) in PacifiCorp's 2011 IRP Docket No. LC 52, clarifies the understanding that the Revised Action Plan "contemplates a comprehensive 2011 IRP Update that broadly analyzes the potential need for a new thermal resource, including updated load and resource

forecasts, revised planning margins, revised estimates of conservation and demand side resources, revised analyses of front office transaction purchases, and the Plan provides a full opportunity for Staff and parties to conduct discovery and provide commentary." Staff's understanding of the intent of this clarification is that the Company's 2011 IRP Update will include a comprehensive update of forecasts, estimates, acquisitions, and transactions related to new thermal resource acquisition. In addition, Staff understands the RFP Final Shortlist acknowledgement docket will include a similar update of forecasts, estimates, acquisitions, and transactions related to new thermal resource acquisition, along with a full opportunity for Staff and parties to conduct discovery and provide commentary.

2. Additional Flexibility in CCCT Technology Selection

The IE suggests that, as an alternate bid, bidders be permitted to offer additional turbine types with their EPC bid. The IE indicates that it understands the point of requiring a bid to meet certain technical specifications but believes that the RFP process might be better served by allowing additional flexibility regarding turbine selection.

PacifiCorp replies that it outlined the specifications and allowed for flexibility by including three types of combustion turbines. The Company goes on to state that accepting additional combustion turbine configurations would require modifications to required air quality permits. Changing an ongoing permitting process would introduce unnecessary delay, and could have a significant impact on the RFP process and project timing and schedule. The Company believes that the three types of combustion turbines included in its specifications provide appropriate flexibility and competitiveness for market participants as they represent state-of-the-art in class combustion turbines. The Company comments that the benefits of avoiding unnecessary delay outweigh any incremental benefit that may be gained by allowing additional turbine types. In light of this, the Company is proposing to maintain its current specifications with respect to allowable turbine types.

In general, Staff agrees with the Company that including three combustion turbine types provides for bidding flexibility, and a delay in the RFP process due to permitting changes may be unnecessary. However, when Staff considers that there are what appear to be additional combustion turbine offerings within the GE line (FlexEfficiency 50), within the Mitsubishi line (M501F), and from Alstom (KA24), there is the possibility of a ratepayer benefit from increased competition by allowing for more than the three types. Since air permitting is still under way, and absent identification of specific permitting delays that will arise from adding other combustion turbine types, Staff agrees with the IE that it may benefit the RFP

process, and therefore the ratepayers, to allow bidders, as an alternate bid, to propose additional combustion turbine types. Staff therefore recommends the Commission require PacifiCorp to allow for additional flexibility in selection of combustion turbine types as an alternate EPC or APSA bid.

3. Expanded Use of the Currant Creek Site

ICNU and NIPPC suggest that PacifiCorp provide the opportunity for bidders to operate and sell the output from a plant at its Currant Creek site under a power purchase or tolling service agreement for up to a 15-year term. The Company does not agree with this suggestion. The Company also rebuts NIPPC's assertion that far more bidders will be interested in a power purchase agreement or tolling agreement at the Currant Creek site than construction companies in an EPC contract. The Company considers this statement to be unsupported by any data, and it is not within the Company's experience. The Company offers instead, to ensure optimal competition at the Currant Creek site, that a third party may also bid an APSA at the Company site. To provide for this, the final draft RFP has been modified to include an APSA, allowing a third party to develop, engineer and construct an asset on the PacifiCorp site.

In Order No. 06-446, the Commission specifically stated it will not require a utility to offer its site to bidders, but that the utility may choose to do so. PacifiCorp has chosen for this RFP to allow bidders to develop, engineer and construct an asset on its Currant Creek site. Parties have not offered evidence to support the assertion that offering a power purchase agreement or tolling agreement option would necessarily lead to more bidders, or a ratepayer benefit. Staff therefore believes the Commission should not require PacifiCorp to offer a power purchase agreement or tolling agreement option at its site; that being the utility's decision alone. As a result, Staff does not recommend a change to the final draft RFP in this regard.

In a related matter, NIPPC cautions that PacifiCorp's owner's costs are not covered by the EPC contract. The Company states that the owner's costs are listed in the final draft RFP, and will be reviewed by the IE and locked down prior to bid receipt. The IE notes that the owner's costs are not definite and suggests the Commission hold the Company to its owner's cost estimates in future ratemaking cases. Staff finds merit in NIPPC's concern about passing on to ratepayers owner cost overruns under the EPC option. Staff also agrees with the Company and IE that owner's costs are transparently presented in the final draft RFP. Staff recommends the Commission address the Company's owner costs in future ratemaking cases. Staff believes doing so will ensure a fair and transparent process and aid in addressing

differences in risk profiles between an EPC contract bidder and other third-party bidders.

4. Improved Solicitation of Geothermal Resource Bids

RNP suggests a geothermal-only RFP. RNP suggests that, in the absence of a geothermal-only RFP, the final RFP could: 1) quantify the fuel hedge that non-gas resources introduce, and 2) give a credit for the greenhouse gas displacement hedge that the geothermal or other renewable resource provides.

RNP also states it would be helpful to understand the extent to which any incremental cost of geothermal over gas reflects the pricing of dry hole risk in PPAs, and how that compares to the self-build path that PacifiCorp's 2011 IRP seemed to assume.

PacifiCorp replies that the final draft RFP explicitly solicits geothermal resources, considering them on an equal basis with all other bids received, and stating that a geothermal-only RFP would not lead to the least-cost adjusted for risk resource because if it is solicited separately it would not be compared to other resource alternatives. Also, PacifiCorp points out, in order for geothermal to be a viable option under a utility ownership, legislation is needed to address the dry-hole risk associated with geothermal resources. This, the Company states, does not prevent a bidder from submitting a power purchase agreement bid sourced by a geothermal resource.

PacifiCorp also replies if a bidder structures its geothermal proposal in such a way where the proposal is not tied to a gas index, that structure is a hedge to a non-gas resource, and Steps 2 and 3 in the RFP evaluation process will capture those benefits. In addition, the Company will, as part of Step 4 of the evaluation process, look at whether or not there are additional benefits associated with non-gas resources that can be quantified. The Company has made this explicit in the final draft RFP.

Staff is convinced a geothermal-only RFP is not warranted. Staff agrees with PacifiCorp that a geothermal-only RFP would not compare geothermal resources with other resource alternatives and therefore would not likely lead to the least-cost adjusted for risk resource. Staff also considered RNP's suggestions for quantifying the fuel and greenhouse gas displacement hedges that geothermal resources provide. Staff concludes the final draft RFP is structured, with the Company's noted revisions to the draft RFP, so the benefits offered by geothermal resources will be included, thus providing a fair and transparent evaluation of bids.

PacifiCorp did not address RNP's suggestion that it would be helpful to understand the extent to which any incremental cost of geothermal over gas reflects the pricing of dry hole risk in PPAs, and how that compares to the self-build path. Staff agrees it would be helpful to understand the incremental cost of dry hole risk. An approach to develop this understanding was discussed in the LC 52 Staff Report.

The two secondary issues raised in comments are summarized below.

Imputed Debt

NIPPC suggests that the Commission require PacifiCorp to remove imputed debt as a factor in evaluation of bids in the draft RFP on the basis that the Commission has stated its policy to not allow utilities to consider imputed debt in an RFP. PacifiCorp replies that imputed debt was removed from the final draft RFP as a factor in evaluation of bids. The final draft RFP now provides notice to bidders that imputed debt analysis may be performed and considered as part of a cost recovery proceeding in Oregon. The Company believes this language is consistent with the Commission's stated policy.

Shortlist Maximum MW

In reply to the IE suggestion that a maximum threshold of 2,000 MW be listed for the Initial Shortlist, PacifiCorp states, consistent with its last RFP, it will target twice the identified resource need as the quantity represented by the Initial Shortlist. This modification has been made to the revised final draft RFP.

Commission Decision Criteria

The Commission uses three criteria to judge RFP approval:[6]

1. The alignment of the utility's RFP with its acknowledged IRP.
2. Whether the RFP satisfies the Commission's competitive bidding guidelines.
3. The overall fairness of the utility's proposed bidding process.

IRP Alignment

The PacifiCorp 2011 IRP calls for acquisition of a 597 MW CCCT by summer 2016. The Commission acknowledged PacifiCorp's 2011 IRP on March 9, 2012, with exceptions and guidance. Based on the above, Staff believes the final draft RFP satisfies this criterion because it is aligned with the resource actions in the acknowledged 2011 IRP.

[6] *See* Guideline 7, Order No. 06-446 (at 9).

Competitive Bidding Guidelines

Order No. 06-446 presents 13 Competitive Bidding Guidelines that must be satisfied. Guidelines 11 through 13 deal with the process following receipt of bids, so compliance with these three Guidelines will be addressed in a future Staff Report. The remaining 10 Guidelines are largely summarized in Guideline 6, which outlines the RFP Design. Included in Guideline 6 is the requirement for the RFP to set forth minimum bidder requirements, bid evaluation and scoring criteria, and include standard form contracts. The Guideline also requires a draft RFP be provided to all parties in the utility's most recent general rate case, RFP, and IRP dockets. In addition, the utility is required to conduct bidder and stakeholder workshops. Further, the utility is required to submit a final draft RFP to the Commission for approval. Following review of the final draft RFP, Staff agrees with the IE that the final draft RFP complies with the Commission Guidelines and meets this criterion.

Overall Fairness of the Proposed Bidding Process

The IE reviewed the RFP process and did not find process elements that it believes are unfair or biased. In addition, the IE has monitored every aspect of the RFP process to date and has not noted conduct that is unfair or biased. As a result, Staff believes this criterion has been met.

PROPOSED COMMISSION MOTION:

The PacifiCorp final draft 2011 All Source RFP be approved as recommended by Staff.

Attachment 1

Independent Evaluator's Assessment

THE OREGON INDEPENDENT EVALUATOR'S ASSESSMENT OF PACIFICORP'S ALL SOURCE RFP DESIGN

PREPARED BY

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November 10, 2011

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I. EXECUTIVE SUMMARY

A. INTRODUCTION

Boston Pacific Company, Inc. was chosen by the Public Utility Commission of Oregon (the Commission) to serve as the Independent Evaluator (Oregon IE or IE) for PacifiCorp's All Source Request for Proposals (All Source RFP or the RFP)[1]. This report represents Boston Pacific's analysis of the Final Draft of the All Source RFP. The purpose of this report is to identify areas of concern regarding the RFP design and to recommend areas where PacifiCorp (the Company) could improve the RFP.

B. BACKGROUND

To start, we note that the design of this RFP is only minimally changed from the recent 2008 All Source RFP. The Commission acknowledged the final shortlist from that RFP in December of last year. That RFP saw a good amount of participation, and, most importantly, resulted in the signing of a contract with a third-party to construct a new unit at the Company's Lake Side facility. Using a previously successful RFP as the basis for the current RFP gives us a reasonable degree of confidence that the procurement will attract sufficient competition and that it will result in the selection of quality offers.

When appraising the design of any competitive procurement process Boston Pacific begins with the goal of the procurement. The goal of the procurement is to get the best deal possible for ratepayers in terms of price, risk, reliability and environmental performance given market and regulatory conditions. To know if a process will satisfy this goal we look to answer four key questions. These are: (a) Is the process fair and transparent? (b) Does the process properly measure and assign risk? (c) Will the process likely lead to a positive result? and (d) Is the process compliant with the Commission's regulatory rules and Bidding Guidelines?

These topics each serve an important function. First, fairness and transparency attract bidders and encourage them to bid aggressively. One cannot have competition without competitors, and the more competitors, the better chance the ratepayers have of getting a good deal. Second, effective risk measurement and assignment assure that the winning bids will be the bids which mitigate ratepayer risk and perform the best under a variety of possible future scenarios. Third, if the procurement does not produce a positive final result (i.e. a signed contact for new supply) then the entire process will be of marginal value, as the whole purpose of the RFP is to secure the lowest cost supply for ratepayers, when accounting for risk. Fourth, the process must be in line with Commission rules and Competitive Bidding Guidelines as those Guidelines represent the Commission's goals in terms of the type of supply procured and the method by which it

[1] Boston Pacific served in the same role for PacifiCorp's 2012 Baseload, 2008 All Source, 2008R-1 and 2009R Renewables RFPs.

is to be procured; goals which have been vetted extensively with all stakeholders. For further discussion on these topics, please see Appendix A.

C. SUMMARY

Our key findings can be broken down into several points. We group them below by our four questions concerning; (a) Fairness and Transparency, (b) Risk Measurement and Assignment, (c) Producing a Positive Result and (d) Compliance with Commission Guidelines.

Fairness and Transparency

The most welcome development in this RFP is that PacifiCorp has decided to not put forth a company self-build bid, also known as a Benchmark bid. Our issue with this type of bid is that it is offered on a cost-plus basis while third-party bidders are required to guarantee their price and performance parameters. In past PacifiCorp RFPs, we have routinely requested that the Company to be held to its cost and performance projections in future rate cases should it be declared a winner.

In lieu of offering a Benchmark bid, the Company has decided to seek Engineering, Procurement and Construction (EPC) offers for a new unit at its Currant Creek site. These EPC offers will be a new and distinct transaction type that bidders may offer, joining other traditional transaction types such as power purchase agreements (PPAs) and tolling service agreements (TSAs). The EPC offers will be evaluated along with all other bids to select the lowest-cost portfolio for ratepayers, accounting for risk. We note that in past RFPs the Company Benchmark would include a proposed EPC contract that Company developers had negotiated in private. In essence, this change then makes the acquisition of the EPC contract a part of the RFP process.

We believe this is a positive step for several reasons. First, it allows the Company to acquire fixed-price offers for construction on a prime site. Second, it provides a transparent and fair method of acquiring offers to compare to other resources with a similar risk profile. Third, it removes the specter of Company competition for EPC contracts from the bidding process.

We note that the "soft costs" or "owners costs", which are added to the EPC costs to get the full cost of the project, are still not definite. However, they are transparently listed in Attachment 7 and Attachment 8 and will be vetted with the IE. Should an EPC at Currant Creek be chosen we would continue to ask that the Commission hold the Company to their cost estimates in future ratemaking cases.

Beyond the Benchmark issue, the RFP has several other factors that address fairness and transparency.

- The RFP is open to a wide range of products, requesting base load, intermediate load and summer peak products. Because a large number of product types are permitted, the ability for bidders to participate and the chances for the RFP to get a good offer are increased.

- The RFP also allows for many different transaction types. Transaction types include not just PPAs and TSAs, but more exotic options such as PPAs which aggregate several resources. While the latter may be slightly harder to evaluate (mainly from a reliability standpoint) we think this is appropriate, as we like to see an RFP design that encourages creative proposals. PacifiCorp also states that they will allow bids which are contingent on other bids. We think this is acceptable as well as it could allow for some creative solutions, for example, a unit which bids into the Intermediate Load category and also offers into the Summer Peak purchase category.

- The evaluation method is a "price mostly" evaluation, meaning that the selection of bids is based mostly on their price offer. This is a very transparent style of offer. Bidders know that if they offer the best price they stand an excellent chance of winning.

We also note two areas for potential improvement.

- We would suggest that, for transparency's sake, a maximum threshold of MW be listed for the Initial Shortlist. This will provide bidders some indication of how seriously their offer is being considered.

- One Company edit in the final RFP clarified, correctly, that all units used to supply power purchase agreements will be assessed for environmental costs (as opposed to just coal-fired units) and that all environmental costs will be considered (as opposed to just CO_2 emissions costs). The RFP should make it clear that this applies to all transaction types.

Addressing Uncertainty and Assigning Risk

Any evaluation method must address the uncertainties of the future such as natural gas prices, CO_2 emissions regulations, construction costs, and the speed of development of new technologies. The evaluation process must (a) acknowledge that there is no one "correct" path for any of these variables and (b) credit the bidder who, through their bid design, is able to protect ratepayers with regard to these and other risks.

Overall, the All Source RFP does an excellent job of addressing risk. It uses both single-path "scenario" and multi-path "stochastic" analyses to value bids under a variety of changes in key variables such as: natural gas prices; emissions costs; wholesale market prices; demand; hydroelectric generation; and thermal outages. This assures that the portfolio selected will be "robust", that is, it will perform well under a variety of

circumstances. This emphasis on risk is important not only because we do not know what the future holds but also because it incents bidders to manage risk and remove risks from ratepayers.

We have two other points on this issue.

- Once the final shortlist modeling has been completed, the Company should consider whether uncertainties surrounding the ultimate path of the Gateway transmission project will have any effect on the final selection of winning bidders.

- The RFP should make clear that bidders who wish to absorb some or all of the risk of future CO_2 emissions costs will be rewarded in the bid evaluation.

Producing a Positive Result

PacifiCorp will not achieve a positive result if it deters or rejects good bids for the wrong reason or does not attract bids at all. Generally speaking, the RFP appears to have no barriers toward producing a positive result. It is, as noted, substantially similar to the 2008 All Source RFP, which saw a good bidder turnout and resulted in a signed contract for construction of a new facility.

One option that was removed from previous RFPs was the option for bidders to index a portion of their capital costs to a broad public index such as the CPI or the PPI. This option was put in place several years ago in order to help bidders submit binding bids at a time of rapidly rising construction costs. We agree with the Company's decision to remove this option. We feel that there is now enough stability in the market for bidders to offer fixed price bids.

We have two other points regarding this topic.

- The credit requirements of the RFP utilize the same methodology as the 2008 All Source RFP. This methodology sets the credit requirement by examining the potential replacement cost of supply. Because projected power prices are lower now than in the most recent RFP, total credit requirements are lower than in the past.

- Bidders offering an EPC contract on the Currant Creek site are restricted to using three types of turbines. We would suggest that, as an alternate bid, bidders be permitted to offer other turbine types with their EPC bid. PacifiCorp (with input from the IEs) would have to determine whether any proposed alternate turbines would be acceptable.

Compliance with Commission Guidelines

The Commission's Competitive Bidding Guidelines (the Guidelines) lay out the rules for a competitive bidding process in Oregon. All qualifying RFPs must meet the standards put forth in those guidelines.

We feel that the RFP does satisfy the Guidelines. Importantly, it aligns with the Company's current Integrated Resource Plan (IRP) both in the resources requested and in the manner in which bids will be evaluated. The RFP also sets forth minimum bidder requirements and scoring criteria, as required by the Guidelines. It allows for resource diversity (by requesting all schedulable and dispatchable sources of supply) and properly allocates roles between the Company and the IE. Debt equivalence, the process by which a Company increases the cost of third-party PPAs to reflect additional capital that might be required for the Company to maintain current capitalization rates, is tabled for consideration until after the more technical analysis has been performed.

One area of potential conflict with the Guidelines has to do with the acknowledgement of the IRP. The Guidelines dictate using the most recent acknowledged IRP as a resource acquisition plan and the 2011 IRP has yet to be officially acknowledged. However, a public meeting regarding acknowledgement of the IRP is set for December 6th of this year. We suggest that any changes or modifications made by the Commission in the acknowledgement be reflected in the RFP.

The one other aspect that we will note here is that, if the IRP is acknowledged, the Company will still have to analyze the need for the selected resource or resources at the time it seeks the acknowledgment of the Final Shortlist. The IE will work with the Company to review this determination. In looking at the need for a new resource we will examine (a) how much of the need for the resource is driven by economic concerns, as opposed to reliability concerns and (b) any option value in selecting a resource that may not be immediately needed for reliability reasons.

II. DETAILED DISCUSSION OF PACIFICORP'S ALL SOURCE RFP

For a start, we note that the RFP is very similar to the 2008 All Source RFP. That RFP received a good amount of participation and resulted in a signed contract with a 3rd party to construct a new unit at the Company's Lake Side facility. Because the previous All Source RFP was successful, we have some degree of confidence that this RFP will be successful.

The following section contains a full review of the RFP. The review is focused on our four evaluation criteria; (a) fairness and transparency, (b) risk measurement and assignment, (c) producing a positive result and (d) compliance with appropriate Commission guidelines.

A. FAIRNESS AND TRANSPARENCY

Fairness, in our definition, simply means that all bidders are treated the same. All bidders want to know that they are competing on a proverbial "level playing field," that they can win the RFP by offering the best deal in terms of price and risk allocation. Transparency means that all parties can clearly understand the RFP requirements, products solicited and evaluation methods.

A positive change from previous RFPs is that the Company will not offer a Benchmark Bid

A welcome change in this RFP is the fact that the Company will not offer a self-build option, known as a Benchmark bid. Our issue with the Benchmark option was that it had a different cost and risk profile as compared to third-party bidders. The profile differed in two ways. First, the Benchmark was offered on a cost-plus basis, meaning that there was no guarantee that the cost that PacifiCorp claimed for the project would be what was actually paid by ratepayers. Second, the Benchmark would not be held to the same operational and performance guarantees that other bidders must contractually agree to.

In the past, to remedy this imbalance, we called for any winning Company bids to be held to the cost and operating parameters presented in their bid. We also devised ways in the bid evaluation to account for any cost estimates that were not fixed by a contract.

Instead of a Benchmark bid, the Company will now invite bidders to offer an EPC contract to construct a new unit at the Currant Creek Site. This will be a separate transaction option and will be offered and evaluated along with all other transaction types. Note that any bids made under this option will not represent the entire costs of the plant. In addition, there are owner's costs or "soft costs" associated with maintaining the site and overseeing the project. These costs are listed by PacifiCorp in Attachment 7 and Attachment 8 to the RFP. These costs will be reviewed, along with other assumptions, by the IE and locked down prior to bid receipt.

It is important to see that what this structure represents is a more transparent form of what the Company did in the past. Previously, the Company development team would contact various firms and attempt to negotiate a price for an EPC contract at the Benchmark site. This offer would be combined with the owner's costs to form the Benchmark bid. Now the Company will solicit the EPC contract along with all other sources of supply.

This new method has several advantages. First, it makes available a prime resource, a space at an existing site, and allows for competition to fill the need at a fixed price. This means that a Company advantage (the existing Currant Creek site) will not be squandered. Second, it represents a more transparent and fair form of acquiring an offer.

Any new unit built on the Currant Creek site will have the same price and risk parameters as other resources. While, as noted, in the past the Company negotiated EPC contracts on their Benchmark bids for cost control, the fact remained that (a) the Company always had the option of seeking additional funds if there were cost overruns and (b) the risk profile of the EPC contract could differ from third party offers. The latter factor required evaluators to carefully review the Benchmark EPC contract to ensure that it did not contain additional risks that needed to be accounted for in the bid evaluation.

The third advantage of this method is that it removes the possibility of additional Company competition for EPC contracts. In the past, an EPC contractor, faced with the ability to prepare only one bid, would be more likely to choose to work with the Company rather than a third party, thinking that the Company had the better chance of winning its own RFP.

To be clear, the new structure does not completely mitigate the problems caused by Benchmark offers. As noted above, the owner's costs of the Currant Creek project are not fixed and will need to be added to any EPC bids to create a full and complete price for the new supply at Currant Creek. We feel these risks are somewhat mitigated by the above-mentioned facts that (a) the owners costs are listed in the RFP for all to see and (b) the IE and the Company will review and lock down the costs prior to bid receipt. We would recommend, as a further precaution, that the Company be held to their cost projections in a future ratemaking proceeding should the project be selected.

Another fair and transparent aspect of the RFP is the wide range of product categories and transaction types available for bid

In general the RFP represents a fair and transparent offer for all parties. One way this is reflected is the allowance for participation in multiple product categories. Three categories are offered, based on capacity factor.

- Baseload facilities are defined as those with a capacity factor of 60% or more
- Intermediate load resources have capacity factors of 20% to 60%
- Summer Peak purchases are offered from July to September from the hour ending 7 AM through 10 PM, excluding NERC holidays

In addition, multiple transaction types are defined and allowed to compete. The RFP seeks seven major transaction types.

- Power Purchase Agreements (PPAs)
- Tolling Service Agreements
- Asset Purchase and Sale Agreements (APSAs) on bidder sites
- EPC at a Company site
- Purchase of an existing facility
- Purchase of a facility jointly owned and/or operated by PacifiCorp
- Restructuring of an existing contract

Generally, resources must be tied to an asset, available for a term of five years or more and be 100 MW or greater in size. However, the RFP also features three exceptions. These are exceptions in the sense that they do not have to conform to all of the standard rules concerning delivery term and amount of supply. The exceptions are:

- Load Curtailment
- Qualifying Facilities
- Eligible Renewable Resources[2]

A final touch is that non-asset backed bids of less than five years duration are allowed to compete as well. The end result of all of these allowable product categories and transaction types is that the competition is open to a wide and diverse set of bidders, who have the option of choosing the form of their bid.

We note that the RFP is open to more exotic forms of bids as well. For example, the RFP notes that PPAs may be from a single resource or multiple resources. This would allow an aggregator to assemble a large offer out of some (or many) smaller offers. We recognize that, particularly if the PPA uses many sources that are diversified over a large area, the evaluation and modeling of these bids may become somewhat complex. However, at this stage we think it is better to make the RFP more inclusive.

We also note that the RFP is open to contingent offers as well, provided that the bidder explicitly spells out contingencies in their bid. This represents another positive step. A contingent offer opens up the procurement in a couple of ways. First, bidders could offer more than one product from a given asset. For example, a bidder could offer a portion of a peaking unit in the Intermediate Load category and use the output of another portion of that same unit to supply the Summer Peak purchases category. A more important effect is that there could be bidders with limited access to collateral who, as a result of contingent bidding, can now offer multiple projects into the RFP. For example, a bidder could have two sites but collateral for only one project. They could offer both sites on the condition that only one may be ultimately selected. Such an offer would, obviously, increase the competition in the RFP.

The RFP's "price mostly" bid evaluation method is transparent

An important part of making a fair and transparent RFP is that the way in which bids are evaluated is clear to bidders and that evaluations are based on objective criteria. This is why we say that "price only" procurements, where bidders all agree to sign an identical contract and price is the only deciding factor in choosing winners, are the most transparent form of procurement.

With a long-term, unit contingent procurement, a strict price only offer is not completely realistic. The procurement must account for the fact that different transaction

[2] Renewable resources are eligible to the extent that they can be scheduled or dispatched.

types and technologies require different contracts and that each bidder has their own preferences and limits on terms such as liquidated damages and force majeure language.

Having said that, the RFP does attempt to make the bid evaluation a "price mostly" affair. The initial shortlist is comprised of a price and non-price score which are given a 70/30 weight, respectively. This means that bids with good prices will, generally speaking, be at the top of the bid ranking. The final shortlist analyses are all focused on determining which portfolios serve ratepayers at the lowest cost under a variety of different scenarios. While there is no strict standard contract, a draft contract is presented in the RFP and bidders that propose major changes from the draft contract are penalized. In addition, the Company reserves the right to reject any bid after consultation with the IE, which could include bids with contract changes which shift excessive risk onto the ratepayer.

This "price mostly" evaluation, then, represents a transparent method of bid evaluation. Bidders know that all they have to do is offer the best price and their bid stands an excellent chance of being the winning bid. Furthermore, the draft contracts, as well as the RFP itself, make it very clear what non-price metrics the Company will be examining and what non-price terms bidders will be held to in a contract.

To assist bidders, the Company should establish a maximum quantity of supply taken for the initial shortlist

One issue of transparency arises in the selection of bids to the initial shortlist. In the evaluation process, a number of bids are selected first to the initial shortlist and then a smaller number are selected to the final shortlist. All or some of the bids from the final shortlist may be selected to negotiate final contracts with the Company.

While the Company's need (as determined by the latest IRP process) is stated in several places, nowhere in the RFP does it state the quantity of bids that will be taken to each shortlist. Based on our previous experience, we understand that the Company may wish to wait and see the results of the procurement before deciding how many bids make the shortlists. Usually, bid scores exhibit distinct "tiers" of results and evaluators will look to take all bids within a given "tier."

Nonetheless, bidders may want to have some sort of indication as to the quantity the Company will select so that they can understand what a selection to the initial shortlist means and how seriously their bid is being considered. We would recommend that PacifiCorp set a target threshold for the initial shortlist to better inform bidders what selection to the shortlist means in terms of their bid status and likelihood of selection. To keep some flexibility we recommend that the initial shortlist be comprised of resources that, in total, add up to no more than 2,000 MW, or about three times the targeted amount from this RFP for each bid category (i.e. Base Load, Intermediate Load, Summer Peak). To preserve some flexibility in bid selection, the Company should make it clear that this is only a target threshold, not a hard and fast rule.

The RFP should make it clear that all resources will be evaluated for environmental performance and costs

In making edits for the Final Draft RFP the Company added language to clarify that all resources, not just coal-fired facilities, would be evaluated for environmental compliance costs. The Company also clarified that all environmental compliance costs would be considered, not just carbon emissions costs. Specifically, the Company stated that "All bids, including those from new or existing coal resources, will be considered by the Company and, during the evaluation process, will be given appropriate weight based on carbon ("CO_2") risks and other environmental compliance costs and risks associated therewith."

We believe that this edit was appropriate as it accurately reflects the evaluation process. Our only issue is that the edit was made specifically in the section on Power Purchase Agreements; elsewhere in the document, the older, more confusing language remains. For example, in the section regarding Asset Purchase and Sale Agreements on a bidders site, on page 18, the RFP states "All bids from new or existing coal resources will be considered by the Company and, during the evaluation process, will be given appropriate weight based on carbon CO_2 risks associated therewith."

Since the evaluation process the Company will follow assesses environmental compliance for all technology and transaction types and assesses all costs, not just carbon emissions costs, we recommend that these facts be made clear in other sections as well. To clear up any potential confusion, we would recommend that the newer language noted above be reflected in each instance where the old language still exists.

B. RISK MEASUREMENT AND ASSIGNMENT

PacifiCorp employs a complex, multi-step approach to select a robust portfolio of bids which perform well given a wide range of expected future conditions

The RFP features a very strong plan for assessing risk and selecting bids that perform well given an uncertain future. Bids will be evaluated in a multi-step process based on the same analytical methods used in the Company's IRP. For the initial shortlist evaluation a price score will be determined by comparing the cost of a bid to projected market prices via PacifiCorp's RFP Base Model. The bid's cost is essentially its levelized dollar per megawatt-hour busbar cost and it will be compared to the levelized dollar per megawatt-hour cost of the power it will replace, defined here as PacifiCorp's projection of wholesale market prices. Bids at 60% below market prices will receive a perfect score, with bids above 140% of the market price receiving a score of zero. Bids in-between will be linearly interpolated. We note that the Company maintains the ability to adjust those parameters to maintain the 70/30 price/non-price split and preserve the "price mostly" nature of the evaluation.

Bids will then be evaluated for non-price characteristics. The non-price factors attempt to quantify some factors that are not included in the bid price. They are grouped into three categories;

- Development Feasibility/Risk - This category assesses the likelihood that the project can be successfully developed, as proposed, based on factors such as project schedule, engineering design, technology maturity, and fuel supply arrangements
- Site Control and Permitting - This category reviews the bidder's plan for obtaining site control and permits such as water rights and right-of-ways
- Operational Viability/Risk Impacts - This category examines the bidder's strategy for complying with environmental regulations, the environmental impact of the plant and the bidder's Operating and Maintenance (O&M) plan for the facility

Each category is made up of three to five subcategories. The RFP lays out each subcategory and provides some descriptions of the purpose of each category. In terms of scoring, each category will be worth 10 points, for a total of 30 points. Each sub-category will be scored at 0, 50% or 100% of the points available.

The score from the price and non-price evaluation will be added together to establish the initial shortlist. The top performing bids in each category (Base Load, Intermediate Load, and Summer Peak) will be selected to the initial shortlist. As noted above, there is no limit to the number of bids selected. In general, absent limits, evaluators will look for a cutoff point beyond which scores dip significantly. Above we suggest that a target threshold of 2,000 MW per category be employed, recognizing the fact that the threshold is only a guideline, not an absolute limit.

The final shortlist analysis will evaluate the bids using the System Optimizer and Planning and Risk (PaR) models to assess risks using both "stochastic" and "scenario" analyses. Scenario analyses examine a single path of a variable or variables while stochastic analyses examine multiple paths for key variables.

The final shortlist analysis has three distinct steps. In the first step, the System Optimizer model will determine, for a given assumed path of certain variables (i.e. natural gas prices, carbon emission costs), the least-cost portfolio of resources that can be used to achieve a given reserve margin. The model looks at a given "group" of resources (in this case, the bids from the initial shortlist) and tests each potential combination of resources to see which combination satisfies the Company's need for the lowest cost.

PacifiCorp will "stress test" the selection by looking at multiple paths for emissions costs and natural gas costs. The cases will be consistent with the latest approved IRP, but may be updated to reflect more recent data, PacifiCorp updates items such as load projections on a more frequent basis and we would anticipate using the latest updates of all key variables. All assumptions and updates will be reviewed by the IE.

The key output from the System Optimizer model will be the portfolio of resources that is selected under each scenario. In the second step of the final shortlist analysis each portfolio will be further evaluated in the Planning and Risk (PaR) model via a stochastic analysis. The stochastic analysis assesses five variables. Those five variables are (a) retail loads; (b) natural gas prices; (c) wholesale electricity prices; (d) hydroelectric generation; and (e) thermal unit availability. A possible range for each of these risks is determined based on historical experience. The PaR model will be run with several different CO_2 emissions cost levels as it does not allow for dynamic changes in that variable.

For each portfolio PacifiCorp will estimate the net Present Value of Revenue Requirement (PVRR) under 100 different sets of assumptions. That is, the cost (net PVRR) of each portfolio will be estimated with 100 model runs. The key data that will come from those runs includes;

- Mean PVRR - The average cost of the portfolio over the 100 iterations
- Mean Upper Tail PVRR - The average PVRR of the top 5% (i.e. top 5) most expensive scenarios
- Variable Cost Standard Deviation - The standard deviation, or measure of average change in value for all 100 scenarios. This represents the magnitude of change in portfolio value depending on changes in variables
- Risk Adjusted PVRR - This is defined as the average PVRR *plus* the 95th percentile PVRR times the probability of that 95th percentile value occurring (i.e. 5%). For example, if a portfolio has an average PVRR of $20 billion and a 95th percentile value of $30 billion (i.e. the portfolio has a 95% chance of costing ratepayers less than $30 Billion) then the Risk-Adjusted PVRR is $21.5 Billion)

PacifiCorp claims that the key stochastic variable it will review is the Risk-Adjusted PVRR. We believe that this is an effective way to select a robust portfolio. It gives credence to the risk inherent in a portfolio by using the 95th percentile value, but, by adjusting this value by the probability of occurrence, it does not place *too* much emphasis on upper tail values that are less likely to occur.

In the third step of the final shortlist analysis each portfolio will also be re-run as a fixed selection in all the System Optimizer cases. In other words, the model will be configured to use a given portfolio instead of picking the best portfolio from a group of resources. The PVRR of the portfolio will be counted and ranked versus other portfolios. The purpose of this step is to look for portfolios which perform particularly well or badly under a given scenario. This helps evaluators better understand the strengths and weaknesses of each portfolio and avoid making a selection that could put undue risks on ratepayers.

The impact of the Gateway project on bid selection should be considered

The Energy Gateway transmission project is an approximately 2,000 mile transmission path that is planned to span several states, including Wyoming, Utah, Idaho, Oregon, and Washington. PacifiCorp has identified, in its IRP, the Energy Gateway transmission project as accommodating "... a variety of future resource scenarios, including meeting renewable and low-carbon generation requirements, supporting natural gas fueled combustion turbines and market purchases ..."[3] The IRP examines several different configurations for the Gateway project, ranging from minimal planned transmission, consisting of specific transmission segments, to the full expansion of the Energy Gateway project. These various configurations were analyzed in the IRP, using the Company's System Optimizer model, under different CO_2 costs, natural gas prices, and renewable portfolio standards. Based on their analysis, PacifiCorp believes that the full configuration of the Energy Gateway transmission project is the best solution to meet their needs in the future. Accordingly, PacifiCorp reflected the full Energy Gateway configuration in portfolios used to develop its 2011 IRP preferred portfolio.

Because the scale of the Energy Gateway transmission project, we are concerned that assumptions about the project might have some effect on bid selection. This effect could be in either (a) the amount charged to bids for transmission integration or (b) the ability of resources to access the PacifiCorp system and wholesale markets. We would urge the Company, after the modeling for the final shortlist has been completed, to consider whether assumptions made about the Gateway project have an effect on the winning bids, and if so, see what risk mitigation strategies can be developed to preserve the advantages of the winning bids.

The RFP should make it clear that bidders will be rewarded for absorbing CO_2 emission cost risk

PacifiCorp notes in its introductory letter accompanying the Final Draft RFP that "language was added to clarify that adjustments to the evaluation would be reflected if the proposal indicates that the Bidder will pledge to absorb the carbon risk." While we agree with the change, the proposed language is still not completely clear. Page 40 of the RFP states that a bidder desiring to offer a bid in which it absorbs some or all of the carbon cost risk may do so, and that will be reflected in the evaluation. However, the section below reads, in bold; "**if the bid does not provide for the passing through of such costs, the bid evaluation process will incorporate the assumption that Bidders <u>will pass though to PacifiCorp any costs</u> associated with meeting future air quality requirements relating to specified facilities.**"

This seems to suggest that even if the bidder specifically does not pass through costs, the evaluation will assume that these costs will be passed through. To be clear we would recommend the sentence be changed to read; "**Unless the bid does not provide for the passing through of such costs, the bid evaluation process will incorporate the**

[3] PacifiCorp 2011 IRP, page 62.

assumption that Bidders will pass though to PacifiCorp any costs associated with meeting future air quality requiremeuts relating to specified facilities."

C. PRODUCING A POSITIVE RESULT

Beyond fairness and transparency, we still must consider whether there are any other requirements that could keep the RFP from producing a positive result for ratepayers. In other words, are there any barriers to entry or other requirements that would prevent the Company from contracting with resources that would form the lowest cost portfolio when adjusted for risk?

The removal of the indexing option for capital costs is appropriate

In previous Baseload and All Source RFPs PacifiCorp included an option for bidders to index part of their capital costs to a broad public index. In other words, bidders could offer a price to construct a plant and a portion of the price would change with changes in large price indices such as the CPI and the PPI. Specifically, bidders could index up to 15% of their price to the PPI and 25% of their price to the CPI.

The driving force behind this feature was the rapid increase in commodity costs (and, subsequently, the cost to construct new power plants) that began about 5 years ago. At that time increasing construction costs made it very difficult for bidders to guarantee their offers. The indexing option was put in place to allow some flexibility in putting their bid together.

In this RFP the Company has removed the indexing option. We believe that this is appropriate at this time. In the most recent RFP, bidders seemed to have fewer problems putting together fixed price offers and did not appear to be relying on the indexing option to offer their bids. Therefore, we do not think that removing the option will harm competition in this RFP. Moreover, all things being equal, we prefer to see fixed price bids because that provides better protection for ratepayers.

The determination of credit requirements is consistent with past practice and overall requirements are lower

One issue which can have a large impact on the participation (and success) of a procurement is the credit requirements. Credit requirements must be properly balanced between protecting ratepayers and being accommodative enough to encourage competition.

Credit requirements in the All Source RFP are developed using the same practice as in prior PacifiCorp RFPs. The method is based around the market exposure that the Company might see if the resource does not come on line as planned.

To calculate this exposure, PacifiCorp envisions a scenario where the unit does not come on line and they must substitute wholesale market purchases for a time (assumed to be 12 to 18 months, depending on the transaction type) while they acquire a replacement resource (this could include "stepping in" to the bidder's project and ensuring completion personally). To estimate the cost of buying replacement power PacifiCorp looks at projected wholesale market prices and, based on observed price volatility, calculates a range of expected prices for the future. PacifiCorp only focuses on the summer months, because this is when they most need the supply. PacifiCorp looks at the 84th percentile of prices, which is the price path that, based on the Company's estimates, will be exceeded by higher prices only 16% of the time and assumes that this is what it will pay for replacement power.

This determines the market exposure for a given resource. PacifiCorp calculates different exposures based on the general size of the resource (i.e. 101-200 MW, 201-300 MW, etc...) and whether the resource is backed by an asset or not. Because non-asset backed resources have no asset for the Company to take over, the replacement cost for such assets include replacing all volumes of the contract, not just the Summer peak volumes. Bidders with higher credit ratings have to cover less of the market exposure.

We feel that this method is appropriate since it attempts to link the amount of credit a bidder posts with the actual damages they could cause by not performing up to their contract. We note that past RFPs using this method have attracted an acceptable level of competition. Moreover, because the projection of future power prices has come down recently, the total amounts that the Company requests are now lower. For example, when the last All Source RFP was issued in December of 2009, the maximum amount of credit a bidder had to post for a 500 MW asset-backed APSA or PPA was about $53 million. In this RFP, the same project would only post $28 million.

Bidders should be allowed to offer proposals for alternate turbines on the Currant Creek site

As noted above, bidders may offer an EPC contract to build a new unit on the Company's Currant Creek site. Since this is a Company site and the new unit will be run by the Company, PacifiCorp has asked that bidders commit to a number of technical specifications. One of these specifications is that bidders may only offer one of three turbine types; GE's 2x1 7FA.05, Mitsubishi's 2x1 501 GAC and Siemens' 2x1 SCGT6-5000F(5).

While we understand the point of requiring a bid to meet certain technical specifications we believe that the RFP might be better served by allowing some flexibility regarding turbine selection. This might open up the bidding for turbine options that are more efficient than those currently allowed.

The easiest way, in our opinion, to allow for additional turbine types to be offered, while still maintaining PacifiCorp's preferences for the site, is to permit additional turbine types to be offered as an alternative bid. This way, PacifiCorp still

receives an offer that it knows to be effective for the site, but opens up the possibility of receiving a better offer. Of course, any such alternate proposals would have to be approved by the Company. We envision that the IE would also have input on the process.

D. COMPLIANCE WITH COMMISSION GUIDELINES

The final standard we examine is whether the RFP is in compliance with regulatory rules and guidelines. In Oregon, this means that the RFP is in conformance with the Commission's Competitive Bidding Guidelines, which were developed in 2006. These guidelines are important because they were vetted with multiple stakeholders and lay out exactly how the Commission wants a procurement to operate.

Overall we find the RFP to be in compliance with the Guidelines. In this section, we elaborate on each relevant Guideline and how the RFP attempts to meet that Guideline. There are a total of 13 Guidelines, some of them, for example, the requirement for a closing report, will be complied with at a later date in the process and some (e.g. guidelines relating to Benchmark bids) are not relevant here. Below we discuss all relevant Guidelines.

Guideline #1 - Need for an RFP

Guideline #1 requires that an RFP be issued for all major resource acquisitions identified within an acknowledged IRP.[4] This RFP is based on the preferred portfolio in the Company's 2011 IRP. That IRP was submitted to the Commission in March. The Guidelines define a major resource acquisition as a resource with greater than 5 years duration and larger than 100 MW. The concept here is that the Company will vet its planning process with all stakeholders and have the process approved by the Commission. Once that plan is approved, the Company then will issue an RFP to acquire any major resource identified.

The 2011 IRP does identify a major resource acquisition, a 597 MW natural gas fired plant to come on line in 2016. We note that this selection was merely the outcome of the planning process using estimated data and does not mean that this is the exact resource that will be acquired. The bids received will determine what is chosen to provide supply.

The only issue in complying with this Guideline is that the Company's 2011 IRP has not been officially acknowledged by the Commission. However, we anticipate, based on the procedural schedule in the case, that the IRP will be considered for acknowledgment in December of this year. Therefore, we believe the RFP can be compliant with this guideline so long as it reflects any Commission ordered alterations required as part of the IRP acknowledgement.

[4] There are some exceptions, which are covered in Guideline #2.

Guideline #3 and #4 - Affiliate bidding and self-build option

Guideline #3 permits a utility affiliate to submit bids in an RFP. If this is allowed, the utility must blind the bids and treat affiliate bids the same as other bids. The RFP will not allow for affiliate bids so this Guideline is not an issue.

Guideline #4 allows for the utility to provide a site-specific self-build option, known as the Benchmark resource. As noted above, this RFP does not feature a Benchmark option.

Guideline #5 - Independent Evaluator

Guideline #5 requires the use of an Independent Evaluator to ensure that all offers are treated fairly. Boston Pacific was selected as the IE and maintains strict independence from the Company and potential bidders.

Guideline #6 - RFP design

Guideline #6 requests that the Company provide a draft RFP to all parties and interested persons in the utility's most recent general rate case, IRP and RFP dockets and conduct a stakeholder and bidder workshop on the draft RFP. The utility will then submit the final draft RFP for approval. The IE must be consulted when preparing the RFPs and will submit a report assessing the final draft RFP.

PacifiCorp submitted its initial draft RFP to the Commission on October 5, 2011. The Company held workshops with interested parties, including bidders, on September 1, 2011 and October 20, 2011. The Company solicited comments from Staff and the IE, and incorporated those comments into the final draft RFP.

This Guideline also requires that Qualifying Facilities larger than 10 MW must be allowed to participate, which this RFP allows. The RFP must also have standard form contracts but also allow bidders to negotiate mutually agreeable terms. The RFP does have these contracts and does contemplate this negotiation.

Guideline #7- RFP approval

Guideline #7 states that Commission approval of the RFP will focus on three items; (1) the alignment of the RFP with the latest acknowledged IRP, (2) whether the RFP satisfies the Guidelines, and (3) the overall fairness of the bidding process. As the text of this report makes clear, we believe that the RFP meets these standards, with the exception of the fact that the 2011 IRP must be acknowledged by the Commission, as noted above.

Gnideline #9 - Bid scoring

Guideline #9 requires that the initial shortlist selection be based on price and non-price factors, with price scores representing a comparison of the levelized bid cost to forward market prices, and provide resource diversity. Final shortlist selection is to be based on modeling consistent with the IRP. Finally, debt imputation (also known as "debt equivalence") is reserved for the selection of final bids.

The RFP successfully meets each of these standards. As noted above the initial shortlist features a price and non-price score. The price score is determined by the levelized cost of the bid as compared to the cost of the power it replaces, which is determined by forward market prices. The non-price score is based on resource characteristics noted in the IRP action plan as well as conformance to standard form contracts. The final shortlist modeling will use current IRP inputs (in some cases, updated to the most current assumptions) and the models, process and scenarios are the same as used in the latest IRP. Diversity is provided by the fact that (a) multiple sources are allowed to offer and (b) the initial shortlist will be organized by product category, assuring that selections from each category will be considered for the final shortlist.

Finally, the debt equivalence issue is left out of the evaluation process and left as a potential part of the post final-shortlist considerations. Debt imputation, or debt equivalence is a controversial topic driven by the fact that some credit rating agencies view PPAs and Tolling Agreements as the functional equivalent of debt, treating a portion of the payments under these agreements as *hypothetical* debt to the Company's balance sheet. The Commission has the power to request PacifiCorp to obtain an advisory opinion from a credit rating agency if it wishes to substantiate claims of harm from debt equivalence issues. This is a fair solution because the question of possible harm to ratepayers via this debt equivalence issue requires a broader discussion of possible balance sheet effects from self-build options and offsetting risk mitigation with third-party bids

Other Guidelines

As noted most other Guidelines are either not applicable (e.g. Guideline #8 regarding Benchmark Resources) or will be satisfied at a later date (e.g. Guideline #11 – IE Closing Report). We will monitor throughout the process to ensure that all Guidelines are followed. If there are any issues, we will bring those to the Commission's attention in our Final Closing Report.

Need for new resources

Even if the IRP is acknowledged in its current form in December, we note that the IE will still address the question of the need for a new resource in our Final Closing Report. As we have noted in prior reports, we can break the subject of "need" into two distinct categories, need to keep the lights on (reliability need) and need to satisfy a legal

or regulatory goal (e.g. lower prices or renewable portfolio standards), which we can think of as "economic need". In looking at the need for the resource, we will examine how much of the need for the resource is driven by economic concerns, as opposed to reliability concerns.

If the modeling shows that a new resource is not needed immediately we will further explore whether there might be any value in trying to move forward with winning projects versus holding another procurement in the near future.

APPENDIX A
KEY CRITERIA OF RFP EVALUATION

KEY CRITERIA OF RFP EVALUATION

Our starting point in reviewing any RFP is the basic premise that the purpose of any competitive solicitation should be to get the best deal possible for ratepayers in terms of price, risk, reliability, and environmental performance, given current market and regulatory conditions. In evaluating whether or not the RFP will lead to this goal, we have found it helpful to focus on four key questions: (a) Is the process fair and transparent? (b) Does the process properly measure and assign risk? (c) Will the process likely lead to a positive result? and (d) Is the process compliant with the Commission's regulatory rules and guidelines?

Following is a brief primer as to why these questions are important and some ways in which to achieve positive answers to these questions.

A. FAIRNESS AND TRANSPARENCY

Why is it important?

To achieve a positive outcome for ratepayers the methods of bid evaluation must be fair and transparent to all. Fairness means that all parties are treated equally. This includes not only third party bids, but also utility Benchmark or self-build options. Transparency means that all parties can understand the RFP requirements and evaluation methods. Only if fairness and transparency are present will a large number of competing power suppliers participate and bid aggressively.

Fairness and transparency attract bidders for several reasons. First, if a solicitation is "fair," bidders know that their bid will be considered on equal footing with other bids, and they do not have to worry about their bid losing out to an inferior offer. Second, if a process is transparent, bidders know exactly what is being solicited and how bids will be evaluated. When bidders know that no special privilege will be granted to any bidder and evaluation criteria are laid out clearly, they know that aggressive bidding is the only way to ensure that they win the RFP.

Fairness and transparency also benefit ratepayers. The more bidders, bidding aggressively, that participate in the RFP, the better chance the ratepayers have of receiving a quality offer. Transparency also has the added benefit of letting the ratepayers know just how the winning bids were chosen.

How do we achieve it?

There is no single right way to solicit power and, therefore, there is no single right way to achieve fairness and transparency. In general, a fair and transparent process would involve; (a) all parties bidding under the same terms, (b) a precisely defined

product, and (c) a price only or "price mostly" evaluation. The point of these conditions is to make sure that all bidders understand what they are bidding for and how they will be evaluated and that the winner will simply be the bidder who offers the best deal for ratepayers.

An example of these principles in action can be seen in the full requirements solicitations for Standard Offer or Basic Generation Service in PJM. The product for these solicitations is precisely defined as full requirements supply which, in essence, makes each supplier responsible for serving a percentage share of the energy, capacity, and ancillary service needs of a ratepayer class. Bidders offer an amount of supply at a stated price. The winners are simply the bidders who offer to supply at the lowest cost. All bidders, including the utility affiliate, are treated in the same manner and sign the same contracts.

This is not meant to suggest that PacifiCorp must conduct a full-requirements type solicitation, only to provide a real-world demonstration of fairness and transparency. We feel that it is important for parties to understand that these are more than just "principles" but standards that are achievable in the real world.

B. MEASURING AND ASSIGNING RISK

Why is it important?

In reviewing RFPs we look for an evaluation process which, to the best extent possible, recognizes the uncertain nature of the future, that the only thing certain is uncertainty. Today, future values of variables such as gas prices, emissions regulations, and construction cost escalations are unknown. Yet these variables will have a great impact on future ratepayer costs. The impact of new technology could also greatly affect the choice and cost of future supply.

If the exact paths of these variables were known, the selection of new resources would be relatively easy. In reality, there are no certainties about the future, which makes the evaluation process much more complex. The best evaluation process is one which acknowledges the risks that ratepayers face, and incorporates an analysis of those risks into the selection of bids which perform well under many different future scenarios.

The RFP, then, must do two things to take account of risk. First, the evaluation methods must recognize and measure risk. Second, bids must be credited to the extent that they assign risk away from the ratepayers and onto parties better equipped to manage risk.

This focus also assists ratepayers because, if the evaluation clearly accounts for risk, then credit can be given to the bidders who act to shield ratepayers from risk and the lowest-risk bids can be identified. It also encourages innovative risk management. If bidders know that they will stand a greater chance to win, all things being equal, by

removing risks from the ratepayer, then they will be encouraged to come up with ways to remove or hedge risk.

How do we achieve it?

To find the best deal for ratepayers, risks must be accurately measured in the evaluation process. There are two chief ways to handle this task. One way is to assign each bidder the same risk profile through a tightly defined product, process, and a contract which holds all bidders to the same risk assignment standard. This method is used in the previously-mentioned full requirements solicitations in areas like New Jersey and Maryland, where all bidders, including utility affiliates, bid by the same rules for the same product and sign standardized contracts.

The second way to measure risk is to review the key risks inherent in each bid and attempt to value each of them separately. This requires sophisticated modeling techniques which model what costs would be incurred for each bid based on changes in key variables. This sort of modeling can take two basic forms, "scenario" modeling or "stochastic" modeling. Scenario modeling examines a single "path" for a given variable and reports what ratepayers would pay given that scenario. Stochastic modeling involves essentially creating multiple "paths" for each variable, basically hundreds of scenario runs at once, which give both an average or expected value of the bid as well as a risk metric such as standard deviation.

The ultimate goal of these exercises is to compare bids with different risk profiles. This comparison is key because the nature and extent of risk varies across technologies and transaction types. For example, for coal-fired technologies the greater risks are linked to capital costs and environmental regulations. In contrast, for natural gas, fuel price risk is the more prominent risk. Similarly a fixed price pay-for-performance power purchase agreement puts all risks on the bidder, while a cost-plus transaction puts the risk burden on the ratepayer.

C. LEADING TO A POSITIVE RESULT

In reviewing and conducting an RFP, it is always important to keep the end goal in mind, the acquisition of the best deal for ratepayers in terms of risk, reliability, price, and environmental performance, given market conditions. The above prescriptions should aid in that goal, but they do not guarantee it. If, for example, a bidding requirement, say, a credit threshold, disqualifies a wide selection of potential participants, then the likelihood of a good result is lower. With this in mind we also review an RFP with an eye toward items which could affect the participation levels in the RFP.

We note that there are times when the goal of a positive result could come into conflict with the other goals mentioned above. For example, a bidder could present an offer that is attractive, but features a non-fixed (or indicative) price. At this point, it is up to the evaluators to decide whether allowing this bid to be evaluated is appropriate given the fact that other bidders have conformed to the requirement to submit a binding bid. In

these cases Boston Pacific views part of the IE's job as providing advice on moving forward in the best interests of ratepayers.

D. COMPLYING WITH COMMISSION RULES AND GUIDELINES

A final topic that we review is compliance with appropriate Commission regulatory rules and guidelines. While these are usually in line with the goals of fairness and transparency and, of course, are geared toward producing a positive result we cannot simply ignore rules and guidelines because they represent the will of regulators and the ratepayers, having been vetted through a public comment process.