

Rocky Mountain Power
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Witness: A. Robert Lasich

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of A. Robert Lasich
Navigant Consulting's Final Report on Pacifiorp RFP 2003-A

December 2007

PUBLIC VERSION

**NAVIGANT CONSULTING'S
FINAL REPORT ON
PACIFICORP'S RFP 2003-A**



September 8, 2004



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Executive Summary

This is the public report regarding PacifiCorp’s (“PacifiCorp” or “the Company”) 2003-A RFP (“RFP”). The purpose of this report is to provide a summary of the entire RFP process beginning with the review of PacifiCorp’s next best alternatives (“NBA”) and concluding with the review of negotiations with bidders. Navigant Consulting, Inc. (“NCI”) was retained by PacifiCorp as the outside evaluator of the RFP process and was tasked with preparing this public report based on its involvement with the PacifiCorp RFP. The report provides the general public with an understanding of what went into the development of each NBA, how the screening of competitive offers was implemented, how the offer clarification and negotiation sessions with bidders were conducted, and what went into the ultimate selection of resource alternatives by PacifiCorp. The report is segmented into five primary sections that walk the reader through the following:

- I. Background of the 2003-A RFP** – highlighting the rationale and structure of the RFP, the attributes sought by bid category, the timeline of the RFP, and NCI’s role as the outside evaluator;
- II. The NBA Review and Validation Process** – highlights what went into reviewing and validating the NBA’s developed by PacifiCorp and the timing for completing our validation prior to PacifiCorp reviewing competitive bid information;
- III. The Bid Review and Screening Process** – describes what types of offers were received, what types of companies responded to the RFP, what took place during the course of reviewing the competitive offers submitted by bidders, and how the screening criteria were applied to identify the preliminary bidder short list;
- IV. The Offer Clarification and Negotiation Process** – explains what occurred during the course of clarifying offers with bidders, how the final short list of bidders was identified, and the duration and substance of the bidder negotiations that took place; and
- V. Conclusions and Recommendations** – observations regarding RFP specific activities, conclusions, and proposed recommendations for continuing to improve the Company’s formal supply acquisition activities.

Throughout the RFP process, NCI was given unfettered access to information, models, and personnel that would facilitate the review and validation of the approach used by PacifiCorp to implement the RFP and the tools used to evaluate offers. NCI found the process used by PacifiCorp to be fair and reasonable. The first step in NCI’s review was evaluating and validating the estimated costs and operating assumptions for each of the NBAs. Following this review, NCI was responsible for administering the distribution of blinded bid information to PacifiCorp and conducting a parallel review of the proposals. Once complete, PacifiCorp prepared a financial assessment of every offer that was submitted for consideration. NCI then reviewed each of the models to validate that the inputs related to each offer were properly reflected in the valuation and that the models fairly represented the value of the offers. Relying on the indicative information in the proposals, PacifiCorp identified the top bidders in each bid category with whom it was interested in holding clarifying discussions (i.e., the preliminary short list). Only these bidder’s identities were released to PacifiCorp. Upon concluding clarifying discussions with bidders, the top candidates from the

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preliminary short list were selected for detailed negotiations. These negotiations extended over a nine-month period and concluded with the selection of a preferred resource in two of the three bid categories.

Each alternative considered by the Company was given an equal opportunity to be the resource option of choice for PacifiCorp to meet its projected supply needs. Bidders were also provided ample opportunity to put forth the best offers that they wanted PacifiCorp to consider. The analysis of the offers resulted in no super peak offers being more economic than the market-based benchmark, no peaker offers being superior to the Company's cost-based alternative, and one offer in the Baseload bid category being selected as the resource option of choice for meeting the Company's 2007 resource need.

In the course of describing the basis of the RFP process and the manner in which it was implemented, it is NCI's intent to provide its objective assessment of the process both among the specific components and for the process in its entirety. From an operational and design perspective, the RFP process developed and implemented by PacifiCorp functioned as expected. It resulted in over 100 offers from the market, a few of which were economically competitive with the Company's own internal benchmark options. It satisfied the primary criteria NCI looked for in the process: equal opportunity, analytical objectivity, reasonableness and consistency. Having met these, NCI supports the RFP process as having been managed in an effective manner with results that are readily supportable.

Although the process as a whole was sound there are some lessons learned that NCI offers to improve future solicitations, which build on the success of this current solicitation. These are offered in the form of observations and recommendations by subject matter along with a brief explanation of the basis for NCI's determination. The broad areas that NCI thought it was most important to provide its thoughts on were (1) the formulation and use of the NBAs, (2) the manner in which the RFP was developed and implemented, and (3) the economic modeling of offers and the screening and short listing process. These represent the three core dimensions of the whole RFP process beginning with the NBA and culminating with the selection of the best alternatives for meeting the Company's resource needs.

a. Next Best Alternatives (NBAs)

Recommendation #1: Encourage PacifiCorp to continue using NBAs, consisting of both cost-based and forward-market based benchmark (for the appropriate products and terms).

Rationale: The use of an NBA was an effective means of gauging the cost competitiveness of offers received from the market. Without the NBAs, PacifiCorp clearly would have been a price taker in the negotiation sessions with bidders. The NBAs were acutely necessary because of the transmission constrained and marginally liquid nature of PACE.

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Recommendation #2: PacifiCorp should consider developing a component based PVRR spreadsheet for the NBA.

Rationale: This would provide a ready side-by-side benchmarking of the NBA by cost category relative to the offers received from the market and would facilitate a more efficient review process as the evaluative process evolves from beginning to end. Using a basic and simple summary page that is linked to the larger integrated model would make it much easier for PacifiCorp (and the Outside Evaluator, if they are involved) to track the impact of material changes that inevitably occur during the course of benchmarking and offer valuation. For this RFP, the absence of this information at the outset made the process of evaluating and validating the NBAs more time consuming than it needed to be, but it did not materially delay the process.

Recommendation #3: A more detailed description of the Company's self-build option should be provided to bidders during the bid development period or as a separate section of the RFP.

Rationale: comments were made in the Currant Creek proceeding and during discussions with the Baseload bid category bidders that it would have been helpful to have a more detailed description of the NBAs than what was provided. Whether this includes detailed cost information on the self-build or not is something to consider while taking into account local and regional market dynamics. The argument that bidders will only submit offers just under the perceived value of the Company's self-build is specious when they have to compete against other reputable and capable bidders. Knowing that there is an array of competitors that will be submitting offers should be incentive enough for bidders to put forth their best offer, not one that comes in just under the perceived cost or value of the self-build. Notwithstanding this recommendation, the fact that more detailed information was not provided early on in the process did not compromise the ability of bidders to submit competitive proposals in this bid category as evidenced by the vast number of bidders submitting like equipment configurations and pricing components to the NBA.

b. RFP Development and Implementation

Recommendation #4: Develop two offer summary templates to include in future RFPs – one for PPAs and one for asset sale/turnkey offers. Consider using bracketed examples of the information being sought, as a guide for respondents.

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Rationale: The format of information submitted by bidders in response to the 2003-A RFP was not at all consistent, which made the process of pulling out the relevant information for preparing the valuations time consuming for PacifiCorp and NCI. Standardized templates, while not eliminating the likelihood of non-conforming responses, would still provide further information to bidders as to the exact information being sought and might result in a more efficient process.

Recommendation #5: PacifiCorp should continue to use the same channels as used before to distribute the RFP in addition to publicizing its availability on the Company's website and various media resources.

Rationale: The solicitation was sent to a broad enough audience to result in a significant response from the market with nearly 100 different offers for the resources being sought by the Company. Furthermore, a sufficient enough response was secured from the market to allow PacifiCorp to effectively evaluate supply options for meeting its forecasted load growth.

Recommendation #6: In future RFPs where future environmental risk and other risks present a material issue that PacifiCorp wants bidders to clearly state an assumption or rejection of in their proposals, include separate sections in the RFP dedicated to such topics. This would be in addition to the time devoted by PacifiCorp in the bidders workshops that PacifiCorp relied upon.

Rationale: Although clearly stated in the RFP and in the Pre-Bid Workshop materials, more than 75% of bidders chose to either ignore this issue in their proposals or did not communicate that they understood what it meant until clarifying discussions were held with bidders subsequent to the review of their proposals. Given the materiality of this issue from a risk and economics basis, it is important to raise the profile of this and other similar issues in the future RFPs.

Recommendation #7: PacifiCorp should consider developing a proposal checklist for bidders to use as a guide in completing their offers, which they include with their submittal. This checklist should be a mandatory submittal along with the proposal itself. (To be done in conjunction with Recommendation #5)

Rationale: Including a checklist would help to ensure that bidders have addressed each of the issues that PacifiCorp deems as material to their offer. This would include issues that were material to the current RFP such as the bearing of future environmental risk, the handling of operating reserves, and delivery to one of PacifiCorp's preferred points.

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Recommendation #8: Whatever criteria are used in future RFPs, it should involve some scenario analysis to ensure that the scoring criteria are effective at allowing PacifiCorp to rank offers.

Rationale: The scoring criteria used in the RFP led to a situation in which the pricing criterion was rendered meaningless in the initial ranking of offers in one of the bid categories. This situation could have been avoided had the Company done some scenario testing on the criteria before the RFP was issued.

Recommendation #9: In future formal solicitations like this RFP, PacifiCorp should include credit as one of the explicit criteria used for scoring and ranking offers.

Rationale: This is a common element of solicitations issued by many other investor owned utilities across the United States. It is unusual to avoid the issue of credit in the review and ranking of offers when a Company, such as PacifiCorp, will be expected to enter into a contractual relationship that does not unduly expose it or its ratepayers to construction and development risk. It is not clear what benefit, if any, bidders with questionable credit quality or no access to credit would gain in the early stages of a bid ranking process only to be eliminated at a later stage because of inadequate credit assurances. PacifiCorp, like other companies with load obligations, are not prone to excessive risk taking. It would appear that PacifiCorp and its ratepayers cannot afford to ignore this issue in its consideration of resource options.

Recommendation #10: If credit is deemed inappropriate in the screening stage by PacifiCorp and its stakeholders, consider holding off on the formal request of credit and financial information, but provide bidders with a list of the information that they will need to have ready to submit to PacifiCorp within five days of being notified of making the Company's shortlist (ignore this recommendation if recommendation #9 is implemented).

Rationale: Since financial and credit information was not formally taken into account in the decision process of identifying the short list candidates, it seems unnecessarily burdensome to impose this information request until and unless it is necessary information to PacifiCorp in its decision to move forward with a particular bidder. In addition to recommending that credit be considered earlier in the RFP process as noted in the Final Report, the issue of credit should not only be used as a component in the screening criteria, but it should also be an important variable that bidders should be required to think through and outline in their proposals. Toward this end, additional time should be

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spent with bidders in pre-bid workshops to explain what PacifiCorp expects and what the bidder should be prepared to put in place in terms of credit and security to support its proposal.

Recommendation #11: In any pre-bid workshops held for future RFPs, dedicate a portion of the session(s) to explicitly directing bidders as to what PacifiCorp will be expecting from bidders in the responses with respect to their credit and financing arrangements in support of a transaction with the Company.

Rationale: Although this was requested clearly in a thorough format, PacifiCorp did not receive adequate information from the majority of bidders in the initial proposals. Spending some additional time on this topic up front may help to temper such occurrences.

Recommendation #12: In future RFPs, PacifiCorp should request all bidder information to be submitted on CD-Rom (a now-standard industry practice) in a PDF format in order to facilitate the rapid dissemination of information to the personnel within PacifiCorp responsible for reviewing it.

Rationale: This is a fairly ubiquitous technology and medium for distributing information in the industry. It would seem to make the bid review process more efficient and eliminate excessive paper waste. It also eliminates the need to make additional copies of material for other internal PacifiCorp personnel when an electronic version can be e-mailed readily.

Recommendation #13: PacifiCorp should include a section in future RFPs that addresses issues such as the cost of direct or inferred debt.

Rationale: A section in future solicitations should be dedicated to addressing some of the less obvious costs associated with different types of proposals. Here, we are referring to the issue of debt and its impact on the Company's balance sheet. This has become an increasingly common issue that has become a part of competitive bidding processes, but is not well understood by the majority of market participants. Furthermore, utilities have latitude in how they interpret the guidance that has been provided by Standard and Poors ("S&P"). If it is going to be a part of the economic valuation prepared by PacifiCorp, bidders should be made aware of how this calculation is made and what it means to the competitiveness of their offer.

Recommendation #14: For future RFPs, there should be explicit language that states who will be responsible for securing the necessary transmission to support a proposed transaction, the bidder or PacifiCorp.

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Rationale: The language in the RFP left it open to either PacifiCorp or the bidder being responsible for securing the necessary transmission in support of transactions for certain delivery points. It was PacifiCorp's intention that the Company would not be responsible for securing transmission on behalf of a counterparty transaction unless it was deemed to be in the best interest of the Company. Changing this language would ensure clarity on this point with bidders.

c. Economic Modeling and Short Listing

Recommendation #15: Retain the existing analytical team, or comparable personnel, to complete future analyses for later RFPs.

Rationale: The internal PacifiCorp team used to develop the individual bidder models demonstrated a strong capability in pulling together a sophisticated tool that was an effective means of valuing a large volume of offers. Even by the end of the process, streamlined enhancements to the analytical tools were already being made by this team to ensure that the review process remains efficient in future resource solicitation reviews. Key to this will be continuation of this teams involvement or effective knowledge transfer to other personnel.

Recommendation #16: Consider using a component based PVRR (See Recommendation #2) that allows PacifiCorp to readily identify the magnitude and relative impact of modeling and assumption changes on a specific bid's valuation.

Rationale: While NCI was able to effectively review and validate the results of the economic modeling at each round of the offer review process, much time could have been saved had this been created at the beginning of the process rather than in the second round. Use of a component based PVRR analysis that compared how changes in inputs and assumptions resulted in a change in relative valuations would have made the review and validation process much quicker and efficient. As the Company moved through different rounds of offer model review (Rounds 1-4), NCI was not able to immediately identify how and why a valuation changed beyond just looking at the aggregate valuation. This simply necessitated more one-on-one sessions with the analytical team that prepared the economic models.

Recommendation #17: When using an outside evaluator (e.g., NCI), consider using economic models that do not include extraneous information, formulas, and calculations that are not relevant for the screening or economic modeling of offers in the course of the RFP.

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Rationale: Notwithstanding the fact that NCI was able to complete a thorough review of the modeling tools being used by PacifiCorp to value the offers presented, the presence of irrelevant material made the process of evaluating the reasonableness of the calculations more time consuming than it needed to be in the early stages of the model validation process. Simple clean up of the models of legacy material that is not pertinent to the screening and valuation process would take care of this.

Recommendation #18: Consider adding a few weeks into the schedule for future RFPs that involve the modeling of multiple types of offers.

Rationale: The modeling and review phase was highly compressed given the volume of responses received from the market and the quick turn around that was indicated to bidders. While early indications from the "Intent to Bid" submittals suggested that a large response should be expected, it was difficult for PacifiCorp to turn them around in the original timeframe identified in the RFP due to the wide range of structures put forth. Additional flexibility in the schedule to accommodate this uncertainty in the modeling and review period would give more breathing room to the analytical team. In spite of this compressed timeframe, however, PacifiCorp and NCI were able to complete in an adequate manner their respective tasks of modeling and reviewing.

Recommendation #19: PacifiCorp should eliminate the use of two separate economic models.

Rationale: Even though NCI was able to validate the symmetry of results from the two models during our review, the process of validation was cumbersome due to the need to go back and forth and the presence of unnecessary information and calculations. NCI has used single model structures to evaluate PPAs and turnkey offers alike in other engagements and it should be the standard approach used by PacifiCorp in future resource procurement processes.

In light of these recommendations, PacifiCorp implemented an RFP that was consistent and unbiased in its treatment of each of the alternatives that it was presented with. The overall process was fair in its handling of offers and was reasonable in its dealings with bidders. The following lessons learned are provided as guides that should be taken into account in future RFPs that are issued by PacifiCorp:

- » ***Include Schedule Flexibility*** – The process of reviewing, clarifying, and negotiating offers resulting from a solicitation always take longer than one thinks they will; ensure that chosen schedules have sufficient flexibility;

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- » ***Physical System Constraints Play a Big Role*** – The solicitation of resources in a physically constrained market creates unique circumstances that must be taken into account by both bidders and PacifiCorp due to the infrastructure requirements that are embedded in such deals;
- » ***Bidders Will Ignore RFP Details*** – No matter how much standardization PacifiCorp tries to impose on the structure of responses to a solicitation, bidders will choose to submit proposals in their own preferred format and will ignore explicitly requested material information;
- » ***Credit Issues are Critical*** – When PacifiCorp gets to the point of working toward a definitive agreement with a counterparty, the adequacy of credit and the collateralization of risk run paramount; as such these factors should be used within the early stages of a screening process;
- » ***Use Separate Solicitations for Different Products*** – Creating separate solicitations for different product/resource types would help bidders to focus on the core components that the Company is most interested in with respect to each offer type;
- » ***Use of Market and Cost-Based NBAs is Effective*** – Having a benchmark on which to fall back will continue to serve as an effective hedge against non-economic offers resulting from future solicitations and will prevent the Company from being a price taker;
- » ***Internal Documentation of Analytics is Invaluable*** – Analytical documentation and consistency are perhaps the most important components of an entire RFP process for ensuring the ability of the Company to track the evolution of offer evaluation from beginning to end; and
- » ***Open Communication is Vital to the Integrity of the Process*** – Open and continuous dialogue with an outside evaluator (if they are involved in future RFPs) ensures that real-time enhancements can be made in the process without waiting until issues turn into problems in later stages of an RFP process.



I. Background of the 2003-A RFP

The 2003-A RFP (“RFP”) was issued on June 6, 2003 seeking resources to meet a portion of PacifiCorp’s supply-side resource need as identified in the Company’s 2003 Integrated Resource Plan (“IRP”). The focus of the RFP was on supply-side resources that would meet the Company’s Eastern system resource need. In the IRP, there were a series of 28 separate action items, 3 of which were addressed by this RFP – baseload, peaker, and super peak resources needed to meet projected load growth in PacifiCorp’s East control area (“PACE”). Each of these bid categories had specific attributes that PacifiCorp was looking for that was communicated to bidders in the Pre-RFP and Pre-Bid Workshops held with prospective bidders prior to the submittal date for proposals of July 22, 2003. Through the RFP, PacifiCorp was looking for resources that could meet certain operational and performance criteria consistent with its IRP identified need. At the outset of the process, PacifiCorp identified for bidders that their offers would be compared against a cost-based alternative, otherwise known as the next best alternative (“NBA”).

To ensure a fair and reasonable process was used in the RFP, PacifiCorp retained NCI to validate, audit and review the NBAs, to facilitate the flow of information between bidders and PacifiCorp, and to review all of the economic modeling prepared in support of the RFP. To that end, NCI was involved in every aspect of the RFP process beginning with the Pre-Bid Workshop and the NBA review all the way through the period of negotiations with short listed bidders.

a. Rationale Behind the RFP

PacifiCorp initiated the first of its RFPs as a means of implementing the Company’s Action Plan as articulated in its 2003 IRP. Over the past two years, PacifiCorp has worked with external stakeholders on developing, and then beginning the implementation of, the IRP. Throughout this process, PacifiCorp has emphasized the need to focus on several complementary goals that would meet not only the Company’s own internal financial goals, but also the goals of the various stakeholders that it serves including customers, regulatory bodies, and interest groups. In initiating this process, the Company has remained focused on achieving three key outcomes: (1) a clear plan that satisfies the needs and objectives of each State; (2) a long-term, durable and balanced solution; and, (3) a more interactive, supportive, and efficient process.

Throughout the RFP, PacifiCorp has demonstrated a commitment to ensuring that the resource planning process followed a path that created a balance between projected loads and committed resources, facilitated timely decision-making regarding major resource options, enabled financial comparability of competing resource alternatives, and most importantly demonstrated reasonableness and fairness throughout the decision making process. At the center of the plan was a deliberate focus on balancing costs with risk to ensure that the optimal mix of resources would be in place for serving PacifiCorp’s customers. Keeping these principles in mind, PacifiCorp successfully began the execution of its resource acquisition plans by issuing the first of its four projected RFPs. The use of an RFP was deemed as the most efficient means of identifying the depth and breadth of alternatives that could be considered for meeting the Company’s growing demand. As explicitly

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laid out in the RFP, a series of resource portfolios were identified as the optimal mix for meeting future growth. The original sequence of RFPs was designed to move toward the development of each of these optimized portfolios. It was expected that the RFPs would yield a diversity of solutions for satisfying the Company’s resource needs. Based on the volume and breadth of proposals received from the market in response to the RFP, NCI believes this goal was achieved.

b. Characteristics of the Bid Categories

In its RFP, PacifiCorp solicited proposals in three different bid categories from prospective bidders: Baseload, Peaker, and Super Peak. The minimum characteristics that PacifiCorp sought varied by bid category. In the super peak bid category, the minimum characteristics that PacifiCorp wanted to have in the resources included a start date by June 2004, a summer shaped product, and firm delivery in or to PACE. The offers in the peaking bid category were expected to offer commercial operation dates no later than June 2005, must be flexible in order to be dispatched daily, and delivered in or to PACE. Similarly, the Baseload bid category minimum characteristics called for commercial operation by June 2007 and delivery in or to PACE. (See Table A).¹

Table A. Description of PacifiCorp's Bid Categories			
	<i>Bid Categories</i>		
	Baseload	Peaker	Super Peak
Start of Delivery (COD)	Jun-07	Jun-05	Jun-04
Contract Duration	Up to 20 years	Up to 20 years	Up to 4 years
Size (MWs)	Up to 570	Up to 200	Up to 225
Preferred Delivery Profile	7 x 24 delivery	Daily call option	June-Sept. ('04-'07); Delivery during HE 1300- HE 2000 or daily call option
Dispatchability	Flexible	Daily Dispatch	Daily Dispatch
Point of Delivery (POD)	In or to PacifiCorp Eastern system (PACE)	In or to PacifiCorp Eastern system (PACE)	In or to PacifiCorp Eastern system (PACE)
Requested Transaction Structures	Negotiated (PPA, toll, lease, turnkey sale, equity participation, etc.)	Negotiated (PPA, toll, lease, turnkey sale, equity participation, etc.)	Negotiated (PPA, toll, lease, etc.)

i. Super Peak Bid Category

Super Peak bid category responses were those offers that were intended to meet PacifiCorp’s needs during the HE 1300 - HE 2000 PPT period on either a 7X8, 6X8, or 5X8 basis for the summer months of June through September from 2004 through 2007. The resource could also be available as a daily

¹ These minimum bid characteristics are detailed in the materials presented to bidders by PacifiCorp at the June 20, 2003 RFP 2003-A Pre-Bid Conference.

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call option. In this bid category, PacifiCorp was looking for a variety of attributes in addition to the months and hours of need outlined. Super peak offers preferably were to exhibit such attributes as deliverability at PacifiCorp's option, the ability to pre-schedule, delivery to PACE, and structuring under a negotiated arrangement based on a PPA, tolling agreement, or lease. In aggregate, PacifiCorp was looking for approximately 225 MW of capacity in this category, or larger if economies of scale could be demonstrated.

ii. Peaker Bid Category

Offers in this bid category were expected to meet PacifiCorp's minimum requirements of a daily dispatch and commercial operation by June 2005. Offers put in this category typically provided some form of call option structure, either hourly, intra-day, daily, day-ahead, or some other basis. Heavy load and super peak load hours were the target for this bid category. Peaker offers could be built upon a variety of physical and financial structures depending upon which party would be interested in assuming the various responsibilities and risks. In its RFP, PacifiCorp expressed an interest in considering alternatives using either one of the structures. The Company also indicated that offers of a term up to 20 years would be of interest. Proposals modeled in this category by PacifiCorp consisted of PPAs, asset purchases, and turnkey construction projects. In aggregate, PacifiCorp was looking for approximately 200 MW of capacity in this category, but advised bidders that they would entertain offers for commitments well in excess of this amount on account of its revised load forecast, which indicated an additional need for peaking resources than had originally been identified in the Company's IRP filing.² Furthermore, bidders proposing asset sales were encouraged to bid into the RFP.

iii. Baseload Bid Category

Baseload bid category offers solicited by PacifiCorp were expected to meet the minimum requirement outlined in the RFP (i.e., commercial operation date no later than June 2007). All of the responses modeled in this category were 7x24 offers, with some including 7x8 offers (duct-firing) embedded in their response in addition to the 7x24. With this bid category, PacifiCorp was looking for resources that could meet around the clock capacity and energy needs by June 2007 for a period of up to 20 years. PacifiCorp also requested the ability to negotiate displacement rights. Like the peaker offers received, the baseload offers in this category consisted of PPAs, asset purchases, and turnkey construction projects. In aggregate, PacifiCorp was looking for approximately 570 MW of capacity in this category, but indicated to bidders that offers in excess of this amount would be considered if economies of scope and scale could be demonstrated.

² See PacifiCorp's Quarterly IRP Public Input Meeting, May 19, 2003.

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c. Timeline of the RFP Process

The RFP had its genesis in the Company’s IRP filed in January 2003 (See Figure 1). The components of the RFP were communicated to potential bidders as early as March 21, 2003 during a Pre-RFP Bidders Workshop, where the Company walked through the sequential RFPs that were envisioned by the Company based on the IRP forecasted load and resource balance. This first RFP was intended to meet the Company’s growing resource need in the Eastern portion of its system. The RFP itself was issued on June 6, 2003 and was followed two weeks later with a Pre-Bid Conference that addressed questions and issues raised by bidders after they had had an opportunity to review the actual RFP.

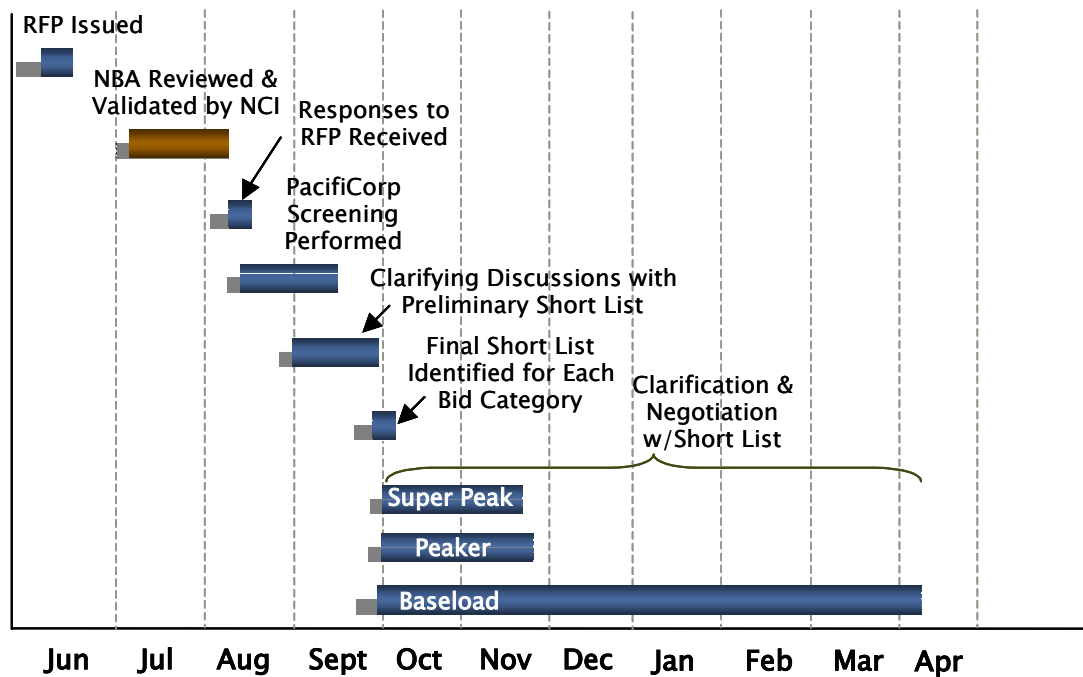


Figure 1. Timeline of the RFP Process

During this period between the issuance of the RFP and the due date for bids, NCI was engaged in a parallel task that involved the review and validation of the assumptions and valuation of PacifiCorp’s NBAs. This was a critical element of the process, which occurred prior to PacifiCorp seeing any competitive bid information. NCI commenced its review of the NBA and its underlying assumptions on June 19, 2003 and concluded its review with the filing of the Review and Audit of PacifiCorp’s NBA report on July 23, 2003. Although bids were received by NCI on July 22, no information, in either a blinded (e.g., technical information) or de-blinded format (e.g., credit and financial information) was forwarded to PacifiCorp until after the NBA report had been formally issued.

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PacifiCorp began the process of screening the offers on July 24, 2003. This involved PacifiCorp documenting the pricing and terms associated with the respective offers, identifying the respective bid categories to which bidders were responding, assembling deal summary sheets for each of the offers, identifying missing information, and soliciting clarification from bidders via NCI in order to facilitate the completion of preliminary valuations. NCI reviewed PacifiCorp's work in this area for validation purposes. It is important to note that PacifiCorp prepared these preliminary valuations without any knowledge of who the bidder was as this remained blind to PacifiCorp until after the initial short list had been identified. The short-listed super peak bid category offers were de-blinded with NCI contacting the respective bidders on August 13, 2003. On August 21, 2003, NCI contacted the bidders making the preliminary short list for the peaking bid category. The final bid category respondents to be notified were those in the Baseload bid category. This group of respondents was de-blinded and contacted on August 22, 2003. During the subsequent three weeks, PacifiCorp and NCI held clarifying discussion sessions with each of the short listed counterparties in the respective bid categories in order to better understand the offers being presented and identify a final short list of counterparties with whom to negotiate. In follow up to questions and topics raised during these sessions, an extensive series of e-mails were exchanged among NCI, PacifiCorp and the bidders for the exclusive purpose of better understanding the terms and pricing of the offers.

Since the discussions after this point proceeded on parallel paths among each of the three bid categories, it is important to provide further granularity regarding the process of negotiation separately for each of the short lists. Once the final short lists were identified, PacifiCorp moved forward with more detailed discussions and preliminary negotiations with counterparties in the Super Peak and Baseload bid categories. In the peaker bid category, none of the offers were deemed economically superior to the respective NBA. However, since the Company needed more resources than the particular NBA would provide, it was deemed prudent by NCI and PacifiCorp to continue discussions with the short listed counterparties in the peaker bid category to ascertain whether or not an economically attractive deal could be found. It is for this reason alone that discussions with the short listed peaker bid category candidates continued beyond the middle of September. Upon further review and the subsequent comparison to the Company's incremental NBA, none of the peaker offers were found to be economically attractive relative to the NBA. As a result, discussions with these counterparties were terminated during the third week in November.

Discussions with potential counterparties in the Baseload bid category resulted in several economically attractive offers that PacifiCorp continued to clarify and negotiate through the beginning of April. At that point the preferred resource alternative was identified and discussions were concluded.

d. Navigant Consulting's Role as the Outside Evaluator

NCI's involvement in the RFP process revolved around five key tasks: (1) reviewing and validating the NBA; (2) administering the RFP on behalf of PacifiCorp; (3) reviewing PacifiCorp's proposal screening approach; (4) validating the scoring, and ranking; and (5) overseeing the negotiation process with short listed parties. The purpose of this section is to provide a brief description of each of these tasks as they were performed by NCI.

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i. Review and Validation of the NBA

NCI began its involvement in the RFP process with a review of PacifiCorp's next best alternatives, or NBAs, for each of the respective bid categories. From PacifiCorp's perspective, it was important that NCI validate the NBAs prior to any bid information being reviewed by the Company. This was deemed necessary to avoid any perception that PacifiCorp would have had an opportunity to materially alter or manipulate the estimated cost components of the NBAs subsequent to the review of competitive bid information that was submitted in response to the RFP. To perform this task, NCI relied on interviews, a cost assumption review, and an assessment of the cost and economic dispatch models for the NBAs. Each step of this review and validation revealed that the NBAs were developed in a reasonable manner and that the cost assumptions themselves were consistent with the costs that would be incurred to develop the types of projects proposed by PacifiCorp.

ii. Administration of the RFP

NCI administered the entire RFP from the documentation of the notices of intent to bid through the identification of the counterparty short list for each bid category. This task began immediately following the June 20, 2003 Pre-Bid Workshop at which NCI was introduced as the primary point of contact regarding the RFP. To perform this task, NCI focused on applying lessons learned from other RFP processes to promote PacifiCorp's goals of consistency, objectivity and fairness. In administering the RFP, NCI used proven approaches for ensuring that the process adhered to the Company's (and Bidders') needs for information distribution in an objective and timely manner. As the primary conduit for information between the bidders and PacifiCorp, NCI managed all aspects of this process including, but not limited to, the following:

- » Validating the mailing list of bidders to ensure all potential bidders had been included;
- » Communicating with potential bidders to make sure they were aware of the process, schedule, response requirements, etc;
- » Ensuring that all likely bidders had received the RFP materials;
- » Addressing all questions submitted by bidders prior to the RFP response due date;
- » Issuing Bid Numbers to each bidder;
- » Soliciting the bids from the interested parties;
- » Clarifying bid information with bidders regarding their respective proposals;
- » Managing the entire Q&A process with the bidders to ensure accurate and impartial answers were provided to all and that all bidder identities were kept confidential;
- » Working with PacifiCorp to ensure that bidder questions were answered in a timely and accurate manner;
- » Reviewing all bids received;
- » "Blinding" the appropriate bid material;
- » Distributing the blinded bid material to PacifiCorp;
- » Coordinating with the Commercial and Trading Team; and
- » Coordinating with PacifiCorp Credit and PacifiCorp Legal.

iii. Review of PacifiCorp's Screening of Proposals

NCI's review of PacifiCorp's proposal screening process focused on the Company's financial evaluation of the RFP responses. NCI's objective with this task was to audit and validate that the

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screening of offers was done in a reasonable, consistent and fair manner across all of the proposals. In this role, NCI was involved in each step of PacifiCorp's review and valuation of the offers received to ensure that proposals were treated in a manner that identified the greatest value from each offer based on the terms presented by the bidders. NCI's functions within this task included:

- » Overseeing the evaluation process employed by PacifiCorp for accuracy and fairness;
- » Verifying the modeling assumptions used were consistent with the bids submitted;
- » Verifying that the bid terms and conditions were accurately modeled by PacifiCorp;
- » Coordinating the clarification of bids between PacifiCorp and the bidders;
- » Reviewing and validating PacifiCorp's deal summary sheets;
- » Ensuring that bids were assessed in the appropriate bid category that was most advantageous to their valuation; and
- » Reviewing the preliminary and final valuation results developed by PacifiCorp.

iv. Validation of the Scoring and Ranking

Subsequent to the model review and validation, the next task was validating PacifiCorp's approach to the scoring and ranking of offers. NCI's approach to this task consisted of examining the results from the financial valuations and how they were rank ordered based on their score using the screening criteria (i.e., price, dispatch ability, and environmental characteristics). PacifiCorp performed the actual scoring and ranking, which was then assessed by NCI. NCI's focus was on validating that the scores were appropriate given the specific attributes of the offer and that the ranking of offers was consistent with the valuations produced from the offer modeling. Actions in this task included the following:

- » Validating that the scoring criteria had been applied appropriately to each of the bids reviewed by PacifiCorp;
- » Validating that the ranking was done in a manner that reflected the scores on the individual criteria and the total valuation of the offer;
- » Recommending the depth of the short list with whom PacifiCorp should continue clarifying discussions;
- » Reviewing and rendering an opinion on the shortlist identified; and
- » Communicating with all bidders that made and did not make the short list.

v. Oversight of the Negotiation Process with Short List Parties

Once the short list had been identified and agreed upon by NCI and PacifiCorp, the process moved through a series of clarifying discussions with counterparties. NCI's involvement in these discussions was focused on ensuring that the offers, among those that were short listed, were being accurately interpreted and modeled. Additionally, if there was any flexibility, or changes, associated with the definitive offer, NCI sought to ensure that PacifiCorp captured those as a result of the dialogue with the bidders. To ensure that PacifiCorp and the bidder were interpreting terms in the same way, NCI recommended that offer summary sheets be used for the bidders to redline. Summaries from the discussions were always captured in updated offer summary sheets for each offer. Once clarified, PacifiCorp again valued the offers and derived a final short list of counterparties with whom to enter into more detailed negotiations. NCI was involved in

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recommending how deep to go in the list to ensure that PacifiCorp could maintain some leverage during the course of negotiation.

NCI’s involvement in the negotiation process centered on the identification and chronicling of material issues associated with each offer. NCI saw its role as ensuring that PacifiCorp and the bidders engaged one another in earnest negotiations. The intent was to ensure that both bidders and PacifiCorp were negotiating with the expectation of moving toward a definitive agreement. It was NCI’s focus to validate the reasons underlying the continuation, or discontinuation, of negotiations with each of the counterparties based on the respective terms and conditions of each offer. Central to this process was validation that PacifiCorp reasonably represented the risks as well as advantages associated with each offer presented by the bidders. NCI worked with PacifiCorp to ensure that bidders were provided a reasonable opportunity during the negotiation period to present the case for their offer and that the offer was treated in the same fashion as the Company’s NBA in terms of offer clarification, the materiality of offer terms and conditions, risk identification, and economic valuation.

e. Modeling the Offers

PacifiCorp modeled each and every definitive offer that was presented to the Company through the RFP. PacifiCorp compared each proposal to its appropriate NBA, whether that was the cost-based alternative or the market-based alternative. Baseload and peaking proposals were compared to PacifiCorp’s cost-based NBA. Each proposal that PacifiCorp received, regardless of bid type, was modeled separately. For super-peak offers, the NBA was considered to be purchases from the market, as represented by PacifiCorp’s forward curve for power delivered into the eastern side of the Company’s control area. For the baseload and peaking offers, PacifiCorp developed two primary analytical models to compare these types of offers to PacifiCorp’s cost-based alternatives (See Table B). These two models include:

- » *Cost-based model* is based on a PVRR analysis and was utilized to evaluate PacifiCorp’s cost-based alternative as well as all proposals related to asset transfer.
- » *Market-based model* is structured to facilitate the evaluation of power purchase agreement proposals, including fixed price contracts, fixed price options, and spread options

Table B. Valuation Models			
Model	Methodology	Features	Products Evaluated
Cost-based Model	Net PVRR analysis over the life of a specific asset	Projects all estimated revenues and costs associated with the operation of the asset over its useful life	PacifiCorp’s cost-based alternative and asset transfer proposals
Market-based Model	Net PVRR analysis using a mark-to-market value of the	Assesses a proposal based on the value of the proposed deal and allows for modeling of various deal	Fixed price purchases, tolling options, fixed price options

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i. Cost-Based Model

The first model, for the evaluation of PacifiCorp's cost-based NBAs and all proposals for build and transfer or outright asset sales, was a PVRR model used to calculate the present value of the revenue requirement associated with a specific alternative. This model was developed by the PacifiCorp Resource Development group in its calculation of the NBAs, but had been modified by Structuring and Pricing (S&P) to allow for the determination of simulated dispatch of the asset being evaluated, including PacifiCorp's NBA. Since the incremental dispatch cost and characteristics determined the projected capacity factor of the proposal, this allowed for evaluation based on the expected market operation (i.e., the dispatch profile) as opposed to a predetermined annual capacity factor. This model was specified for each asset sale offer proposed to PacifiCorp.

As NCI performed an audit and validation of this model in its earlier report, its primary focus in this report is on the audit and validation of the modeling of the specific proposal provisions as opposed to the overall model structure, on which we have already offered comment.

ii. Market-Based Model

The second model developed for the evaluation of the proposals was based on a valuation only. The premise of the market-based model is that the value of an asset or an option is the greater of the market value over the strike price, or zero.

The market-based evaluation model was developed to accommodate a variety of different types of products for comparison against the NBA. When the word "products" is used, it refers to the different types of resources that PacifiCorp can choose from to manage its supply portfolio. Based on the type of product proffered in a proposal, PacifiCorp would select the appropriate type of calculation to use in the model. The market-based model PacifiCorp used was embedded with the internal capability for choosing the most appropriate product. There were not entirely separate models for each option. PacifiCorp had a simple switch function incorporated into the model that allowed the user to switch between the different calculations based on the defined inputs.

Based on the inputs from the individual proposals, the market-based model calculated (1) a real levelized and (2) a net present value revenue requirement (PVRR), which were then used in comparison to the PVRR for the comparable NBA. PVRRs were calculated for the wholesale (energy and capacity) portion of a specific offer. The wholesale portion included all specific costs associated with power generation, including, to the extent applicable, such items as variable and fixed O&M costs, fuel costs and gas delivery charges, and capacity payments. If transmission was not included, estimates for point-to-point service and transmission line losses to PACE were calculated specific to each offer evaluated. However, it should be noted that the transmission calculations only applied to those bids that were not delivered to or were located inside PACE.³ The summation of these two cost components created a total PVRR for a specific offer which was then compared to the appropriate cost-based alternative PVRR on a \$/MW-month basis.

Within each of the product types, the model was sufficiently detailed to capture specific operational or proposal characteristics and flexibilities.

³ A condition precedent of the RFP was that a resource must be designated as a network resource to serve network load.

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- » **Fixed price purchase option** calculation allows for the specification of several locations, including Mona, Four Corners (345kV), Mead and Wyoming, as well as the offer profile (flat all hours, 6x16, etc.) and allowance for seasonal modeling of capacity.
- » **Fixed strike option** allows for modeling as a call and includes the specific variable and fixed O&M costs identified in the proposal.
- » **Power/gas spread option** (tolling) incorporates the major operational characteristics such as unit contingency, heat rate and heat rate degradation, capacity degradation, turbine type (simple versus combined cycle), variable and fixed O&M, a reference price for gas, and a fuel multiplier.

Other assumptions used in the product modeling included: forward prices for gas and electricity and inflation. Price curves for electricity and gas are based on PacifiCorp's corporate approved forward price curves. The source of the inflation rate assumption used in the modeling of bidder offers was PacifiCorp's official corporate rate.

II. NBA Review and Validation Process

The approach used by PacifiCorp to develop the NBA went through a series of steps. As the Company moved forward with the implementation of its Integrated Resource Plan action plan, it identified its own cost-based alternative, the NBA(s), which would be used as a benchmark against other alternatives that would be presented from the market. Once the NBA(s) had been developed and reviewed by NCI, they were effectively locked down with all subsequent material changes being vetted and validated by NCI before being incorporated into subsequent financial analyses. The following walks through what went into the development of the NBA and its review and validation by NCI.

The NBA for peaking and baseload products in RFP 2003-A was a cost-based construction alternative in the event that an economic third-party alternative was not available. The scope of NCI's review included an assessment of the NBA development process, the assumptions embedded in the NBAs, and the model used to capture both one-time and on-going costs related to each NBA. NCI's objective during the course of its review was to establish a judgment regarding the following measures:

- » Fairness of cost representation in the NBAs
- » Viability of the NBA project options
- » Reasonableness of the assumptions underlying each of the NBA options
- » Soundness of the NBA expected cost modeling
- » Consistency of material information included in the NBA report and what was requested of Bidders in the 2003-A RFP
- » Assurance that PacifiCorp did not review any competitive information from bidders prior to the NBA being finalized.

Upon concluding its review, NCI was able to validate each of these measures concluding that the NBA options and the methodology used to develop them were reasonable and not inconsistent with other industry information. Throughout NCI's review, PacifiCorp remained cooperative and responsive to requests for information and clarification pertaining to the NBA options. As a third party objective reviewer, NCI welcomed the open nature of the NBA documentation review and validation that had to be performed. It further supported NCI's contention that the costs projected for each NBA option were derived in a transparent and logical manner. Lastly, NCI documented the fact that the NBA cost modeling was complete prior to proposal information being reviewed by PacifiCorp and established a protocol by which material changes to the NBA would require documentation by PacifiCorp along with NCI's review and audit of such changes.

NBA REVIEW AND VALIDATION PROCESS

a. Overview

i. Background and Objectives

NCI was retained by PacifiCorp in June 2003 to serve as an objective third party reviewer/auditor of the Company's NBA. NCI's mission was to conduct and complete a review of the NBA prior to PacifiCorp reviewing responses to its June 6, 2003 issued 2003-A RFP.⁴

The specific focus of NCI's review was to ensure that the analytical methodologies employed by the Company were both fair and reasonable. As laid out in PacifiCorp's 2003 IRP issued January 24, 2003, PacifiCorp intended to compare all competing resource alternatives, including market purchases, in the relevant market to a cost-based alternative.⁵ The validation of the reasonableness of PacifiCorp's NBAs consisted of three cost-based alternatives. The scope of NCI's NBA review and audit included:

- » Auditing the assumptions underlying the NBA
- » Validating the reasonableness of the NBA assumptions and inputs, and
- » Ensuring that the NBA model was complete prior to external bid review and that any subsequent material changes would require documentation and justification by PacifiCorp

During the course of the review, NCI took into consideration the commitments made by the Company in its IRP, but NCI did not attempt to validate the reasonableness of the conclusions within the IRP. The Action Plan and the commitment to both the Decision Processes and Procurement Program were viewed as positive steps toward implementing PacifiCorp's IRP in a fair, consistent, and methodical manner. NCI did not, however, attempt to validate the reasonableness of the Action Plan itself, the associated load forecasts, or other documented analyses supporting the Company's need for additional resources.

The premise from which NCI began its review was that the state regulatory bodies were supportive of the Company's need to acquire, or build, power supply resources over the next several years to meet what PacifiCorp refers to as "the Gap." As the Company goes through the process of evaluating different resource alternatives to fill this Gap, it is NCI's understanding that the NBAs have been developed to provide, at a minimum, a comparative cost structure against which competitive offers could be measured and evaluated. NCI's job through this first phase of the overall RFP process was to validate that the NBA options and the underlying assumptions were reasonable, that the projects were viable, and that the cost components of the NBA put forth by PacifiCorp were complete prior to their review of bid information.

Contained in the remainder of this report is a documentation of the steps NCI followed to validate the reasonableness of the NBA along with its conclusions.

⁴ PacifiCorp Request for Proposals Electric Resources (RFP 2003-A), June 6, 2003.

⁵ PacifiCorp Integrated Resource Plan 2003 "Assuring a Bright Future for Our Customers", January 24, 2003.

NBA REVIEW AND VALIDATION PROCESS

b. Approach to the Reasonableness Review

NCI's approach to validating the reasonableness of the NBA consisted of three primary steps: reviewing, auditing, and validating. To execute the analysis NCI relied on: (1) interviews with key personnel providing direct inputs to the NBA model, (2) a rigorous review of PacifiCorp's NBA model, (3) NCI's independent review of NBA work papers, and (4) external validation relying on subject matter experts within NCI with experience in assessing the development and operational costs of new capacity. Diagram 1 below illustrates NCI's NBA assessment process. During the process of review, NCI focused on determining the reasonableness of PacifiCorp's cost estimates and the overall viability of the NBA alternatives from a financial and operational perspective. In short, what NCI attempted to ascertain was whether or not PacifiCorp's NBA was a doable project that fairly represented the costs that would be incurred to bring the facility on line within the projected timeframe. While NCI did not specifically evaluate PacifiCorp's January 2003 IRP, the associated Action Plan, or its underlying assumptions for reasonableness, NCI did rely on the IRP to provide a broad understanding of what led to the Company's development plans for pursuing additional resources through a series of RFPs that it has issued and is planning to issue over the next 12 months.

i. The Interviews

NCI began its effort with a series of interviews of PacifiCorp personnel directly involved in the development of the NBA, including those that developed the model and those providing the input assumptions. The purpose of these interviews was several-fold. First, NCI wanted to understand and validate the basic process used by PacifiCorp to develop the inputs to the NBA. What NCI looked for was whether or not PacifiCorp approached the preparation of the NBA alternatives in a reasonable and disciplined manner. Second, NCI sought to determine the reasonableness of the NBA assumptions themselves and validate that they were not inconsistent with NCI's knowledge and familiarity of costs for other like projects. Third, in walking through the actual model with PacifiCorp personnel NCI wanted to validate that the NBA model was accurately representing the expected costs under those alternatives. Fourth, NCI wanted to validate that the NBA model components were consistent with what was being requested of bidders. Through the interviews, NCI was able to better understand the content of the key assumptions to validate against the information requested of bidders in the 2003-A RFP.

ii. Model Review

In order to get comfortable with the NBA, NCI also conducted a rigorous review of the NBA model provided by the Resource Development group. This was the basic model used to capture the estimated costs of each of the cost-based alternatives that the Company is considering to meet its projected supply needs over the next several years. NCI's review of the model focused on the individual calculations being done, the treatment of costs, and the interaction of cost components among one another. Conducting this review enabled NCI to establish the soundness of the model and its associated output results.

NBA REVIEW AND VALIDATION PROCESS

iii. Work Paper Review

In addition to the PacifiCorp interviews and model review, NCI also reviewed actual work papers used to develop the input assumptions for the NBA. NCI's guiding principle in the review was validating that the assumptions themselves were reasonable and had been appropriately reflected in the model. The work paper review was important to provide an understanding of what went into the derivation of each assumption and why costs may have departed from the work papers in the final cost modeling. This provided a valuable crosscheck against the information obtained in the interviews as well as providing another touchstone for validating the reasonableness of the expected costs embedded in the model.

iv. Subject Matter Expert Validation

Lastly, NCI leaned on subject matter experts within NCI to assist with the validation of various expected cost and performance assumptions associated with the cost-based alternatives. This included validating the content of cost assumptions having a material effect on value, confirming the reasonableness of the expected all-in-costs, and validating the expected equipment/facility performance capabilities of the proposed NBAs. Questions raised during the course of this validation dealt with the inclusion of substation expenses, the treatment of environmental costs, the impact of site location on equipment performance, the cost of a new gas lateral, and the methodology employed to develop the price forecasts for electricity and gas, among other cost-related factors, all of which NCI validated.

c. Project Viability

In addition to the review and audit of the assumptions and the modeling, NCI were also tasked with providing assurance to external constituencies that PacifiCorp was proffering a viable project that could be completed in a reasonable time frame consistent with the dates which the Company had stated the NBA could be up and running. Given the NBA information, NCI validated it against its experience with developing other like facilities. NCI also sought to understand the permitting requirements associated with the NBA options. For the purpose of the analysis, NCI assumed that these permits would be obtainable in a timely manner, given the background work PacifiCorp had already conducted.

NCI also examined site attributes, equipment selection, the preliminary design estimate and schedule, projected interconnection requirements, and the gas transportation needs related to the selected site to reinforce NCI's confidence in stating that project construction is feasible within the time frame outlined.

d. Selection and Finalization of the NBA

To preserve the objectivity of the bid review process, NCI was tasked with validating that the cost components and the allocation of costs across different categories for the NBA, and ensuring that these were finalized before PacifiCorp commenced its review and evaluation of bidder responses. This validation was necessary to establish the fact that PacifiCorp would be unable to subjectively modify individual costs or how they were allocated across different fixed and variable categories

NBA REVIEW AND VALIDATION PROCESS

after seeing bidder offers and their respective deal structures. Any material changes subsequent to NCI's initial review of the final NBA cost model, and the issuance of this report, will require documentation by PacifiCorp along with written justification for the change. As the outside independent evaluator, NCI will continue to be responsible for reviewing documentation for any material changes made by PacifiCorp regarding the NBA valuation.

Once PacifiCorp received word from NCI that the NBAs were reasonable estimates of the costs associated with each alternative, the Company finalized, with NCI's approval, which NBAs would be used as the benchmark for each bid category. Only after this review and validation was complete did PacifiCorp have an opportunity to review any bid material. A subtle point that is important to note regarding the lockdown of the NBAs is that internally, PacifiCorp's Resource Development group developed the cost-based alternatives, which were then economically dispatched by PacifiCorp's Structuring and Pricing group to determine their value. From a valuation perspective, what that meant is that each NBA was treated just like every other alternative with costs, inputs, operating characteristics, and performance limitations that all were taken into account to derive the value of the alternative to PacifiCorp. Structuring and Pricing, the group responsible for completing the review and valuations of bidder offers, did not have a hand in determining what the inputs were for the NBA. From their perspective, the NBAs were merely other resource alternatives to be run through the economic dispatch model.

e. Summary of Review Objectives

In summary, there were six key questions NCI was intent on addressing through its audit, review and validation of the NBA.

1. NCI wanted to determine whether PacifiCorp fairly represented the expected costs associated with each of the NBA alternatives.
2. NCI sought to assess the viability of the NBA alternatives by examining the proposed engineering, procurement and construction schedules and outside the fence infrastructure needs.
3. NCI wanted to assess the reasonableness of the material assumptions presented by PacifiCorp in its NBAs.
4. NCI wanted to validate that the modeling undertaken by the Company was robust and not subject to fundamental modeling errors.
5. NCI wanted to establish whether or not the NBA and the RFP were consistent with one another in terms of material data requested of bidders and information aggregated regarding the NBAs.
6. Lastly, NCI sought to make certain that the NBA expected costs would be finalized before the Company reviewed any proposal information. Related to this point, NCI wanted to ensure that PacifiCorp would have a process in place that facilitated the documentation and justification of later changes to the cost and operational assumptions.



III. The Bid Review and Screening Process

NCI's review of the screening process focused on the approach used by PacifiCorp to screen and evaluate the offers it received in response to the RFP. Our intent was to document the approach taken by PacifiCorp to screen and evaluate the offers obtained from the market, to provide a record of the audit, review and validation effort undertaken by NCI to assess the reasonableness of the screening review process and to provide external stakeholders with the results of NCI's findings from its review.

NCI's objective during the process of conducting the screening review was to assess and validate the following issues:

- » Did PacifiCorp use a consistent and fair methodology to evaluate the proposals?
- » Did PacifiCorp use analytical tools that were well suited, as well as appropriate and reasonable, for calculating valuations?
- » Did PacifiCorp accurately capture proposal terms and conditions in the evaluations?
- » Was the treatment of each proposal consistent during the bid review process?
- » Was the scoring and ranking of proposals done in a consistent manner across all of the proposals?
- » Was the bid scoring and short-list determination process transparent and consistent with the evaluation results?
- » Did PacifiCorp select the most appropriate next best alternative (herein after referred to as the "NBAs") as the benchmark for each of the individual proposals (e.g., peaking bids with the peaking NBA and so on)?⁶

The accuracy and fairness in the treatment of bids was of paramount importance to NCI throughout the screening process. Bidders benefited from an objective third party administering all aspects of the screening process including assistance in the clarification of bids and ensuring proper documentation regarding the actual interpretation and modeling of proposal terms. NCI provided a check and balance that bidders were fairly treated throughout the process and that the review of proposals was completed in a manner that was reasonable, fair, unbiased and comparable ("Fair Manner").

The method NCI used to audit and review the screening process entailed a thorough assessment of each aspect of the process from reviewing and validating the breadth of outreach used by PacifiCorp to solicit competitive responses to a rigorous review of the modeling, valuation and scoring methodology used to derive the short list. Throughout the review, NCI provided direct, real-time feedback to PacifiCorp to facilitate their ability to make contemporaneous adjustments to enhance the integrity of the process.

⁶ The NBAs are PacifiCorp's (1) market-based and (2) cost-based alternatives for meeting its projected supply requirements going forward. These NBAs represent the alternatives that PacifiCorp could fall back on in the absence of more economic and viable alternatives being offered by the market.

THE BID REVIEW AND SCREENING PROCESS

Over the two-month long screening review effort, NCI found PacifiCorp to be fair and balanced in their treatment of proposals. Where information was not provided or was unclear, every attempt was made to remedy the situation through direct communications with the bidder. Furthermore, proposals were treated in a consistent fashion to ensure that comparisons of offers of a like type were made. From NCI's perspective, this was a critical element in providing a level playing field to the bidders, allowing PacifiCorp to derive meaningful and comparative scoring information for evaluating the bids.

The screening review approach used by PacifiCorp followed a logical sequence of steps from offer identification, through valuation, scoring and bid ranking. Their approach provided a consistent framework for considering each offer. Throughout the execution of this process, PacifiCorp demonstrated a focus on ensuring that offers were subjected to a consistent and balanced review.

PacifiCorp was open and forthright in sharing its models, assumptions, and interpretation of terms. The process transparency and PacifiCorp's willingness to ensure a fair and balanced process allowed NCI to provide on-going feedback that was used to validate and incrementally enhance the screening process. NCI found this process was implemented fairly and consistently across each of the proposals received.

a. Screening Assessment

The purpose of this section is to review all of the steps that NCI went through to assess and document the screening process used by PacifiCorp. The section summarizes the background and timeline of the RFP and examines each element of the screening evaluation including the process, the models, the scoring and ranking.

i. Timeline and Steps in the Screening Process

The RFP was issued on June 6, 2003, and included a required proposal submittal date of July 22, 2003. In order to ensure the widest distribution and interest-level possible, PacifiCorp sent copies of its RFP to a distribution list of over 225 potential Respondents, established a special RFP website for the sole purpose of disseminating information about the RFP and to answer related questions, announced the issuance of the RFP in a press release, and held a Pre-RFP Bidders Workshop on March 21, 2003 and an RFP Workshop on June 20, 2003 that on a combined basis had over 100 people in attendance.

The RFP requested that Respondents intending to submit a proposal to PacifiCorp submit a Notice of Intent to Bid by June 27, 2003. NCI, on behalf of PacifiCorp, received 44 such notices. This represented approximately a 20% response rate from the initial notification that PacifiCorp made to the market.

To gauge the volume of responses that would be received from the market, at the time Bid Numbers were issued to potential respondents, NCI asked bidders to indicate whether or not they would be submitting more than one proposal that they would like PacifiCorp to consider. In cases where companies anticipated submitting multiple offers, they were issued one Bid Number to correspond with each proposal they were intending to submit. In total, NCI issued 86 separate Bid Numbers to

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potential bidders. This was done to blind the proposals in such a way that PacifiCorp personnel would be able to evaluate each offer on the respective merits of the proposal, without consideration for the creditworthiness and/or financing capability of the potential counterparty. While bidders submitted financial information in their proposals, this information was not forwarded on to the PacifiCorp personnel responsible for evaluating and scoring each of the proposals. This information was forwarded under separate cover to the Credit group within PacifiCorp for their independent assessment. Effectively, the proposed terms and conditions of the proposals were evaluated in parallel with the creditworthiness review. It is important to note, however, that the development of the short list was not dependent upon the creditworthiness review. Only after bidders were identified on the preliminary short list was their credit and financial strength taken into account.

On July 22, NCI received at its offices proposals from 37 companies, a response rate of nearly 85% relative to the Notices of Intent to Bid received. These 37 companies submitted 79 separate offers for PacifiCorp’s consideration. While the majority of respondents followed the requested format of one bid number per proposal, several submitted their proposals with multiple offers included within one bid number. At PacifiCorp’s request, NCI forwarded the blinded materials onto the Company instead of delaying the process by issuing additional bid numbers and requiring bidders to resubmit their offers under separate bid numbers. PacifiCorp then separated the indicative term sheets and pricing information from the multiple proposals into separate proposal groups requiring evaluation (See Table C). As a result, PacifiCorp ended up evaluating 94 individual proposals.⁷

Table C. Overview of RFP 2003–A Responses by Resource Type			
	Baseload	Peaker	Super Peak
Number of Offers	53	28	13
MWs	18,029	5,328	992
Range of Offers	7 to 674	25 to 669	7 to 300
Period of Service	5–20 years	10–20 years	1–4.6 yrs
Basic Product Types	Fixed Price Swap; Toll; Spread Option; Fixed Strike Option; Plant Lease; Plant Purchase	Spread Option; Fixed Price Option; Toll; Asset Purchase	Spread Option; Fixed Price Swap; Fixed Strike Option

During the course of PacifiCorp’s review, questions were raised regarding the interpretation of some of the terms proposed by the bidders. In such cases, PacifiCorp forwarded questions to NCI that were then put into a structured and consistent format and subsequently delivered to the respective bidder. NCI provided bidders with a twenty-four hour window within which to respond to the questions posed. In most cases, bidders submitted their responses within the agreed upon time frame and in a manner that was viewed as responsive to the question(s). However, in several

⁷ MW figures are based off of summer ratings; aggregate totals include multiple counts of a single facility in the case of different terms; * A total of 103 individual offers were received, but 9 had insufficient information to allow for valuation; ** A number of offers included just equipment, and so were evaluated over the economic life of the asset; *** Four offers were contingent duct firing so they are embedded within the 53 baseload offers.

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instances, there were bidders who were repeatedly asked to clarify the terms of their proposals yet continued to provide evasive responses. Without the information requested, PacifiCorp was unable to reasonably conduct a valuation of those proposals. NCI and PacifiCorp agreed that in such cases, the bidder's proposal would be dropped from further consideration.

For those proposals that PacifiCorp was able to model, the Company prepared an individual PVRR analysis for each. Consistent with the action plan laid out in the IRP, the bid categories of Baseload, Peaker, and Super Peak were used by PacifiCorp to organize the numerous offers accordingly. The starting point for each valuation was the creation of a deal summary which inventoried all of the key inputs of the offers including the size of the offer, the duration of the offer, the pricing components, points of delivery, the start dates for commercial delivery, and the performance guarantees of the offer. After this information was collected from the proposals, a PVRR model was populated with the appropriate assumptions and adjusted to reflect the exact terms proposed by the bidder. Subsequent to this valuation, PacifiCorp assigned a score to each screening criteria (pricing, dispatch ability and environmental attributes). Once the Company completed its valuation, assigned a score to the offer, and conducted an internal quality check of the accuracy of inputs, the individual models were forwarded to NCI for review. The Company also provided a consolidated summary of the blinded results for all of the offers in the respective categories.

The final step in the process was an evaluation of the ranking of each of the offers and the short list selection. Ranking of the proposals was done based on the aggregate scores received for the proposal. NCI recommended that PacifiCorp derive the short list based on three to five counterparties and two to three times the MW commitment required. For example, since the Company's Peaking NBA had a designed capability of 525 MW, the short list consisted of five counterparties with a total MW commitment of just less than 2,100 MW. This provided the Company with a breadth of counterparties and depth in each bid category that was more than adequate to meet the Company's stated resource requirements for June 2005.

Throughout the process, to preserve some leverage in negotiating with counterparties, NCI recommended that PacifiCorp proceed in discussions and negotiations simultaneously with the top counterparties in each bid category. Although PacifiCorp did have an NBA to fall back on in case negotiations did not result in a less costly and risky alternative to one of the NBAs, it was deemed necessary to ensure that counterparties were dealt with in an expeditious manner and that the time needed to negotiate a definitive agreement would be ample. Before coming to the final short list, PacifiCorp gave each of the bidders on the preliminary short list an opportunity to revise their offers in hopes that a more economic alternative would be available to customers.

ii. NCI Proposal Review

This section describes the approach taken by NCI to document and assess PacifiCorp's review and ranking of bids received in response to the 2003-A RFP. NCI's guiding principle during its review was to ensure that the treatment of proposals was done in a fair and consistent manner, such that no proposal would be granted any undue advantage over another. It was also NCI's intent to preserve a sense of reasonableness regarding the comparative review and scoring process used by PacifiCorp to evaluate, score and rank the individual proposals.

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NCI's review of the overall proposal screening process can be segmented into three primary phases of review:

- » Phase 1: Deal Terms
- » Phase 2: Deal Modeling
- » Phase 3: Deal Comparison and Ranking

Deal Term Review: In the first phase, proposal term evaluation, NCI independently prepared its own summary of the terms offered by each of the bidders. This consisted of a spreadsheet summary of all the offers by bid category, i.e., Super Peak, Peak, Baseload, and other. This spreadsheet contained such information as the capacity commitment, pricing terms, scheduling terms, facility status, point of delivery, fuel type, and availability guarantees, among other things. NCI developed this summary of proposal terms relying on its own review of the proposals submitted by bidders. Contemporaneous with the preparation of this summary, PacifiCorp developed its own deal summary. This document included the same types of information gleaned from PacifiCorp's review of the blinded proposals that was contained in NCI's document. Taking these two documents along with the proposals themselves, NCI went through each of the input assumptions identified by PacifiCorp to assess whether or not the Company had accurately and fairly represented the terms as presented by the bidders in their respective proposals. Going through this side-by-side comparison allowed NCI to identify disparities between the way NCI and PacifiCorp interpreted the terms of the proposals. As a result of this initial review, NCI prepared a summary list of questions for PacifiCorp by bid number that were in turn addressed by PacifiCorp and incorporated into their modeling of the proposals.

Deal Modeling Review: In the second phase of review, deal modeling, NCI sought to achieve two goals – ensure that the modeling being done was consistent across each of the proposals and that the proposal modeling fairly represented the terms and conditions presented in the offers from bidders. Using the finalized input material aggregated from the summaries put together by NCI and PacifiCorp, NCI proceeded with an independent review of the models that were developed by PacifiCorp to value each of the proposals presented by the bidders. At this stage of the review process, NCI's focus was on establishing whether or not there was consistency in the modeling done for each of the proposals, not on the relative scoring of those proposals to the benchmark NBA.

NCI segmented its review of the deal modeling into the three separate bid categories solicited by PacifiCorp in the RFP: Super Peak, Peak, and Baseload. Rather than deliver each of the models to NCI in a piecemeal fashion, PacifiCorp used a consolidated approach of completing the modeling for all of the proposals in a bid category and then forwarding them in aggregate. By using this approach, PacifiCorp was able to better control the consistency of modeling and assure that any modeling assumptions made in one proposal would be reflected in the rest of the proposals within each of the bid categories. This also averted any issues with loss of version control since all proposals in a category would have the same modeling structure. As the outside auditor, this approach made it more practical for ensuring consistency in the modeling and identifying differences in how one proposal was modeled relative to another given the specific terms and conditions associated with the specific proposal.

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NCI conducted its modeling review examining each group of proposals individually. To complete this review, NCI followed a series of steps to achieve two specific goals – (1) validating that the terms were accurately and fairly represented in the modeling and (2) ensuring that there was consistency in how proposals of a similar type were modeled. For NCI to stand behind the integrity of the modeling process, it was important to validate that the proposals being modeled in a particular category were appropriate given the terms put forth by the bidder, i.e., validating that the proposal did not belong in a different bid category. For example, in two instances the bidders stated that they were responding to the Baseload bid category, but their offers were for commitments that would meet the June 2005 commercial on-line date. In these two cases, offers initially thought to be baseload offers were subsequently analyzed as peaking offers. Second, NCI sought to validate that PacifiCorp accurately and consistently modeled the proposal without arbitrarily advantaging or disadvantaging one proposal relative to another. Third, NCI crosschecked the modeled input assumptions with the deal summary spreadsheets prepared by both PacifiCorp and NCI as further validation that the proposed terms were input correctly. Fourth, NCI went through each model to ensure that the calculations and valuations were producing results that one would expect to see. Going through this detailed process step by step allowed us to establish confidence that PacifiCorp was approaching the proposal valuation process in a concerted, fair, and reasonable manner. Upon completing our review we found the proposals to have been fairly and reasonably modeled.

Deal Comparison and Ranking Review: In the third phase, deal comparison and ranking, NCI's focus was on the means by which PacifiCorp evaluated, compared and ranked the proposals received from the market. NCI's review consisted of an examination of the Company's approach to three key steps – selecting the most comparable NBA, comparing all of the offers in a bid category, and the subsequent ranking of the offers relative to one another. Prior to beginning this review, NCI had to ensure that PacifiCorp had received all of the information it needed to complete the valuation of the offers. Once NCI did this and was in agreement with PacifiCorp regarding the categories within which each and every bid fell, PacifiCorp could complete the task of comparing and ranking all of the offers. Although the majority of the bidders were responsive to questions posed to them during PacifiCorp's review process, it is important to reiterate that proposals that remained either vague or incomplete were left out of the comparison and ranking process, i.e., they received no valuation or score for screening purposes. This elimination occurred only after bidders received two written requests to submit information that would facilitate a valuation and failed to do so. The requests advised bidders that the information being sought was necessary for PacifiCorp to complete its valuation of their offer and that failure to provide the requested information would result in their proposal being eliminated from the process.

The first step in the comparison was choosing the appropriate NBA to use as the basis for determining the percentages to assign to the proposal for its pricing relative to the estimated costs of the benchmark NBA. If the offer was for a capacity commitment that would meet a need projected by the Company for 2007, then it was deemed to most closely resemble the baseload resource being sought by the Company. If the proposal offered a June 2005 start date, or a date close to that it was deemed as being responsive to the peaking resources needed by the Company and was therefore compared with the peaking resource NBA. Likewise, offers that were considered Super Peak bid category offers were those offering an annual or summer shaped product between 2004 and 2007. In the majority of cases, it was clear what bid category the bidder was submitting its proposal to, so it

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was a simple effort of choosing the right NBA. In a couple of cases where it was not readily apparent which bid category the proposal was being responsive to, PacifiCorp selected the one that would result in the higher percentage score for the proposal on the pricing component of the overall selection criteria for that proposal.

The second step in the comparison was looking at the relative comparison of the proposals in each bid category and ranking them against one another. In the case of the Baseload bid category offers, this was a straightforward process of ranking, which took into account the aggregate percentages received on the price and non-price screening criteria. However, the pricing associated with the overwhelming majority of peak and Super Peak offers ended up being far less economic than the costs associated with the NBAs.⁸ Consequently, the effective score on the pricing components ended up being zero. This led to a situation in which proposals in two of the three bid categories would be ranked solely on dispatch ability and environmental attributes. Given this unexpected situation, PacifiCorp had to come up with an additional means of identifying a short list of proposals/bidders. Since pricing was being left out of the equation on the first pass using the existing screening criteria, PacifiCorp decided that it would be appropriate to secondarily rank the list by the PVRR associated with each offer. To do this, PacifiCorp took the PVRR of a proposal and calculated a relative value based on its PVRR relative to the PVRR of the related NBA on a per 100 MW-month basis. This was done by simply subtracting the PVRR of the related NBA from the PVRR of the proposal to come up with a normalized PVRR per 100 MW-month that would allow side-by-side comparisons of each of the proposals on a consistent basis. NCI found this to be a reasonable means of further ranking the offers since it was consistent with the original intent of the pricing criteria in the RFP.

The third step in the comparison involved the ranking of the offers relative to one another. The ranking of proposals was determined by both price and non-price factors in a manner that was consistent with the RFP. As expected, the Company ranked each of the proposals according to their aggregate score obtained for both price and non-price factors. To further narrow the short list, the Company then took the proposals and secondarily ranked them based on their PVRR as described above. To derive its preliminary short list, PacifiCorp worked from the top down in the resulting rankings to identify the most viable candidates with whom it would hold clarifying discussions. It is important to note that only those offers that made the preliminary short list were deblinded for PacifiCorp. All of the other offers not making this list remained blinded.

iii. Description of Resources Modeled

In its RFP, PacifiCorp solicited proposals in three different bid categories from prospective bidders: Baseload, Peaker, and Super Peak. An important step for PacifiCorp to decide before reviewing any of the bids in each of these categories was determining what to benchmark these bids against. PacifiCorp identified market and cost based options that could be used as an effective benchmark against the terms proposed by bidders. In the case of the Super Peak offers, the Company believed that the most likely alternative to potential proposals was a comparison against the forward power market (i.e., a mark-to-market). However, in the case of the other desired responses, the 575 MW baseload resource sought for 2007 and the 200 MW resource sought for 2005, the most likely

⁸ This effective score of zero on the pricing criteria resulted from PacifiCorp's assumption that it would receive proposals that were less expensive than the benchmark NBA, which it did not.

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alternative was the construction of these resources by the Company or the market. As a result, bids received in the baseload (e.g. coal, gas-fired generation, or other) and peaking supply categories were compared against an NBA. To ensure a fair comparison between the NBA and the proposals offered by bidders, PacifiCorp communicated effectively to each of the bidders what the timing of resources being sought was and what minimum attributes those resources possessed.

The minimum requirements that PacifiCorp sought from the proposals submitted varied by bid category. In the Super Peak category, the minimum criteria that PacifiCorp wanted to have met included a start date by June 2004, a summer shaped product, and offered firm delivery in or to the PacifiCorp East system. The offers in the peaking bid category were expected to offer commercial operation dates no later than June 2005, must be flexible in order to be dispatched daily, and delivered in or to the PacifiCorp East system. Similarly, the Baseload bid category minimum requirements called for commercial operation by June 2007 and delivery in or to the PacifiCorp East system. Before discussing how PacifiCorp went about modeling the proposals in each bid category, an overview of each bid category is provided below (See Table D).⁹

Table D. Description of PacifiCorp's Bid Categories			
	BID CATEGORIES		
	Baseload	Peaker	Super Peak
Start of Delivery (COD)	June 2007	June 2005	June 2004
Contract Duration	Up to 20 Years	Up to 20 Years	Up to 4 Years
Size (MWs)	Up to 570	Up to 200	Up to 225
Preferred Delivery Attributes	7x24 Delivery	Daily Call Option	June-Sept ('04-'07); Delivery during HE 1300 - HE 2000 or Daily Call Option
Dispatchability	Flexible	Daily Dispatch	Daily Dispatch
Point of Delivery (POD)	In or to PacifiCorp Eastern System (PACE)	In or to PacifiCorp Eastern System (PACE)	In or to PacifiCorp Eastern System (PACE)

- » **Super Peak Bid Category:** Super Peak bid category responses were those offers that were intended to meet PacifiCorp's needs during the HE 1300 - HE 2000 PPT period on either a 7X8, 6X8, or 5X8 basis for the summer months of June to September from 2004 through 2007. The resource could also be available as a daily call option. These were the first models prepared and completed by the PacifiCorp personnel responsible for the base valuations. In this bid category, PacifiCorp was looking for a variety of attributes in addition to the months and hours of need outlined. Super peak offers preferably were to exhibit such attributes as deliverability at PacifiCorp's option, the ability to pre-schedule, delivery to the Eastern PacifiCorp system, and

⁹ These minimum bid requirements are detailed in the materials presented to bidders by PacifiCorp at the June 20, 2003 RFP 2003-A Pre-Bid Conference; Baseload and Peaker bid category turnkey or life of asset offers were evaluated over their estimated economic life.

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structuring under a negotiated arrangement based on a PPA, tolling agreement, or lease. In aggregate, PacifiCorp was looking for approximately 225 MW of capacity in this category, or larger if economies of scale could be demonstrated.

- » **Peaker Bid Category:** Offers in this bid category were expected to meet PacifiCorp's minimum requirements as indicated earlier (i.e., daily dispatch and commercial operation by June 2005). Offers put in this category typically provided some form of call option structure either hourly, intra-day, daily, day ahead, or some other basis. Heavy load and super peak load hours were the target for this bid category. Peaker offers could be built upon a variety of physical and financial structures depending upon which party would be interested in assuming the various responsibilities and risks. In its RFP, PacifiCorp expressed an interest in considering alternatives using either one of the structures. The Company also indicated that offers of a term up to 20 years would be of interest. Proposals modeled in this category by PacifiCorp consisted of PPAs, asset purchases, and turn-key construction projects. In aggregate, PacifiCorp was looking for approximately 200 MW of capacity in this category, but advised bidders that they would entertain offers for commitments well in excess of this amount on account of its revised load forecast suggesting an additional need for peaking resources than had originally been identified in the Company's IRP filing.¹⁰
- » **Baseload Bid Category:** Baseload bid category offers solicited by PacifiCorp were expected to meet the minimum requirements outlined in the RFP (i.e., commercial operation date no later than June 2007). All of the responses modeled in this category were 7x24 offers, with some including 7x8 offers (duct-firing) with their response in addition to the 7x24. With this bid category, PacifiCorp was looking for resources that could meet around the clock capacity and energy needs by June 2007 for a period of up to 20 years. Like the peaker offers received, the baseload offers in this category consisted of PPAs, asset purchases, and turn-key construction projects. In aggregate, PacifiCorp was looking for approximately 570 MW of capacity in this category, but indicated to bidders that offers in excess of this amount would be considered if economies of scope and scale could be demonstrated.

Among these three bid categories, the offers fell into four main categories: power purchase agreements (PPAs) which include physical and/or financial tolls; turn key facility construction with sale back; facility leases; and, equipment sales. Under the PPAs, it was expected that the counterparty would be making a power sale to PacifiCorp from an existing facility, a yet to be built facility, or from an unspecified source. Offers in the turnkey category involved the bidder selling a completed project to PacifiCorp that is constructed on a bidder supplied site or a site chosen by PacifiCorp. The payment for these options was either in the form of an up front lump sum or a series of payments over a defined period of time. Facility leases were offers to construct and lease a completed facility to the Company. Lastly, a number of companies proposed equipment sales of a variety of equipment types, but they were primarily turbine generators. The sale of equipment was determined as not having a project on-line to meet the commercial on-line start dates of June 2005 and June 2007, for the Peaker and Baseload bid categories, respectively. Consequently, offers of this type were eliminated from further consideration.

¹⁰ See PacifiCorp's Quarterly IRP Public Input Meeting, May 19, 2003.

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- » **Hybrid Resource:** Once the decision was made to move forward with the Peaking Resource NBA, a Hybrid Resource was appropriate to use against incremental resources over the Peaking Resource. In order to capture economies of scope and scale associated with constructing facilities that have a lower incremental construction cost due to shared infrastructure, PacifiCorp identified a hybrid resource option. This hybrid option consisted of the peaking NBA combined with the baseload NBA. This was developed in order to facilitate the comparison of the peaking and baseload NBAs in combination with a bidder offer. For example, use of this resource configuration allowed PacifiCorp to consider the overall economics of a peaking NBA with a baseload market offer to ensure that economies of scope or scale would not be lost in the event one of the NBAs was deemed the most economic. This approach kept with the Company's objective of securing the least cost resources on behalf of its ratepayers.

b. Responses to the Solicitation

PacifiCorp's RFP elicited a variety of responses from the market. In all, 37 different companies responded to the RFP with over 100 proposals for the Company to consider. As the Company moved through clarifying discussions with bidders, additional offers were received from short listed bidders that were exclusively hybrids of what had already been offered. This resulted in approximately a half dozen additional offers that PacifiCorp evaluated. After each and every time that a bidder clarified prices and terms associated with their respective offers, PacifiCorp prepared a revised summary of the offer along with a revised economic model of that offer. In turn these were all then reviewed by NCI for their accuracy in representing the economics of the deal and the consistency with which they were compared with PacifiCorp's NBA.

The purpose of this section is to provide an overview of all of the RFP responses including a brief description of the types of offers and their typical attributes.

c. Overview of Responses Received

PacifiCorp initially evaluated 94 specific proposals from bidders. As further discussions were held with bidders to clarify their offers, the Company received additional offers (variations of the original offer received) that it evaluated in the context of the RFP. When offer variations came into the Company for its evaluation, it is important to note that they were evaluated in the same bid category as the bidder's original offer and were subsequently ranked against PacifiCorp's NBA as well as the other proposals received in that bid category. To avoid confusion regarding the actual number of proposals reviewed by PacifiCorp, it is helpful to understand the timing of the review process and what occurred at each stage. As the Company worked through the process of evaluating the initial offers received with bidders and PacifiCorp had an opportunity to clarify what the short listed bidder was interested in and capable of providing, there were instances in which the bidders submitted revised offers for the Company to consider.

There were basically five different types of generation offers that were received from bidders: (1) turnkey offers; (2) power purchase agreements; (3) equipment sales; (4) lease arrangements; and (5)

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equity offers. Following is a brief description of the attributes that each type of offer included among the proposals received (See Table E).

- » **Power Purchase Agreements** – These offers entailed the delivery of capacity and energy to PacifiCorp over a fixed period of time under a predetermined pricing structure. There was a wide variety of power purchase agreement offers made to PacifiCorp including physical and virtual tolling agreements, fixed price call options, fixed price swap, and power/coal spread options. PacifiCorp received 72 of this type of offer.
- » **Turnkey Offers** – These offers involved proposals to design, permit and construct a facility that would be turned over to PacifiCorp at the date of commercial operation. PacifiCorp received 14 of this type of offer.
- » **Equipment Sales** – These offers involved the sale of physical equipment, such as turbines and generators, to PacifiCorp for use at a site of PacifiCorp’s choosing. PacifiCorp received 5 of this type of offer.
- » **Lease Arrangements** – These offers involved a fixed payment to the bidder over a set period for full dispatch rights to a facility. Lease payments would be in lieu of fixed capacity payments and other fixed charges. PacifiCorp received 3 of this type of offer.
- » **Equity Offers** – These were proposals made by bidders offering PacifiCorp an option to purchase either a majority or minority equity stake in an existing facility or development project. While PacifiCorp did not receive any offers for an equity stake initially, as discussions evolved with the short listed bidders, the Company did end up receiving one offer for an equity stake in a partially developed facility.

Table E. Breakdown of Initial Offers by Type by Bid Category			
	Super Peak	Peaker	Baseload
PPA Types			
Power/Gas Spread Option	8	17	30
Fixed Price Swap	3	--	6
Fixed Strike Option	2	--	2
Fixed Price	--	--	3
Power/Coal Spread	--	--	1
Subtotal	13	17	42
Others			
Turnkey	--	8	9
Equity	--	--	--
Equipment Sales	--	2	--
Leases	--	1	2
Subtotal	--	11	11
Total	13	28	53

i. **Attributes of the Offers**

In the interest of being as inclusive as possible, PacifiCorp, through its RFP, sought to attract a wide variety of offers within each bid category. To this end, PacifiCorp structured its RFP to encourage bidders to be creative in what offers they brought to the Company. PacifiCorp’s interest was in allowing the market to provide the best alternatives that it could while meeting some minimal requirements. As noted in the Pre-Bid Workshop materials, there were several attributes that the

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Company preferred, which were to be used by bidders as a guide for preparing their responses. The attributes that were the most important were the dates for the commencement of commercial operation and the dispatchability of the resource. Table F outlines what the requirements were by bid category. Around these two criteria, PacifiCorp received a wide array of offers including various contract durations, megawatt commitments, heat rates, delivery points, and pricing approaches (See Table F).

Table F. Bid Category Characteristics Identified in the RFP			
	<i>BID CATEGORIES</i>		
	Baseload	Peaker	Super Peak
Start of Delivery (COD)	Jun-07	Jun-05	Jun-04
Contract Duration	Up to 20 years	Up to 20 years	Up to 4 years
Size (MWs)	Up to 570	Up to 200	Up to 225
Preferred Delivery Profile	7 x 24 delivery	Daily call option	June-Sept. ('04-'07); Delivery during HE 1300- HE 2000 or daily call option
Dispatchability	Flexible	Daily Dispatch	Daily Dispatch
Point of Delivery (POD)	In or to PacifiCorp Eastern system (PACE)	In or to PacifiCorp Eastern system (PACE)	In or to PacifiCorp Eastern system (PACE)
Requested Transaction Structures	Negotiated (PPA, toll, lease, turnkey sale, equity participation, etc.)	Negotiated (PPA, toll, lease, turnkey sale, equity participation, etc.)	Negotiated (PPA, toll, lease, etc.)

As Figure 2 illustrates, across the three bid categories, bidders submitted a wide range of offers. The figure depicts the range of megawatt commitments made by bidders and the duration of the offers. The peaker and baseload offers that extended beyond the preferred 20-year PPA period were exclusively turnkey facility construction projects that were looked at by PacifiCorp over their expected life.¹¹ The Super Peak bid category offers ranged in size from a few MW up to 300 MW over a one to four year period beginning June 2004. The Peaker bid category offers ranged in size from a few MW up to just over 400 MW. The term of these respective offers ranged from ten years up to the useful life of the asset, in the case of some turnkey development projects offered to the Company. The baseload offers had a similar range of five years up to the useful life of the asset. The size of the megawatt commitments ranged from a few MW to over 1,000 MW including duct firing capability.

¹¹ See PacifiCorp Integrated Resource Plan 2003, Appendix J, pgs. 354-358 for a detailed discussion of the methodology used in the IRP to compare projects of unequal lives.

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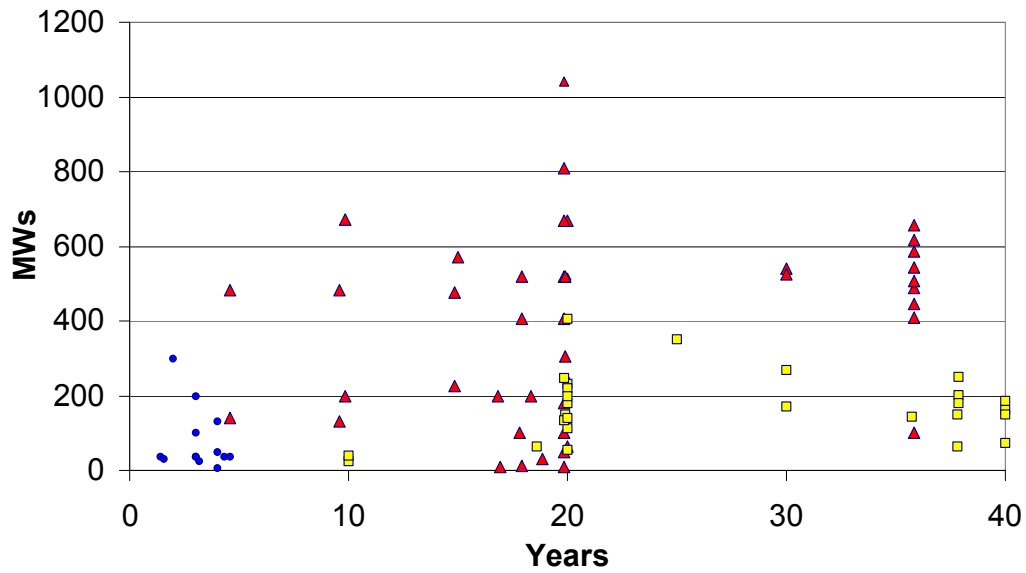


Figure 2. Distribution of the Economic Life of RFP Offers by Size and Term

The heat rates of the embedded technology in the offers also exhibited a wide range. Overall the heat rates went from a low of 6,300 Btu/kWh to close to 12,000 Btu/kWh (See Figure 3). The diversity of heat rates illustrates the wide range of available technologies and equipment configurations that PacifiCorp could tap in the market place for meeting its on-going resource needs. From PacifiCorp's perspective, a stated or guaranteed heat rate was not a determining factor in placing an offer in a particular bid category. Commercial on-line date and resource flexibility remained the two primary drivers.

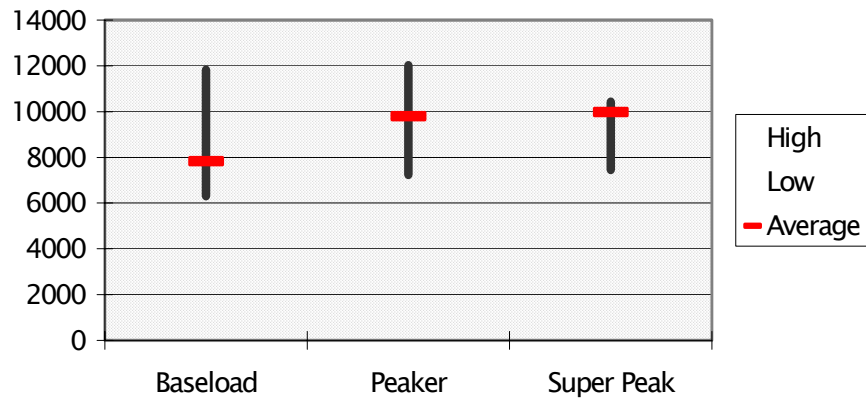


Figure 3. Range of Heat Rates Among RFP Offers

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In terms of resource flexibility, bidders submitted offers across the spectrum of dispatch options. Across the three bid categories, the majority of bidders submitted offers that met PacifiCorp’s preferred option of daily dispatch, however, a number of others offered day-of dispatch call option rights under their proposed terms. These respective attributes were valued in the screening process using the RFP designated criterion of dispatch that gave bids a specific weighting based on the flexibility of the resource. The optionality provided as a result of the particular resource’s flexibility was not valued economically in the bid screening (See Figure 4).

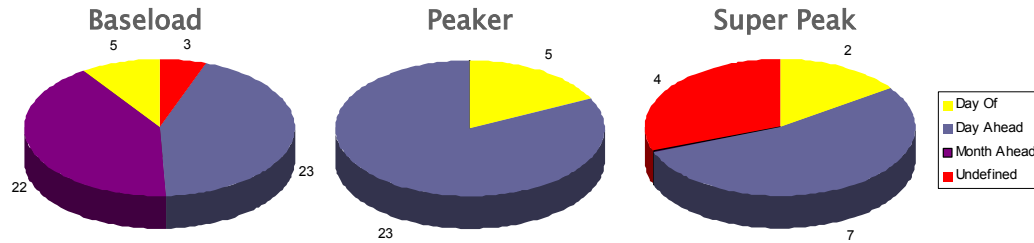


Figure 4. Dispatchability of RFP Offers

As stated in the RFP, PacifiCorp was interested in receiving offers for commercial delivery to or in PacifiCorp’s Eastern transmission network interface. Delivery points of interest listed in the RFP included:

- » Within PACE;
- » Mona 345 kV – “MLDP” (IPP-Mona from the LADWP control area), “MDGT” (Bonanza-Mona within the PACE control area), and “PACE-Mona” (all other lines into Mona within the PACE control area);
- » Gonder 230 kV;
- » Glen Canyon 230 kV;
- » Nevada/Utah Border (NUB) on the Sigurd-Harry Allen 345 kV; and
- » Nevada with firm transmission to PACE

PacifiCorp also identified specific delivery points that would not be of interest such as Four Corners (4C), Borah, Brady, or Kinport. Although not preferred, PacifiCorp stated a willingness to consider such alternatives as long as certain infrastructure constraints and requirements were accounted for in the evaluation. As the following diagram illustrates, bidders proposed more than twenty different points of delivery (See Figure 5).

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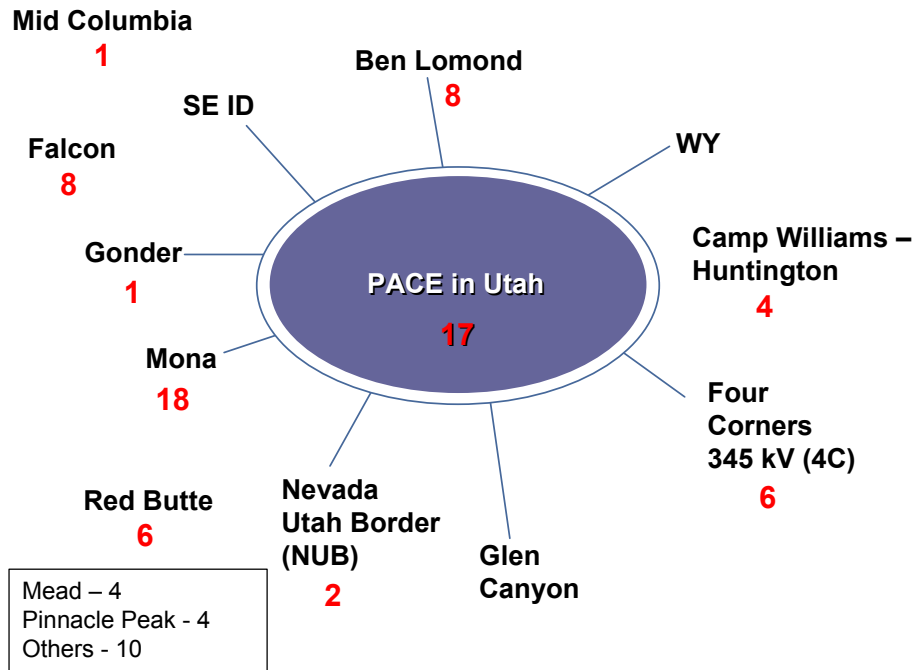


Figure 5. Bidder Proposed Points of Delivery Relative to PacifiCorp’s East System

ii. Types of Entities that Responded

Across each of the three bid categories a wide variety of types of Companies responded to the RFP. PacifiCorp received proposals from thirty-seven bidders consisting of small turnkey developers, independent power producers, utility affiliate power marketers, utilities, and equipment procurement specialists. Equipment configurations ranged from modular reciprocating engine setups to large four-on-one (4X1) combined-cycle facilities.

The demonstrated experience of the respondents ranged from minimal to extensive in terms of project development and/or power sales. Some developers clearly demonstrated their experience through a breadth of domestic and international work. Others indicated they were making their first foray into power project development leveraging prior experience with equipment procurement and placement. Many were well known developers/marketers both regionally and nationally.

Since financial strength and credit quality are important elements from a financial risk perspective for PacifiCorp, it is worth pointing out the attributes of entities that responded to the RFP. Although some respondents had sufficient credit to stand behind their proposed transactions, many parties would not extend a parental guaranty and/or approached the RFP with partners in the form of private equity outfits, investment funds, bank letters of credit, and other collateral instruments in an attempt to support the proposed transactions, whether they were power purchase agreements from existing facilities or development projects with proposed off-take agreements. Some parties had not thought through this aspect of their proposal before submitting a response and, after being short-listed, had to negotiate simultaneously with external parties in order to demonstrate to PacifiCorp that they had adequate financial wherewithal to close a deal and support it on an on-going basis.

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Those parties that ended up being the most successful in the negotiation process were those that were able to concisely articulate the developmental, operational, and financial components of their respective deals. Addressing risk and who would bear the responsibility for it also proved of vital importance during the negotiation process. Bidders who were either not willing to assume certain risks associated with their deal or could not get PacifiCorp comfortable that specific risks associated with the deal were manageable were not as attractive as other proposals that adequately addressed such factors. Also, as expected, those bidders that were able to offer the most attractive pricing terms over the duration of the commercial delivery period were the most valuable to PacifiCorp. Those that fell short included proposals that over priced their deals by attempting to recover all of their capital costs within the twenty year period of service without accounting for any terminal value, those that chose not to offer a specific price for asset purchase at the end of the contract period, and those that simply were more expensive for a variety of reasons than the other alternatives.

Bidders that made capacity and energy offers from small-scale projects were not broadly represented in the set of companies that responded to the solicitation. In total, only four individual offers from the nearly one hundred offers were from projects that were under 15 MWs in size. Of the thirty-seven bidders, these four offers came from just three bidders. The offers ranged in size from 7 MW up to 11 MW. Two of the projects were based on geothermal resources, one was based on the recovery of waste heat, and one was from a portfolio of distributed resources fired by oil and gas located at commercial and industrial sites within the bidders service territory. Each of the geothermal and waste heat offers were submitted as baseload resources that would be available throughout the year. The distributed resource offer was proposed as either meeting PacifiCorp's need for peaking or super peak resources. The pricing of the baseload offers were not as competitive as the pricing from other offers in this bid category. However, the super peak/peak resource category offer was attractive to PacifiCorp from a pricing perspective, but ran into difficulties in being able to establish the desired level of firmness needed by PacifiCorp to get the resource to PACE. In general, representation by small projects was low and the projects were not competitive with larger projects/offers.

IV. The Offer Clarification and Negotiation Process

The process used to clarify offers with bidders can be segmented into two separate and distinct phases: (1) the period of initial valuation and (2) the period of clarifying short list offers. As a whole the process followed a systematic series of steps working toward the bidders with whom PacifiCorp would negotiate on a detailed basis.

a. Phase I: Initial Valuation

The initial valuation period was when PacifiCorp first received copies of the blinded proposal material from NCI in the month of July. During this time, PacifiCorp raised various questions about the material aspects of select proposals that required clarification from the bidder. PacifiCorp submitted questions to NCI who in turn forwarded those questions on to the bidder. Once responses were received from the bidders, NCI then blinded those responses by the respective bid number and forwarded them on to PacifiCorp. All attempts to resolve issues of missing or unclear information with bidders were done with the intent of understanding the definitive offer for the purpose of preparing the initial screening using the RFP designated criteria. All of the offers in each bid category went through this review. This phase concluded with the scoring and ranking of offers and the resulting identification of the short list.

b. Phase II: Offer Clarification

The phase of clarifying short list offers began once PacifiCorp had identified the top offers that it wanted to clarify with the respective bidders. This is the point at which the actual bidders of the short listed proposals were made known to PacifiCorp. Up to this point the individual bidders were still blind to PacifiCorp. These discussions were held with the bidders behind the top offers in each bid category. The number of offers clarified in this phase by bid category was as follows: six in the Super Peak category, ten in the peaker category, and twelve in the Baseload bid category. The primary purpose of these clarifying discussions was to verify the proposed terms of the offer(s), validate the substance of the offer(s), and determine whether or not the bidder had put forth their best offer(s). These were not negotiations nor were they intended as a forum for extracting concessions from bidders regarding their particular offers. Negotiations were reserved for a smaller subset of the short listed bidders after PacifiCorp obtained a better understanding of the details of the respective offers. Prior to commencing detailed negotiations, it was imperative that PacifiCorp validate the terms and conditions of the offer along with its viability.

The means used to clarify offers was structured to ensure that PacifiCorp and the bidder could come to a mutual consensus regarding the terms associated with their short listed offer(s). To facilitate this discussion, PacifiCorp used a standardized template (“Offer Summary”) to summarize all of the material items related to an offer. Prior to holding clarifying discussions with bidders, a copy of the completed offer summary was sent to the bidder for their review and redlining. The redlined document returned by the bidder was used as the basis for each clarifying discussion held. The discussions with each bidder followed a consistent path of walking through each item in the offer

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summary in a methodical manner to ensure that PacifiCorp understood what was definitively offered and that the bidder understood what information was being sought. In the Super Peak category, these initial clarifying discussions were held between August 14 and August 18, 2003. In the peaker category, these discussions were held between August 26 and August 27, 2003. The baseload discussions took place between August 28 and August 29, 2003.

c. Scoring and Ranking the Proposals

The scoring and ranking of offers occurred prior to the clarifying discussions with the short listed bidders. All that PacifiCorp was able to rely upon was the information contained in the actual proposals as well as any material information that was solicited from bidders by PacifiCorp via NCI to facilitate their completion of the financial valuation (i.e., phase one described above). No one-on-one discussions were held with bidders prior to this point. The clarifying discussions (i.e., phase two) referenced in the above section were held after the scoring and ranking had been completed.

The scoring and ranking process used by PacifiCorp to derive the short lists relied on the three criteria used in the RFP: pricing, dispatch ability, and environmental characteristics. Each criterion was assigned an overall weighting based on a percentage, which was then used to rank each of the proposals among one another. Using the three criteria, each proposal received a specific score in each category. The combined score was then used to rank each proposal relative to one another. The criteria were uniformly applied across each of the proposals to derive their scores and relative rankings. Where questions arose about the transmission costs to impose, the flexibility of the resource, or the escalation factors to use, among other factors, PacifiCorp erred on giving the bidder the benefit of the doubt by using the option that would result in a better valuation for the proposal. However, where material differences would result, PacifiCorp sought clarification via NCI from the bidder before determining the valuation used for scoring and ranking.

Once a bid was identified as making the preliminary short list, NCI de-blinded the offer. The company submitting a bid was only made known to PacifiCorp's Commercial and Trading group if it made the short list. All others remained blinded. Also, it is important to note that other offers, submitted by the short listed bidders, which did not make the cut, were left blind. The de-blinding of proposals and subsequent acknowledgement to bidders took place by bid category. The Super Peak bid category offers were de-blinded with NCI contacting the respective bidders on August 13, 2003. On August 21, 2003, NCI contacted the bidders making the preliminary short list for the Peaking bid category. The final bid category respondents to be notified were those in the Baseload bid category. This group of respondents was contacted on August 22, 2003. Contact with bidders on these three dates included both the respondents making the preliminary short list and those that did not.

d. Determining Final Negotiating Parties

With the scoring and ranking complete and the short list identified, PacifiCorp, along with NCI, then engaged bidders directly in clarifying discussions for the purpose of determining the parties with whom PacifiCorp would enter into detailed negotiations. Based on the feedback obtained from bidders during each of the clarifying sessions, PacifiCorp updated the economic valuations for the

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offers. Before updating the models, PacifiCorp revised its deal summary documents and the offer summary sheet for use as the basis in updating the models. These were also used in NCI's review of the updated models to ensure that the revised information was being included in the most current valuation. Having participated in all of these clarifying discussions with bidders, NCI was able to independently validate that the offers were being accurately captured in these summary documents. NCI viewed the clarifying sessions with bidders as an opportunity to better understand what was being offered and to ensure that PacifiCorp was valuing the best deal that the bidder put forth.

Given the volume of responses, it was vital that PacifiCorp narrow the list of parties with whom it would engage in detailed negotiations. These sessions served that function by ensuring that PacifiCorp captured the bidder's best and final offer that would be used to identify the preliminary list of negotiating parties. This is also what was communicated to bidders during the clarifying sessions. To be clear, each bidder was asked to put forth their best offer that they wanted PacifiCorp to evaluate. Since offers submitted in response to the RFP were indicative, it was reasonable to expect that during clarifying discussions bidders would obtain a better understanding of what PacifiCorp was looking for and what pricing and performance terms would be looked upon more favorably during the final valuation process before moving to detailed negotiations. Indeed this is what occurred and resulted in some modified offers being submitted by the short listed bidders.

In the case of the Peaker and Super Peak bid categories, the clarifying discussions did not yield economically attractive enough offers for the company to move forward with detailed negotiations. This conclusion was arrived at after numerous discussions with the bidders in both the Super Peak and Peaker categories from mid-August through the first week in November. Initially, in the Baseload bid category, there were several offers that were more economically attractive than the NBA. Negotiations remain ongoing with a couple of these counterparties. The next section describes in more detail how the discussions with each of the short listed counterparties unfolded and which issues were most material to the proposed transaction.

e. Review and Results of Short List Discussions

The following is a review of the offers that were received from bidders that were short listed by PacifiCorp and evaluated more thoroughly in the RFP process. Each of the offers profiled and discussed in this section made the first round short list based on the RFP designated criteria. No clarifying discussions had been held directly with bidders up to this point, except for material questions that were posed to bidders through NCI that would allow PacifiCorp to complete the blinded screening and economic valuation. The intent of the short lists was to provide PacifiCorp a subset of the top candidates with whom to hold further clarifying discussions regarding the indicative information submitted in the proposals.

From this point forward, PacifiCorp's focus was on clarifying the above offers and working with the bidders to understand the material aspects of their respective offers including all of the cost components and associated risks. The relative rankings of the offers shifted as the companies clarified and explained their proposal details and as PacifiCorp revised its economic valuations based on this information. This was expected, as PacifiCorp was able to validate the definitive offers being made through direct dialogue with the bidders. At each stage of dialogue with the respective

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bidders, PacifiCorp prepared an updated economic valuation model that NCI reviewed for accuracy and fairness. Since NCI participated in all of these clarifying discussions with bidders along with PacifiCorp personnel, the monitoring of material changes in offer valuations was readily done.

The intent of the following sections is to provide an overview of the offers and what the outcome was of discussions with bidders in each of the bid categories.

i. Super Peak Offers

The Super Peak offers can be broken up into two classes: summer delivery products and annual delivery products. Bidders offering summer products (i.e., delivery during June through September) were responsive to the RFP and the most attractive to PacifiCorp while the annual products were less so due to the 12 month take requirements of the proposed offers. Since summer delivery is so important to PacifiCorp, the decision was made to hold discussions with all of the bidders who offered summer products. This led to discussions with five companies in the Super Peak bid category. The annual delivery offers in the Super Peak bid category were not short-listed due to their not being responsive to the RFP and their unattractive economics that were embedded in their offers. No clarifying discussions or negotiations were held with these bidders in the context of the RFP.

ii. Peaker Offers

The peaker bid category offers ran the gamut of equipment configurations, heat rates, and delivery points. Out of the 28 offers received, 10 of them were short listed for further clarification based on their ranking according to the RFP screening criteria. Initially, only two offers, were viewed as being more economic than PacifiCorp's NBA. In spite of this fact, NCI recommended to PacifiCorp that it hold clarifying discussions with three to five potential counterparties assuming the indicative economics of their offers warranted further consideration, i.e., that they were within a reasonable range of the NBA's relative economics. Clarifying discussions were then held with the five bidders behind the top ten offers. At the conclusion of these discussions, PacifiCorp prepared a revised ranking of the offers that reflected PacifiCorp's most current understanding and valuation of the offers. No offers were found to be more economically attractive than the Company's NBA.

At this point, with NCI having validated these results, PacifiCorp could have chosen to cease any further discussion with these counterparties and simply moved forward with its cost-based alternative at Currant Creek. However, the fact that (1) the Super Peak bid category offers did not look promising and (2) that the Company had issued a revised load forecast indicating a load and resource imbalance in the Eastern portion of its system in 2005 that was projected to be nearly two times as large as what had been identified in the IRP, the decision was made to continue discussions with these bidders. Building the peaker bid category NBA would not completely create a balance between projected loads and committed resources. Due to the revised load forecast, it was decided that a new NBA was needed for benchmarking purposes (since the Currant Creek peaker NBA was no longer an alternative) and that the Company would go back to the top bidders to see whether or not another opportunity to revise their offers would result in something more economic relative to the next NBA. The smaller list of counterparties was driven by the interest in having a manageable number of companies with whom the Company potentially could engage in more detailed negotiations.

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PacifiCorp then prepared another NBA, which NCI validated, before reviewing revised bids from these three companies. In short, the Hybrid NBA consisted of forward market purchases for two years and an expansion at the Currant Creek site for the remaining eighteen-year period. The Hybrid NBA was used to benchmark the revised offers. Once PacifiCorp received these offers, summarized them and prepared revised economics, additional clarifying discussions were held with the bidders to ensure that the Company accurately modeled what the bidder was presenting. In addition, PacifiCorp provided feedback to the bidders about what terms and options would be most attractive to the Company. The bidders responded to this request by providing slight permutations of their offers including various terms and financing arrangements. The result of these discussions was the final ranking of offers relative to the Hybrid. Upon review of these best and final offers no offer was found to be economically superior to the Hybrid NBA. Consequently, discussions with all bidders in this bid category were ceased.

Basis for Selecting the NBA in the Peaking Resource Bid Category

PacifiCorp's Peaking NBA, the development and construction of a 525 MW gas-fired combustion turbine combined-cycle generation plant located adjacent to the Mona Substation 75 miles south of Salt Lake City, Utah, was determined to be the lowest cost resource option within the context of the RFP process. It will meet the Company's IRP identified need for a resource that is located within PacifiCorp's Eastern system. From the perspective of the RFP, this resource also met all of PacifiCorp's stated requirements, which included:

- » On-line and available by June 2005;
- » Daily dispatchability during heavy load and/or super peak hours; and,
- » Delivery in or to PACE.

NCI not only validated the reasonableness of all the material costs associated with the NBA, but also ensured that they were appropriately reflected both in the model prepared by PacifiCorp's Resource Development group (cost-based) and the one prepared by the Commercial and Trading group (reflecting economic dispatch). This was a rigorous assessment involving the review of primary data and cost estimates as well as direct interviews with the personnel engaged in the preparation of the figures and the models. Furthermore, NCI reviewed and certified the economic analyses that were prepared for every one of the offers submitted and considered in the RFP's Peaker bid category. After the initial bid screening, in each round after bid clarification, the NBA consistently came out on top as the least cost alternative for the Company. Also, as noted earlier in this report, all of the material changes that were made to the NBA, from its initial lock down through the period of offer clarification with bidders, were reviewed and validated by NCI as being reasonable and not arbitrarily advantaging one alternative over another.

It is with this background that the decision was made to conclude discussions with the Peaker bid category bidders and proceed forward with permitting and developing the Company's cost-based alternative, the Peaking NBA at Currant Creek.

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iii. Baseload Offers

The Baseload bid category yielded more than half of the proposals received in response to the RFP. PacifiCorp worked with the top bidders in this bid category to clarify their offers through a series of question and answer sessions consisting of conference calls and e-mail exchanges, which is the same process used in each of the other two bid categories. Upon the conclusion of the screening process using the RFP designated criteria, there were eleven offers that were more economic than the NBA on an indicative basis. Consistent with the other two bid categories, NCI recommended that PacifiCorp engage at least three to five counterparties in clarifying discussions. However, the decision was made jointly to hold clarifying discussions with all of the bidders whose offers were more economic than the Baseload NBA. As such, NCI deblinded nine companies' offers. This is represented in the list of twenty offers (plus the duct-fired contingent offers) that the Company clarified directly with bidders.

Once these discussions were concluded and the Company had received from bidders the necessary information to clarify the offers, PacifiCorp prepared a revised ranking that mirrored the feedback provided by the bidders. This resulted in a revised ranking. It is important to remember that at this stage, PacifiCorp did not engage the bidders in negotiation, but focused instead on clarifying the offers to ensure that there was a mutual understanding regarding the interpretation of various costs, risks, and assumptions and how they were being handled within the economic modeling. Contemporaneous with the revised list was the identification of the Peaker bid category NBA as the most economic alternative for PacifiCorp. Since the assumption was that the Company would be moving forward with its Peaking NBA at the Currant Creek site in the Peaker bid category, the Baseload NBA became the cost of marginally expanding at that site and including all of the economies of scope and scale that are afforded development at an existing site.¹² While not altering the ranking of offers, it did result in a narrowing of the short list to only three bidders presenting offers that were economically superior to the NBA. PacifiCorp began with the two more attractive offers and shortly thereafter commenced detailed discussions with the third bidder.

Basis for Selecting the Summit Power Offer

In the final economic analysis of the baseload offers, the values of two offers that were better than the NBA were within very close range of one another. Both parties clearly demonstrated their capabilities in bringing projects on-line, on time, and within budget. The key difference boiled down to an issue of schedule delay due to credit quality considerations. The winning bidder, while not having a credit rating of its own, partnered with a company that has a very strong credit rating and was willing to serve as the guarantor of the entire proposed project. As PacifiCorp considered each alternative, the question raised by PacifiCorp was which transaction posed the least cost/risk for PacifiCorp's ratepayers. The selected transaction offered the best cost/risk balance by virtue of having a lower probability of being stalled or interrupted for any reason other than force majeure events. On the other hand, the poor credit quality of the other bidder would continue to overhang the development and construction process through the greater possibility of a default that could hamper the ability to bring the proposed facility on line, on time.

¹² Not a stand-alone baseload green field resource

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NCI relied on a number of factors in order to come to the above conclusions. First, NCI relied upon the actual offers submitted by the bidder and an independent validation that PacifiCorp was accurately incorporating the operational and cost assumptions of each offer into the economic valuation. Second, NCI participated in all of the clarification sessions with bidders and a majority of the negotiating sessions with bidders. Third, NCI reviewed the results of the stochastic risk analyses and the step-in scenario analyses that took into consideration various transaction and project-related risks. Under the expected case scenarios, the poor credit quality bidder offer and NBA appeared less attractive than the offer from selected bidder. Taken in aggregate, it was apparent that the preferred transaction would be with the selected bidder due to its lower risk and its equivalent cost characteristics.

Over their respective economic lives, the selected offer came out economically superior to the NBA and close with the offer from the other bidder. The credit quality and track record of Summit Power with its partner Siemens Westinghouse Power Corporation suggests that ratepayers can have a high degree of confidence that the plant will be well constructed and be operational by June 2007. Having reviewed the final Summit Power contracts, there are strong built-in provisions that mitigate a variety of development and construction risks that help to ensure that the plant will meet the agreed upon operational performance objectives as well as being available when needed. Lastly, the 12-year full requirements maintenance contract proposed by Summit Power would provide ratepayers with a known cost stream on top of receiving quality service from the actual manufacturer of the equipment for the first third of the project's life.

V. Conclusion

a. Summary Conclusions

PacifiCorp executed a fair and consistent process throughout the RFP to identify the most cost effective resources for meeting its projected supply needs. The criteria, tools, and types of personnel used were similar to other resource solicitations used by other investor owned and municipal utilities elsewhere. Although this was the first formal long term supply solicitation PacifiCorp has issued in two years, they clearly demonstrated the aptitude and foresight to develop a well-structured solicitation that resulted in a wide breadth of offers that were responsive to the Company's request for resources. The quality and integrity with which PacifiCorp went about the entire process is evident in a number of aspects of the process. The direct areas in which these were exhibited included, but were not limited to:

- » The attention to NBA cost and assumption documentation that PacifiCorp prepared and provided to NCI for its review and validation effort;
- » The series of pre-bid meetings held with bidders and other interested parties to ensure that there were multiple opportunities that bidders had to ask questions and receive timely responses about the process, its various components, and the terminology used therein;
- » The level of cooperation and access given to NCI in its tasks of evaluating and validating the basic modeling tools used to economically value the numerous offers that it was presented;
- » The use of standardized materials for summarizing offers that facilitated a ready dialogue between PacifiCorp and bidders regarding their offers;
- » The ample time that PacifiCorp afforded bidders to provide necessary information subsequent to the bid due date to allow the Company to value its offer as well as the time given bidders after short list selection to respond to formal requests for information that enabled PacifiCorp to prepare final offer valuations;
- » The Company's strict adherence to the screening criteria as the basis for selecting the short list bidders with whom to hold clarifying discussions;
- » The accommodation of NCI's need to understand, review, and validate the results of the economic modeling efforts through one-on-one review sessions; and
- » PacifiCorp's unwavering focus on the best interests of its ratepayers which necessitated close attention to issues of financial, regulatory and developmental risk inherent in any of the alternatives the Company was considering, including its own cost-based alternatives.

From an operational and design perspective, the RFP process developed and implemented by PacifiCorp functioned as expected. It resulted in over 100 offers from the market a few of which were economically competitive with the Company's own internal benchmark options. It satisfied the primary criteria NCI looked for in the process: equal opportunity, analytical objectivity, reasonableness and consistency. Having met these, NCI unequivocally supports the RFP process as having been managed in an effective manner with results that are fully supportable.