

***Final Report of the Utah Independent Evaluator***

***PacifiCorp All Source Request for Proposals  
For 2016 Resource***

***Public Version***

***Docket No. 11-035-73***

***November 30, 2012***

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Appendix 1: Competitive Bidding Requirements in Utah



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## Executive Summary

On September 28, 2012, PacifiCorp (“Company”) notified the Public Service Commission of Utah (the “Commission”) that the Company will not be pursuing a resource for the 2016 time period under the All-Source Request for Proposals for 2016 Resources (“All Source RFP” or “2016 All Source RFP”). PacifiCorp stated that upon further evaluation through its Needs Assessment and based on the most current information available, the Company determined that there is no longer a need to acquire such a resource for the 2016 time period. The Company therefore announced that it had made the decision to cancel the All Source RFP.

The Company also concluded that the 2016 resource need can be most economically met with front office transactions, primarily in the west side of the Company’s system, and acquisition of Class 2 demand side management (“DSM”) resources throughout the Company’s service territory. The All Source RFP for 2016 Resources had been initiated by PacifiCorp in April 2011 through a notice filed by PacifiCorp that it intended to conduct a solicitation process for a resource forecast to be in service in 2016 and requested the Commission to open a Docket.

Merrimack Energy Group, Inc. (“Merrimack Energy”) was retained by the Public Service Commission of Utah to serve as the Independent Evaluator (“IE”) for PacifiCorp’s All Source RFP for 2016 Resources. Utah Code Section 54-17-101 (known as the “Energy Resource Procurement Act”) requires the Commission to appoint an Independent Evaluator to monitor any solicitation conducted by an affected electrical utility under this chapter. One of the tasks of the IE is to prepare a Final Report on the solicitation process. This Report meets that requirement.

Merrimack Energy’s involvement as Independent Evaluator began at the very initiation of the RFP development process and continued through the Company’s final decision to terminate the RFP. The roles and functions of the Independent Evaluator in Utah are defined in the Energy Resource Procurement Act and in Rule R746-420-6 (“Utah Procurement Rules”). As defined, the objective of the Independent Evaluator is to actively monitor the solicitation process for fairness and to render an opinion as to whether PacifiCorp’s solicitation process is fair and in compliance with Utah state law and Commission orders.

The criteria set forth in Section 54-17-302(3)(c) of the Utah Code includes a determination from the Commission that, in ruling on a request for approval of a significant energy resource decision, the utility’s decision is compliant with the Energy Resource Procurement Act and its rules, is reached in compliance with the solicitation process approved by the Commission, is in the public interest, taking into consideration whether it will most likely result in the acquisition, production and delivery of electricity at the lowest reasonable costs to retail customers of a utility, reflect long-term and short-term impacts, risk, reliability, financial impacts on the affected electrical utility, and other factors determined by the Commission to be relevant.

The solicitation process and procedures developed and implemented by PacifiCorp, including the bid evaluation and selection process and methodologies are, in substance, consistent with Utah competitive procurement requirements and industry standards and led to a fair, consistent and unbiased evaluation process.

The following are the overall conclusions associated with the All Source RFP for 2016 Resource.

## Conclusions

1. The IE does not oppose PacifiCorp's decision to not select a resource from the All Source RFP for 2016 Resource and to terminate the 2016 All Source RFP at this time based on the projected significant decline in the Company's load forecast, and projected resource balance for 2016. Certainly, the Company has clearly demonstrated that there is no need for the originally anticipated 600 MW gas-fired combined cycle as the incremental resource identified in the 2011 IRP. The analysis indicates that the need for the next large-scale combined cycle resource addition has been deferred until 2025. Furthermore, "forcing" a new combined cycle resource into the supply plan would cost customers over [REDACTED] over the life of the project relative to a preferred resource plan. Such a decision would not lead to the lowest reasonable cost to retail customers and would not be in the public interest.
2. The Step 2 evaluation results generated by PacifiCorp indicated that [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] were selected as lowest cost resources in many of the scenarios considered by PacifiCorp. The [REDACTED] bid was selected in [REDACTED] of the [REDACTED] scenarios (e.g. combination of CO2 and gas price cases to reflect possible market price scenarios) evaluated while the [REDACTED] bid was selected in [REDACTED] scenarios. The total benefit associated with the portfolio of both projects under the base case reaches [REDACTED]. However, PacifiCorp demonstrates that the benefits associated with this portfolio selection do not begin to accrue until [REDACTED]. As a result, costs to customers will increase prior to that timeframe.
3. To assess the basis for the economic value associated with the portfolio of [REDACTED] MW from the [REDACTED] resources, PacifiCorp conducted several sensitivity cases based on various assumptions associated with fixing Class 1 DSM resources, Front Office Transactions, and combined cycle resources in the Company's portfolio. PacifiCorp concluded that the sensitivities showed that the PVRR benefits of the [REDACTED] [REDACTED] bids are heavily influenced by the prospective benefits of deferring generic long-term Class 1 DSM, combined cycle resources, and FOTs. As long-term resources are locked down the PVRR benefits of the proposals drop and the [REDACTED] proposal becomes uneconomic. Based on the results, PacifiCorp concluded that the sensitivity analysis provided confirmation that the benefits of the selected bids are related to deferral of DSM resources, long-term future combined cycle resources and reduction in front office transactions. Likewise, the sensitivities confirm that selection of the [REDACTED] [REDACTED] bids is not due to a 2016 resource need.
4. The IE can certainly understand the Company's decision to not pursue the [REDACTED] project. In particular, the [REDACTED] project, which is proposed as a [REDACTED] contract adds potential risk without providing benefits in all sensitivities. In addition, the contract provides benefits in the back-end of the contract but adds to resource costs during the first five years of the contract. The long-term nature of the contract [REDACTED] also adds risk and uncertainty.

5. PacifiCorp's analysis of the [REDACTED] bid does show that the proposal is [REDACTED] favorable over the term of the contract, providing a benefit of [REDACTED]. The [REDACTED] bid would displace front office transactions. Furthermore, PacifiCorp's analysis showed that the cost impacts would be [REDACTED] only during the [REDACTED] year of the contract. Since the [REDACTED] proposal is for [REDACTED] years from an [REDACTED] resource, it appears this resource option would be [REDACTED] risky and would warrant further review and assessment. As a result, the IE asked PacifiCorp to provide a more detailed written assessment of its reasons for not selecting the bid. PacifiCorp provided several reasons for not selecting the [REDACTED] bid, including the following:
  - o The moderately favorable base case economics associated with the [REDACTED] bid do not support selecting this bid to the final short list. When the bid is included in the portfolio, it displaces front office transactions, but it does not dispatch.<sup>1</sup> Consequently, the system increases dispatch to replace energy, leading to increased system fuel and VOM costs;
  - o Favorable economics of the [REDACTED] bid are tied to the deferral of FOTs over the bid's [REDACTED] year term ([REDACTED] through [REDACTED]), with the cost of FOTs tied to the base case;
  - o The true cost of FOTs through the [REDACTED] timeframe is uncertain and lower FOT costs than those assumed for the base case would erode uncertain benefits associated with deferral of FOTs;
  - o The [REDACTED] bid is not selected in all scenarios evaluated in Step 2 of the evaluation process;
  - o Selection of the [REDACTED] bid effectively equates to locking down a hedge through [REDACTED], which results in an approximately [REDACTED] year horizon. The Company's risk policy specifies a [REDACTED] hedge horizon;
6. The IE does not object to the majority of PacifiCorp's rationale for not selecting the [REDACTED] bid for the following reasons:
  - o While the contract is only for [REDACTED] years, the contract would not be effective until 2016, which adds market risk and uncertainty;
  - o The economic benefits associated with the [REDACTED] bid are relatively small at [REDACTED] million under base case assumptions;
  - o PacifiCorp could execute a bilateral contract for this project outside the Utah procurement guidelines which requires resources of 100 MW and above and a contract term of 10 years or more to be subject to the procurement process;
  - o The resource is an [REDACTED] resource. As a result, PacifiCorp could secure the power from this project via another solicitation process should the power be required.
7. PacifiCorp did not undertake Step 3 of the evaluation process. However, since only one bid, the [REDACTED] project, had a [REDACTED] economic value, there would be no additional portfolios to evaluate for purposes of selecting the preferred portfolio or resources. As a result, the Step 3 process is not necessary.

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<sup>1</sup> While PacifiCorp illustrates that the project does not dispatch based on the detailed Step 2 modeling evaluation, the RFP Base Model assessment in Step 1 showed that the project operated at an approximate [REDACTED] capacity factor, although this model does not consider overall system operations as the more detailed and integrated SO model would.

8. While the IE does not object to PacifiCorp's decision to not select a the [REDACTED] bid through this solicitation, the IE does question the rationale used by PacifiCorp to reject the bid based on the deferral value of the resource. Deferral value and displacement value of a resource are often factored into resource evaluation decisions based on the lumpy nature of resource additions. For example, if the load forecast did not change and the lowest cost option was a [REDACTED] gas-fired combined cycle unit to be built at the Currant Creek site, the company would not execute an EPC contract for only 600 MW. Instead, if the economics support such a decision the additional capacity would essentially be pre-built and would displace or defer Front-Office Transactions, the next large-scale gas-fired option, or other resources which may be included in the supply plan.
9. The initial or indicative bid/best and final offer process again proved to be a very effective process. This process allowed bidders on the short list to conduct further analysis of the cost of their projects and update pricing closer to the time of initiating contract negotiations. As a result, bidders generally either reduced their pricing or kept their bid prices the same. No bidder violated the 10% cap associated with an increase in price. The IE found that [REDACTED] bidders were particularly competitive during the best and final offer stage.
10. The bidder outreach and communication activities implemented by PacifiCorp were designed to encourage broad participation from the market. PacifiCorp maintains a large database of potential suppliers and informed those suppliers of the development and issuance of the RFP. Furthermore, throughout the process, bidders were informed through bidder and technical conferences, workshops, and Commission hearings. In addition, there were approximately 60 questions and answers posted to Merrimack Energy's website, with the majority of the questions pertaining to the [REDACTED] options.
11. Merrimack Energy observed that PacifiCorp was tardy in many cases in providing responses to bidder's questions to the IE for posting on the website. The IE had to send several reminders to the Company to provide a response and in some cases had to resend the original questions to PacifiCorp.
12. There was a robust response from the market for base load and intermediate resources with a range of project structures, project locations, and equipment vendors proposed. The level of response to the RFP significantly exceeded bidding requirements and was sufficient to provide a competitive process throughout.
13. The IE originally recommended that PacifiCorp select proposals for each resource category rather than allow bidders to identify the category of choice for their proposal. The Commission in its January 3, 2012 Suggested Modifications and Order in this Docket directed the IE to provide an assessment of this issue in the final report. The IE should offer an opinion on whether any bid might have been rejected because it was bid into the wrong category. While no bid was rejected because it bid into the wrong category, there were potential issues associated with a bidder selecting the resource category to compete in. For example, one bidder proposed both a [REDACTED] from the same project into the intermediate category. [REDACTED]

Two implications were possible. First, this project could displace other intermediate bids that could be selected for the short list in that category. Second, the selection of resources in the base load category could be skewed and affect the short list. In this RFP, the base load short list was comprised of all the EPC options and a five year toll. There were no other long-term base load options to compete for the short list, which essentially guaranteed the EPC bids to be selected for the short list. While there were no outstanding issues associated with the bidder selecting its own category, the potential does exist for short list selection to be skewed if bidders “game” the process to ensure they are selected for the short list.

14. The Commission in its January 3, 2012 Order also directed the IE to provide an opinion on the impact of the Commission’s decision to not include a separate benchmark in the 2016 RFP outside of the EPC options and provide any recommendations for future RFPs in its final report on the RFP. The IE notes that the response to the EPC options at the Currant Creek site was significant leading to a very competitive process for this resource. The IE concludes that with such a response, allowing for an EPC option at a Company site provides a more than adequate substitute for a benchmark, with detailed cost and operating information provided. In many cases, third-party bids or the utility benchmarks may provide a more generic or conceptual option without providing details on technology or cost details. That was certainly not the case with the EPC bids. In fact, it can be argued that the cost and operating information provided provides a more representative benchmark cost since these contractors will be required to construct the project at the price bid (subject to any change orders).
15. The competitive solicitation process is closely linked to the Integrated Resource Planning process. This includes significant input from other market participants and interested parties in the assessment of the need for power and the amount to be bid, input assumptions, modeling methodologies, and resource selection process.
16. PacifiCorp provided detailed Input Assumption files to the IE prior to the evaluation of the initial bids and prior to receipt of the best and final offers. The level of detail included in the Input Assumptions File continues to increase in breadth and detail. Some of the assumptions are tied to the IRP process, while PacifiCorp has added assumptions based on the specific technology, location of the project, and firmness of the capacity offered. While PacifiCorp introduced several assumptions for the first time in this RFP, the Company was able to provide detailed support for use of the assumptions based on the review and discussions with the IE. The IE felt that the list of assumptions for both sets of analysis were reasonable, although we felt the Company did not provide adequate support for the high CO2 case provided prior to undertaking the Step 2 analysis. However, since all resources were gas-fired options we did not view this to have implications on the final evaluation.
17. With one minor exception, PacifiCorp followed its Schedule for the process as outlined in the RFP. In this case, PacifiCorp notified the Commission it would not be able to meet the schedule as required, cited the reason for not meeting the schedule and asked for a short extension. The Commission approved the Company’s request for a slight delay in the schedule.



18. All bidders were treated the same and provided access to the same information. The PacifiCorp management team was very effective in providing consistent information to all bidders throughout the process.
19. The Bid Pricing Sheets (Form 1) were clear and transparent and led to consistent information provided by all bidders. PacifiCorp's efforts to also complete bid summaries or term sheets with bidders was a positive step to ensure that bidders and PacifiCorp fully agreed with the components of the offer. PacifiCorp requested that bidders complete the Term Sheet and provide it along with their proposals rather than work with bidders to complete the term sheet after the proposals are received. This served to reduce (but not eliminate) the time for completing the term sheet.
20. PacifiCorp offered a range of resource alternatives which allowed bidders to structure their proposals to take maximum advantage of their capabilities and project characteristics. The definitions of the products and the information required from bidders for each alternative were clearly described in the RFP.
21. The combination of the range of resource alternatives and the allowance for bidders to offer alternative bids led to creative project offerings including both Tolling Service Agreements and Asset Purchase and Sale Agreements for the same projects.
22. While bidders offered several creative alternatives, PacifiCorp's models and methodologies were capable of effectively model such alternatives.
23. The Bid evaluation models and methodologies are very appropriate for the cost and risk analysis undertaken by PacifiCorp. In particular, the models and methodology underlying the Step 1, Step 2 and Step 3 analysis provide very comprehensive and complete evaluation results.
24. PacifiCorp provided the individual models and results for each proposal underlying the Step 1 evaluation (RFP Base Model) to the IEs. In addition, PacifiCorp provided very thorough and detailed evaluation reports for all resource categories that allowed the IEs to easily review the model inputs and results. Conference calls were also held between PacifiCorp, the IEs and Division to discuss the results for each category. PacifiCorp provided similar documentation for the Step 2 evaluation, including providing the IEs with detailed reports on the inputs and outputs. While the IEs did not have direct access or control over the models themselves, the level of detail provided and the explanation of the results was sufficient. Thus, the IE can confirm that we did have access to all data, model results, input assumptions and other information necessary to render a thorough evaluation of the quality and comprehensiveness of the process. There were no occasions where we felt PacifiCorp was not responsive to our requests for information. Furthermore, given the nature of the models used by PacifiCorp, it was the view of the IEs that requesting that PacifiCorp run other cases and reviewing and questioning the results of the evaluation was more effective and timely than if the IEs attempted to run the models ourselves or undertake a totally independent evaluation.

25. Merrimack Energy has concluded that the models and methodologies used are very detailed and comprehensive, accurately accounting for all costs associated with the evaluation. The modeling methodologies are state of the art and are among the most comprehensive and effective methodologies utilized in all the solicitation processes in which we have participated. Also, the individual models used in Steps 2 and 3 of the evaluation process are standard industry models used by a number of utilities. Furthermore, the price evaluation methodology is designed as an integrated evaluation process for Steps 2 and 3 which reflects the impact on total system cost associated with different resources and portfolios considered.
26. Based on comparison of the evaluation results for a bidder which offered both a TSA and APSA from the same project, it appeared that there was no undue bias present in the evaluation results since the pricing was very close in both cases as expected.
27. The level of documentation supporting the resource evaluation and selection process was very detailed. In addition, PacifiCorp was responsive to requests of both the Utah and Oregon IEs to conduct other analysis to support the company's conclusions. For example, Merrimack Energy asked the Company to prepare a written analysis on the methodology used for evaluating the [REDACTED] bid. In addition, we asked the company to conduct an analysis of the cost of selecting a combined cycle unit as well as an assessment supporting the reasons for not selecting any resources.
28. The blinding of the questions and answers from bidders prior to bid submission was effective in encouraging bidders to ask questions without identifying their affiliation. Approximately 60 questions were submitted and responses provided.
29. The IRP group and quantitative analysis groups within PacifiCorp were thorough and responsive in completing the analysis over a very short timeframe. The members of PacifiCorp's team were generally able to provide thorough responses and explanations of the results and basis for the analysis.
30. While the credit methodology and bidder requirements were a source of concern in previous RFPs, for the second RFP in a row, there were no issues or questions associated with credit issues.
31. The IE was concerned at the beginning of the process that PacifiCorp have the flexibility to vary the stated price range in the RFP for purposes of awarding price points to ensure the stated balance between price and non-price scores is maintained. PacifiCorp was again required to vary the range for several bid categories to maintain the price/non-price balance.

## **Recommendations**

1. As noted in the Conclusions section, the IE is of the opinion that soliciting EPC bids on a Company site is a positive step forward and provides a more accurate representation of benchmark costs than other methods. PacifiCorp should be required to provide a benchmark option only if it is obvious based on the Intent to Bid response that no or a limited number of EPC bids will likely be submitted.

2. The IE recommends that blinding of bids and providing bid numbers should be permanently exempted from the procurement process. We feel such a process adds cost and time to the solicitation without providing benefits to the process. Blinding questions and answers is still a valuable option and should serve to encourage bidders to continue to ask questions to improve their overall bids.
3. As noted, the IE concluded that the timeliness of PacifiCorp's responses to bidder questions was not adequate. For future solicitations, we feel PacifiCorp should set a time limit (i.e. provide a response within 5 business days of receipt of the questions from the IE) for responding to questions and do everything possible to meet that limit.
4. PacifiCorp should revise the eligibility requirements for [REDACTED] resources either to bids with a term of 10 years or more or require that a bid must be from a new resource or expansion of an existing resource. PacifiCorp argued that one of the reasons for not selecting the [REDACTED] was that the Company has several other FOT alternatives to managing [REDACTED] short positions such as through spot purchases, forward monthly fixed price purchases and out-of-the-money call options. The Company stated that none of these alternative market product type proposals were received from this All Source RFP, which tends towards a robust array of proposals from significant new resources. However, these market-based products are routinely received in the Company's market RFPs, which may solicit bids up to five year tenor, such as the [REDACTED] bid. If this is the case, then it makes sense to solicit bids from the [REDACTED] a peaking unit through the shorter term RFP rather than the All Source RFP, which is generally more applicable for longer term, new units.

## I. Introduction

On September 28, 2012, PacifiCorp (“Company”) notified the Public Service Commission of Utah (the “Commission”) that the Company will not be pursuing a resource for the 2016 time period under the All-Source Request for Proposals for 2016 Resources (“All Source RFP” or “2016 All Source RFP”). PacifiCorp stated that upon further evaluation through its Needs Assessment and based on the most current information available, the Company determined that there is no longer a need to acquire such a resource for the 2016 time period. The Company therefore announced that it had made the decision to cancel the All Source RFP.

The Company also concluded that the 2016 resource need can be most economically met with front office transactions, primarily in the west side of the Company’s system, and acquisition of Class 2 demand side management (“DSM”) resources throughout the Company’s service territory. The All Source RFP for 2016 Resources had been initiated by PacifiCorp in April 2011 through a notice filed by PacifiCorp that it intended to conduct a solicitation process for a resource forecast to be in service in 2016 and requested the Commission to open a Docket.

Merrimack Energy Group, Inc. (“Merrimack Energy”) was retained by the Public Service Commission of Utah to serve as the Independent Evaluator (“IE”) for PacifiCorp’s All Source RFP for 2016 Resources. Utah Code Section 54-17-101 (known as the “Energy Resource Procurement Act”) requires the Commission to appoint an Independent Evaluator to monitor any solicitation conducted by an affected electrical utility under this chapter. One of the tasks of the IE is to prepare a Final Report on the solicitation process. This Report meets that requirement.

Merrimack Energy’s involvement as Independent Evaluator began at the very initiation of the RFP development process and continued through the Company’s final decision to terminate the RFP. The roles and functions of the Independent Evaluator in Utah are defined in the Energy Resource Procurement Act and in Rule R746-420-6 (“Utah Procurement Rules”). As defined, the objective of the Independent Evaluator is to actively monitor the solicitation process for fairness and to render an opinion as to whether PacifiCorp’s solicitation process is fair and in compliance with Utah state law and Commission orders.

The Scope of Work prepared by the Commission for the Independent Evaluator with regard to the final report identifies three specific areas or issues that are required to be addressed in the final report:

1. A detailed description of the solicitation process and the Independent Evaluator’s involvement, role, and observations regarding the process, conclusions about the process, and recommendations, including the reasons and basis for:
  - a. Evaluating and ranking bids and the benchmark option;<sup>2</sup>
  - b. Selecting a winning bid or benchmark option;
  - c. Rejecting proposals or the benchmark option are to be fully identified and detailed in the final report;
  
2. The final report shall also include an analysis of whether, or the extent to which:

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<sup>2</sup> As will be discussed, PacifiCorp did not propose a benchmark resource for this RFP.

- a. The energy resource selected is the lowest reasonable cost to PacifiCorp's retail customers taking into consideration long-term and short-term impacts, risk, reliability and the financial impacts on PacifiCorp;
  - b. The solicitation process was fair;
  - c. The benchmark option is considered and evaluated in the same way as all other bids;
  - d. Screening factors and weights are applied consistently and comparably to all bid responses and the benchmark option;
  - e. Credit requirements, liquidated damages provisions, warranties and other similar requirements affect the bid evaluations and the outcome of the solicitation process;
  - f. All reasonably available data and information necessary in order for a potential bidder to submit a bid was provided to potential bidders;
  - g. All data, information and models relevant to the solicitation process were made available to or given access to the IE in order to permit full and timely testing and verification of assumptions, models, input, output and results;
  - h. Confidentiality claims and concerns between the IE and PacifiCorp were resolved in a manner that preserved confidentiality as necessary, yet permitted dissemination and consideration of all information reasonably necessary for an open bidding process to be conducted fairly and thoroughly validated;
  - i. Evaluations were performed consistent with evaluation criteria and methods approved; and
  - j. Negotiations between PacifiCorp and bidders proceeded in a timely fashion and were conducted in good-faith;
3. The final report shall also offer, where necessary, feedback on the solicitation and solicitation process including:
- a. The content of the solicitation;
  - b. Evaluation and ranking of bid responses;
  - c. Creation of a short list(s) of bidders for more detailed analysis and negotiations;
  - d. Post-bid discussions and negotiations with, and evaluation of, short list bidders; and
  - e. Negotiation of proposed contracts with successful bidders.

Merrimack Energy has been actively involved in PacifiCorp's All Source RFP for 2016 Resources (as well as several other recent PacifiCorp solicitations that have preceded this solicitation) from the beginning and has been involved in the RFP development process and monitoring the solicitation process through participation in all major team meetings, conference calls and conversations regarding the decisions about the RFP and solicitation process. Our involvement has included all stages of the solicitation process, including (1) development of the RFP; and (2) receipt and evaluation of proposals.

For purposes of undertaking this assessment of the competitive solicitation or RFP process, the following issues will be addressed in this report:

1. A brief background to the initiation of the All Source RFP for 2016 Resource;

2. A brief description of the contents of the RFP document, including the objectives of the RFP, requirements of the bidders, the proposed evaluation process, and other summary information. This information is included for reference purposes with regard to the discussion of PacifiCorp's performance;
3. A brief description of the activities undertaken by the IE at each stage of the solicitation process (Appendix A contains a more detailed description based on the Utah statutes and requirements for the IE);
4. Description and assessment of the entire competitive solicitation process including preparation for receipt of bids, bid evaluation and selection process for establishing the initial shortlist of proposals and the Step 2 evaluation process (portfolio development/optimization);
5. Assessment of PacifiCorp's performance in managing and implementing the process relative to the requirements outlined in the Utah Procurement Rules;
6. Conclusions and recommendations for improving the competitive bidding process.

## II. Background to the All Source RFP for 2016 Resources

On April 4, 2011, pursuant to Utah Code Annotated 54-17-101, et. seq., Energy Resource Procurement Act and Commission Rules R746-420-1(3)(a), PacifiCorp notified the Public Service Commission of Utah (“Commission”) that it intends to conduct a solicitation process for a flexible resource forecast to be in service in 2016 and requested the Commission to open a docket. The Company also requested the Commission to appoint an Independent Evaluator for the solicitation process.

On October 5, 2011, the Company filed an application with the Commission for approval of a solicitation process for an all source resource for the 2016 time period. The Company filed the application, along with its draft request for proposals (“Application”), to fulfill a portion of the capacity and energy resource needs for the 2016 time period identified in the Company’s 2008 and 2011 Integrated Resource Plans (“IRP”), which requires the acquisition of a significant resource by June 2016. The Company stated that the draft RFP seeks a resource in 2016 from all types of resources and fuel types, for base, intermediate and/or summer peaking resources, excluding renewable resources.

A Scheduling Conference was held on October 13, 2011. On October 19, 2011, the Commission issued a Scheduling Order and Notice of Hearing. In addition, the Company held a public meeting on September 1, 2011 in anticipation of release of the draft proposed RFP as well as a Bidders Conference on October 20, 2011 to review the key parameters of the Draft RFP. According to the Scheduling Order, submission of comments on PacifiCorp’s draft Request for Proposal were due on November 18, 2011<sup>3</sup> and the Independent Evaluator’s report on the draft RFP was due on November 28, 2011. A hearing on the draft RFP was scheduled for December 12, 2011.

The initial draft of the All Source RFP for 2016 Resources was initially posted on PacifiCorp’s website on or around October 13, 2011.<sup>4</sup> The draft RFP provided a detailed description of the resource alternatives sought by PacifiCorp, the logistics for submitting a bid including the information, forms, and schedule required with each type of resource alternative proposed, a description of the bid evaluation process and a description of the evaluation criteria to be used to evaluate and select bids. The Draft RFP was modeled on the basis of previous All Source RFPs undertaken by PacifiCorp over the 2007 to 2010 timeframe in Docket Nos. 07-035-94 and 10-035-126,

While many of the provisions and parameters of the RFP and contracts remain the same or similar from the previous 2009 All Source RFP there are a few significant changes initiated in this 2016 All Source RFP, including:

1. PacifiCorp opted to not include a Benchmark resource in this RFP;

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<sup>3</sup> Only three parties submitted comments: the Division of Public Utilities (“Division”), the Office of Consumer Services and Utah Association of Energy Users.

<sup>4</sup> PacifiCorp provided the IE with a red-lined copy of the 2009 All Source RFP with the changes from the 2009 All Source RFP that are proposed for the 2016 All Source RFP along with a clean version of the 2016 All Source RFP.

2. Instead of soliciting for bids over a multiple year period as PacifiCorp had done in the past, this RFP focused on a single year need, soliciting bids for a 597 MW resource to be available in 2016;
3. PacifiCorp removed the option for indexing a portion of the capital cost or capacity price for bidders.

Merrimack Energy submitted its report on the RFP on November 28, 2011 as required. Based on the comments of the interested parties in the proceeding as well as Merrimack Energy's view of the key RFP issues based on review of the draft All Source RFP for 2016 Resource and associated documents, the following issues were addressed by the IE:

- Comparability of third-party bids and utility-owned resources;
- Benchmark bids;
- Bid evaluation methodology;
- Calculation of the price score;
- Credit;
- Resource alternatives;
- Transmission costs/assessment;
- Accounting issues;
- Resource eligibility/coal option;
- Price indexing;
- Other cost components;
- Bid categories;
- 10% price increase between the indicative bid and best and final offers;
- Schedule;
- Term Sheets;
- Economic evaluation methods and methodologies.

In addition, Merrimack Energy provided along with the Report a red-line copy of the RFP document with specific comments on provisions of the RFP.

On December 7, 2011, the Company filed reply comments and a revised, final draft 2016 RFP incorporating changes based on comments received from the IE, Division, Office of Consumer Services and Utah Association of Energy Users. The Company specifically addressed all comments from intervening parties and the IE in its reply comments and generally accepted many of the suggestions and comments.

A Technical Conference was held on December 9, 2011 to discuss the remaining unresolved issues. The hearing was conducted on December 12, 2011 to hear testimony of the parties on the unresolved issues. The outstanding issues addressed at the hearing included:

1. Schedule
2. Indexing of capacity related costs
3. Bid evaluation issues



- a. Determination of bid categories and whether the Company should be allocating the proposals into separate bid categories or whether the bidders should submit their bids into those specific bid categories;
  - b. Whether the post 2016 resources should be fixed or allowed to float;
  - c. Preferred portfolio
- 4. Benchmark resource
  - 5. Coal resources

On January 3, 2012 the Commission issued its Suggested Modifications and Order in Docket No. 11-035-73. The following summarize the Commission's findings and order in this proceeding:

- 1. The Commission encouraged the timely communication of due diligence issues, as they arise in this RFP, to all interested parties. The Commission directed the Company to provide parties more timely notification of due diligence concerns as proposed;
- 2. The Commission approved the schedule shown in the revised, draft 2016 All Source RFP with the condition the Company will seek Commission approval if the schedule, as shown, deviates by more than five business days;
- 3. The Commission concluded that the Company's proposal to include the option for bidders to index the operation and maintenance costs, but exclude the indexing of capital/capacity costs, provides a reasonable balance between bid comparability and customer risk;
- 4. The Commission accepted the Company's arguments that bidders should determine the bid category in which their resource should compete. The Commission was sympathetic to the Company's concerns regarding the risk of litigation if the Company was to select a category and a bidder concluded its bid was categorized incorrectly. However, the Commission also noted the IE's concerns and directed the IE to provide an assessment of this issue in its final report on the 2016 RFP. For example, the IE should offer an opinion on whether any bid might have been rejected because it was bid into the wrong category;
- 5. The Commission concurred with the Division that there is merit in allowing all post-2016 resources to float, including wind and DSM, and suggested the Company modify its 2016 RFP accordingly. This suggestion is also consistent with the approach approved in the Commission's February 24, 2010 Order on Economic Modeling Issues in Docket No. 07-035-94. The Commission reminded the Company, as in past RFP orders and orders on the IRP, that one of the CO2 emissions cost scenarios must include a zero cost per ton assumption;
- 6. The Commission found no reason to reject the use of the Company's 2011 IRP preferred portfolio as the basis for the evaluation of bids;
- 7. The Commission accepted the Company's proposal to not include a separate benchmark in the 2016 RFP (outside of the request for EPC bids at the Currant Creek site). The Commission stated that since this is the first experience approving a solicitation process without a cost-based benchmark, the Commission directed the IE to provide its opinion

on the impact of this decision on the outcome of the 2016 RFP and provide any recommendations for future RFPs in its final report on the 2016 RFP;

8. The Commission concluded that coal resources should be allowed to participate without additional restrictions in the 2016 All Source RFP and should be subject to the full evaluation process in order to determine optimal least cost and least risk resources.

The Commission suggested modifications to the RFP to reflect the provisions of the Order. The RFP was issued on January 6, 2012. On January 23, 2012 PacifiCorp informed the Commission that the Company had incorporated into the All Source RFP for 2016 Resources the Commission's suggestions set forth in the Suggested Modifications issued by the Commission on January 3, 2012. On January 23, 2012 the Division filed its comments determining that the Company substantially adopted all of the Commission's suggested modifications. On February 8, 2012, the Commission found the Company's All Source RFP for 2016 Resources to be in compliance with the applicable statutes and rules governing the approval of a solicitation process and approved the 2016 All Source RFP.

Section V of this report describes in detail the time line associated with the bid receipt, bid evaluation and selection process, through contract negotiations.

### III. Key Provisions of the Approved All Source RFP

The key provisions of the RFP document that was issued by PacifiCorp as well as the proposed solicitation process are provided in Exhibit 1 below. The summary information is provided for reference purposes during the discussion of the solicitation process and to set the stage for the assessment of the solicitation process. The All Source RFP for 2016 Resource has evolved from previous RFPs and includes a few revisions which reflect lessons learned from previous procurement processes.

**Exhibit 1**  
**Provisions of the All Source RFP for 2016 Resource**

<b>RFP Characteristics</b>	<b>2016 All Source RFP Provisions</b>
Resource Requirements	<p>PacifiCorp is seeking approximately 600 MW of cost-effective resources consisting of Base Load, Intermediate Load, Summer Peak Q3 resources, and Renewable Base Load resources to meet the Company’s System Position beginning June 2016. The Company will not accept renewable resources that cannot be dispatched or scheduled.</p> <p>Bidders may propose any of eight different Resource Alternative structures within the categories listed above.</p> <p>As identified in the RFP, for the Base Load category a resource alternative should have a capacity factor at or above 60% over the proposed term. An intermediate load unit is expected to have a capacity factor between 20-60%.</p>
Resource Timing	<p>PacifiCorp is seeking resources with an in-service date of June 1, 2016. Proposals for firm online dates beyond June 1, 2016 are not allowed; however, Bidders can request approval with the IE to submit proposals having firm online dates prior to June 1, 2016.</p>
Eligibility	<p>This RFP is focused on system-wide, east and west balancing authority area (“BAA”), energy and capacity generation which is capable of delivering energy and capacity in or to the Company’s Network Transmission system. This RFP is seeking capacity and energy resources to serve PacifiCorp’s entire system. All bids from new or existing coal resources will be considered and evaluated by the Company. All energy and capacity resources must provide unit contingent or firm resource capacity and associated energy that are incremental to the Company’s existing capacity and energy resources and the resource must be available and ready to be dispatched or scheduled by June 1, 2016.</p> <p>Unless exceptions apply as identified in the summary of Resource Alternatives, a Bidder’s proposal must exceed or</p>

	equal 100 MW and have a fixed term of at least five years.
Resource/ Contract Alternatives	Resource Alternatives include: (1) Power Purchase Agreement (PPA); (2) Tolling Service Agreement (TSA); (3) Engineering, Procurement and Construction (“EPC”)/Asset Purchase and Sale Agreement (PacifiCorp defined site); (4) Asset Purchase and Sale Agreement (Bidder site); (5) Purchase of an Existing Facility; (6) Purchase of a Portion of a facility jointly owned by and/or operated by the Company; (7) Restructuring of an Existing PPA or Exchange Agreement and/or Buyback of an Existing Sales Agreement as well as three exceptions; (8a) Load Curtailment; (8b) Qualifying Facility (“QF”); (8c) Eligible Renewable Resource.
Bid Alternatives	Bidders are allowed to offer a base proposal and up to two alternatives for the same bid fee. Bidders are also allowed to offer additional alternatives as follows: (1) fourth through sixth additional alternatives at a fee of \$1,000 each, (2) seventh alternative at a fee of \$2,000 and (3) the eighth alternative at a fee of \$3,000. The alternatives may consist of different bid sizes, contract terms, pollution control technologies, water cooling technology, in-service date and/or pricing structures for the same Resource Alternative and Bid Category. A proposal for a different Resource Alternative, a different Bid Category, at a different site or using a different technology will be considered a separate proposal and will be subject to a separate bid fee.
Bidding Process	The Company will conduct a three stage solicitation process. In the first stage, the bidder must submit the Intent to Bid Form, which includes Appendices A and B in the RFP. In the second stage, bidders are required to submit their Bids and respond to the requirements for the type of resource alternative they are proposing. All bidders must submit the Form 1 Pricing Input Sheets. In stage 3, bids which qualify for the initial short list will be required to provide their Best and Final proposals, with the requirement that the price bid must be within 10% of the bidders original bid selected in the initial short list based on the methodology identified by PacifiCorp in its RFP. If Bidders increase their overall pricing when they submit their best and final pricing by more than 10% from their original submission, they may be eliminated by the Company after the Company consults with the Independent Evaluators.
Utility Bid Options	PacifiCorp will not submit a Benchmark resource proposal option for any category.
Evaluation Process	PacifiCorp proposed a multi-step evaluation process for those bids which are pre-qualified and are eligible to submit a proposal. In the first step (Step 1), all bids will be evaluated using the RFP Base Model. The RFP Base Model will be used

	<p>to screen the proposals and to assign the price ranking for the eligible bids received in the Bid Categories by fuel type. Price will account for a 70% weight. The price score in Step 1 will be calculated for each proposal using a market ratio metric. The market ratio will be expressed as a percentage. The comparison metric will be calculated by dividing the projected nominal levelized present value revenue requirement of expected energy value per kW month into the levelized present value revenue requirements of proposed costs, expressed on a \$/kW-month basis. Bids with a price less than 60% of the adjusted price projection will receive all the price points (70%); Bids with a price greater than 140% of the adjusted price projection will receive 0%; Bids with a price greater than 60% but less than 140% of the adjusted price will be awarded percentages based on linear interpolation.</p> <p>Non-price factors will be used to establish a non-price score of up to 30%. The non-price analysis will gauge the relative development, construction and operational characteristics and associated risks of each proposal.</p> <p>The results from Step 1 (combined price and non-price results) will determine a short list of bids in each category. Short listed bidders will then be subject to Step 2 of the evaluation (development of optimized portfolios under various assumptions for future emission expense levels and market prices). The System Optimizer model will develop a corresponding number of optimized portfolios – one for each combination of emission and wholesale market and natural gas price assumptions.</p> <p>In Step 3, stochastic and deterministic analyses will be performed on each optimized portfolio advanced from Step 2 of the evaluation process in order to identify the resources in the highest performing (least cost adjusted for risk) portfolios. The unique portfolios from Step 2 will be simulated using the PaR model in stochastic mode.</p>
Non-Price Criteria	<p>In Step 1 of the evaluation process, price and non-price weights are combined to select the short list within each resource Category. The non-price characteristics or criteria include Development Feasibility/Risk (i.e. critical path schedule, engineering design and technology, and fuel supply and transportation strategy), Site Control and Permitting (permits required, access to water supply and rights of way), and Operational Viability/Risk Impacts (safety compliance/strategy, environmental compliance/strategy, environmental impact, experience/qualifications, O&amp;M plan)</p>
Final Selections	<p>The first three steps described above constitute the formal</p>

	<p>evaluation process and will lead to the compilation of the final shortlist of resources for further negotiation. After completing the formal evaluation process, but before making the final resource selections to be submitted for approval or acknowledgement, the Company will take into consideration, in consultation with the IEs, certain other factors that are not expressly or adequately factored into the formal evaluation process, but that are required by applicable law or Commission order to be considered, including any reasonable risk mitigation measures offered by a bidder.</p>
Contract Negotiation Process	<p>The RFP states that the Company will further negotiate all terms and conditions during post-bid negotiations. The Company will continually update its economic and risk evaluation until a definitive agreement acceptable to the Company in its sole and absolute discretion is executed by both parties. The Company will allow Bidders to negotiate final contract terms that are different from the Proforma Agreements.</p>
Credit Requirements	<p>PacifiCorp provides Attachment 14: Credit Methodology, which provides a detailed description of PacifiCorp's credit methodology.</p> <p>In addition, Appendix B provides bidder credit information and a credit matrix. Bidders are advised to utilize the credit matrix to determine the estimated amount of credit assurance required based on the resource alternative bid and whether or not the bid is asset backed. In addition, security amounts are established by credit rating and bid size.</p>
Transmission	<p>The Company is interested in resources that are capable of delivery into or in a portion of the Company's network transmission system in PACE or PACW. Specific delivery points of primary interest to PacifiCorp are identified.</p> <p>Bidders will bear 100% of the costs to interconnect to PacifiCorp's transmission system. Bidders are responsible for any costs on third party transmission systems necessary to deliver the power to the PacifiCorp system.</p> <p>Attachment 20 is included which provides proxy costs to integrate resources into the system.</p>
Accounting Issues	<p>With respect to Variable Interest Entity treatment, the Company is unwilling to be subject to accounting or tax treatment that results from VIE treatment.</p> <p>Bids that result in VIE treatment will be rejected after they are given an opportunity to provide an alternate structure that does not trigger a VIE, which will be subject to consultation with</p>

	the IEs. To the extent that PacifiCorp rejects a proposal submitted in this RFP because it triggers VIE treatment, PacifiCorp shall provide documentation to the IEs justifying the basis for the decision.
Imputed Debt	PacifiCorp will not take into account potential costs to the Company associated with direct or inferred debt as part of the economic analysis in the initial or final shortlist evaluation. The Company may take imputed debt costs into account when seeking approval, cost recovery, or acknowledgement with respect to selected resources, any projected costs or direct or inferred debt. The Company will bear the burden to demonstrate to the satisfaction of its regulators the validity, magnitude and impacts of any such projected costs. At the request of each Commission (Utah and Oregon) PacifiCorp will be required to obtain a written advisory opinion from a rating agency to substantiate the utility's analysis and final decision regarding direct or inferred debt.
Role of the IE	Attachment 18 to the RFP describes the role of the IE in the process. The RFP clearly stated that all proposals should be submitted to the IEs.
Information Required of Bidders	The RFP contains a matrix that identifies the information requirements for each resource alternative. All bidders were required to submit Form 1 Pricing Input Sheet. The other information required was based on the type of eligible resource alternative proposed.
Schedule	A schedule is provided in the RFP which includes projected dates for the entire process. According to the RFP, the evaluation was to be complete within 9 months of issuance of the RFP and contract negotiations and PacifiCorp decision complete within 12 months from issuance.
Contracts Provided	The RFP document included a Power Purchase Agreement, EPC Agreement, Tolling Service Agreement, and Asset Purchase and Sale Agreement.

The summary information from the RFP listed above will be referenced as required through the remainder of the report.

## **IV. Summary of Activities Undertaken by the IE During the Solicitation Process**

This chapter provides a brief summary identification and description of the specific tasks undertaken by the IE during the solicitation process. These activities are presented for each of the two stages of the solicitation process completed: (1) Solicitation process development and approval; and (2) Bid evaluation and selection process.<sup>5</sup> Appendix A provides a summary of the competitive bidding requirements in Utah as well as a description of the role of the IE. In addition, Merrimack Energy provided monthly status reports throughout the solicitation process that identified and described the activities which occurred each month of the process.

### **A. Summary of Activities Undertaken by Merrimack Energy**

#### ***1. Solicitation Process Approval***

During the solicitation development phase (RFP development, approval and pre-issuance), Merrimack Energy participated in the public meeting, Bidders conference on the Draft RFP and scheduling conference and participated in calls with Commission and Division staff, and Company personnel as required. Merrimack Energy prepared a major report as required on the draft RFP and solicitation process that was filed with the Commission on November 28, 2011 which served as a basis for suggesting revisions to or clarifications to the RFP.

Merrimack Energy staff also participated in the Technical Conference with the Commission, Division, Company and other interested parties, reviewed the comments of the interested parties and the Company's reply comments and provided testimony at the Commission hearings in December 2011 dealing with the RFP design issues.

#### ***2. Solicitation Process Bid Monitoring and Evaluation***

This stage of the process generally began with the issuance of the RFP on January 6, 2012.

Also, after issuance of the RFP, questions and answers with bidders were distributed through Merrimack Energy's website. Merrimack Energy received approximately 60 questions via its website and posted the responses provided by PacifiCorp for the bidders. Many of the questions were submitted by EPC bidders who were interested in information, drawings and diagrams of the project site and other detailed project information. The IE spent a considerable amount of time coordinating responses to bidder questions with the Company and bidders. The IE also posted other documents associated with the RFP on the website as well for bidder access.

In addition, the IE participated in the RFP Bid Conference and the Transmission Technical Workshop. The IE also participated in several conference calls with PacifiCorp and the Oregon IEs to discuss the bid evaluation assumptions, receipt of bids at each location, receipt of Intent to Bid forms, Step 1 and Step 2 evaluation results, and discussions regarding RFP status.

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<sup>5</sup> The traditional third step in a solicitation process – contract negotiations and approval – was not included since PacifiCorp opted to terminate the solicitation process after Step 2 of the evaluation process.



Merrimack Energy was present at the Commission's offices in Utah for receipt of bids once the bids were received, Merrimack Energy reviewed the proposals, determined whether the proposals met eligibility and threshold requirements, and prepared a summary of the bids. The summary was submitted to the Division and Commission and was included as an attachment to the May 2012 Status Report. We also reviewed all the proposals and participated in select conference calls with PacifiCorp and bidders to finalize the "term sheet" of project information designed to assist PacifiCorp to develop complete and consistent information on which to model and evaluate each proposal.

As noted, Merrimack Energy reviewed and commented on the input assumptions prepared by PacifiCorp as the basis for several steps of the evaluation and undertook a detailed review and assessment of the quantitative and qualitative evaluations undertaken by PacifiCorp as the basis for selection of the short list during Step 1 of the evaluation process based on the RFP Base Model results for each bid. PacifiCorp also provided the Base Model runs to the IEs and sent detailed presentations of the results of the Step 1 evaluation to the IEs. Conference calls were held with the IEs to discuss the results. The IE agreed with the short list selection proposed by PacifiCorp.

The IE reviewed the best and final offers of short listed bidders and prepared a status report outlining the original and updated best and final pricing by short listed bidders. The IE also reviewed the Step 2 evaluation results generated by PacifiCorp and participated in several conference calls to discuss the results and the basis for PacifiCorp's decision to not select any resources through this solicitation.

## **V. Description of the Bid Receipt, Evaluation and Selection Process**

This section of the Report provides a description and assessment of the activities occurring from issuance of the RFP on January 6, 2012 through the evaluation and selection process and basis for PacifiCorp's decision to not select any resources and terminate the All Source RFP for 2016 Resources. A summary of the key activities associated with the solicitation process are described below.

### **RFP Bid Conference**

PacifiCorp held the RFP Bid Conference on January 17, 2012. The Bid Conference addressed the following issues:

- Overview of the All Source RFP
- Schedule and timeline
- Regulatory overview
- Resource alternatives eligible
- Delivery points on the PacifiCorp system
- Preferred portfolio which illustrated the need for a 597 MW CCCT F Class unit in 2016
- Pricing input sheet
- Bid evaluation process and steps involved
- Credit requirements/credit methodology

A copy of the presentation made by PacifiCorp was included on PacifiCorp's and Merrimack Energy's websites. A copy of the presentation is included as Attachment A.

### **PacifiCorp Transmission Technical Workshop**

On February 22, 2012, PacifiCorp held a Transmission Technical Workshop for prospective bidders. The workshop was presented by PacifiCorp Transmission. The workshop included a review of transmission planning issues and processes as contained in the Company Integrated Resource Plans ("IRP") including a description of new transmission projects, description and use of Attachment 20 (included in the 2016 All Source RFP) and the underlying methodology for estimating the costs of transmission infrastructure at identified points of receipts for potential resources and load bubble needs. The workshop also provided guidance to prospective bidders on the Generator Interconnection process and interconnection study timelines, data requirements, and proposed new transmission projects. A copy of the presentation made by PacifiCorp is included as Attachment B.

### **Questions and Answers**

As noted in the RFP, after final approval of the RFP Merrimack Energy Group would be responsible to maintain and post all materials on a website established by the IE, including all questions and answers and relevant communications with prospective bidders. The Company will be responsible to maintain and post all materials on the Company's website as well (except the Q&As).

The process followed by the IE for receiving questions and posting responses was designed to “blind” the questions and responses. For example, prospective bidders were required to submit their questions to Merrimack Energy’s website. Merrimack Energy removed the name of the prospective bidder from the question and forwarded the question to PacifiCorp for preparation of a response. PacifiCorp received the question but did not know who was asking the question. PacifiCorp then provided the response to Merrimack Energy and the response was posted to Merrimack Energy’s website without identification of the prospective bidder. A total of 57 questions and answers were posted to Merrimack Energy’s website, most of which dealt with the EPC option.

### **Receipt of Intent to Bid Forms**

Bidders were required to complete and submit Intent to Bid Forms which included Appendix A in the RFP document (Qualification Capability and Experience) and Appendix B (Bidders Credit Information). Notices of Intent (“NOI”) to Bid were received on February 14, 2012. A total of [REDACTED] Companies submitted NOI’s offering approximately [REDACTED] different options.

### **Input Assumptions**

As required, PacifiCorp provided the input assumptions to be used in the initial bid evaluation to the IEs on April 30, 2012 for review and comment. A follow-up call to review and discuss the assumptions and solicit questions and comments from the IEs was held on May 2, 2012. PacifiCorp then provided an updated Input Assumptions file on May 4, 2012 which included additional assumptions for several categories. The information provided by PacifiCorp included several tabs with specific assumptions. Each Tab of the Input Assumptions File is described below. [REDACTED]

#### ***Tab 1 Forward Curves for Power and Gas Prices***

Tab 1 of the Input Assumptions file contains the monthly forward price curves for power and gas from January 2013 through March of 2042. Power prices are provided for both high and low load hour periods for the following markets:

- PACEU
- Four Corners
- Palo Verde
- Mid C
- COB

Monthly natural gas prices are provided for the following market hubs:

- Henry Hub
- Malin
- Opal

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<sup>6</sup> The Input Assumptions File which was used for the evaluation of the best and final offers is provided as an [REDACTED] and is referenced in the appropriate section of the report.

- Sumas
- SoCal
- AECO
- Cheyenne

PacifiCorp’s internal Forward Price Curve (“FPC”) is the source of the electric and natural gas price projections. The forward price curve serves as the single source for forward electricity and natural gas prices for the Company, and as such, is used in mark-to-market accounting, long-term planning and position management. The forward price curves used for evaluation of the initial or indicative bids were created on April 24, 2012, while the forward price curves used for the evaluation of the best and final offers in the Step 2 evaluation were created on June 29, 2012.

[REDACTED]

[REDACTED]

In Tab 1, PacifiCorp has also included a [REDACTED].<sup>9</sup> The [REDACTED] [REDACTED] is applied to any bid or portion of a bid that is unit contingent or non-firm. The pricing is based on the forward curve for the specific market times the [REDACTED] which is less than 1. For example, if the proposal is [REDACTED], PacifiCorp [REDACTED] the value. If a resource is [REDACTED]. If wheeling is required the value is discounted.

***Tab 2 Financial Data***

The Financial Tab includes information on both internal PacifiCorp financial costs as well as external financial and economic information. The information included in this Tab includes the following:

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<sup>7</sup> [REDACTED]

- Escalation rates for GDP Implicit Price Deflator (“GDP”), Consumer Price Index (“CPI”), and average of the 2 indices;
- AFUDC rate for PacifiCorp;
- Company financial information such as capital structure and related costs (i.e. debt and equity) and the discount rate;
- Asset lives by type of project;
- State property tax rates.

The asset lives are consistent with those used in the 2011 IRP.

**Tab 3 Market Price Scenarios**

Tab 3 provides a diagram of the market price scenario methodology used by PacifiCorp. In addition, this tab also includes a description of the nine scenarios to be used to assess the bids in Step 2 of the bid evaluation. The scenarios are described in Exhibit 2. The scenarios include a combination of CO2 tax cases in conjunction with natural gas price forecast cases. The Market Price Scenarios are designed to be used in the Step 2 analysis only and will not be used on any case for the Step 1 assessment. The Market Price Scenarios are described below as included in the May 4, 2012 Input Assumptions file; however, the Input Assumptions are subject to revision prior to the Step 2 analysis.

**Exhibit 2: Market Price Scenario Cases for Step 2 Portfolio Evaluation**

Scenario	[REDACTED]	[REDACTED]
Base	[REDACTED]	[REDACTED]
Scenario 1	[REDACTED]	[REDACTED]
Scenario 2	[REDACTED]	[REDACTED]
Scenario 3	[REDACTED]	[REDACTED]
Scenario 4	[REDACTED]	[REDACTED]
Scenario 5	[REDACTED]	[REDACTED]
Scenario 6	[REDACTED]	[REDACTED]
Scenario 7	[REDACTED]	[REDACTED]
Scenario 8	[REDACTED]	[REDACTED]

PacifiCorp indicated that these market price scenarios are consistent with the latest IRP Update. CO2 costs were revised downward from the values used in the 2011 IRP. The CO2 costs included in Exhibit 2 above are therefore from the 2011 IRP Update. [REDACTED] [REDACTED] natural gas prices are adjusted to reflect

changes in electric sector natural gas demand affected by the CO2 tax.<sup>10</sup> The CO2 values are designed to capture the broad range of potential future outcomes as opposed to attempting to forecast specific market values.

#### ***Tab 4 – System Optimizer (“SO”) Portfolio***

Tab 4 contains a Table which shows 2012-2021 resources from PacifiCorp’s 2011 IRP Update. All resources except Front Office Transactions prior to 2016 will be hardwired into the System Optimizer model. All resources in and beyond 2016 will be allowed to float to respond to changes in resources evaluated. In addition, PacifiCorp will update its load forecast prior to the evaluation of the final short list, and as a result, the resource portfolio may change accordingly. As noted, the preferred portfolio from the 2011 IRP Update will serve as the portfolio that will be modeled in the System Optimizer.

#### ***Tab 5 – O&M Costs***

This Tab contains a significant amount of information on Fixed and Variable O&M costs for different technologies, which PacifiCorp will use primarily to evaluate EPC and APSA options or any arrangements in which PacifiCorp will provide the O&M. For PPA and Tolling agreements, the O&M figures provided by the bidders will be used throughout the term proposed. For APSA bids, PacifiCorp will evaluate any O&M contracts through the required term and then apply internal assumptions for self-supplied O&M when the contract expires.

In addition to providing base year Fixed and Variable O&M costs and proposed escalation rates, this Tab also includes adjustments to be used in this RFP which have not been used in other solicitations. The first adjustment is an [REDACTED]. While elevation at which the project is located affects capacity, output could change at different elevations which could influence fixed and variable O&M values. Second, PacifiCorp also includes a [REDACTED] adder for the first time in an RFP. PacifiCorp’s rationale is that costs such as major overhauls are included in Variable O&M. PacifiCorp capitalizes a portion of the Variable O&M costs through the [REDACTED] (e.g. represents a percentage of the Variable O&M costs to be included in capital for revenue requirements purposes).

#### ***Tab 6 – IRP Operational Table***

This Tab contains assumptions with regard to fuel costs per start and run up rates and will be determined by the appropriate fuel costs at the location of the asset. The information included in this Tab includes:

- Heat input for Warm Start (MMBtu)
- Run up rate in MW/hour

The information above is provided for the various generation technologies expected to be bid into the RFP.

#### ***Tab 7 – Load Forecast***

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<sup>10</sup> PacifiCorp has lowered its forecast of CO2 costs from the 2011 IRP values due to the slow economic recovery, in tandem with predictions of sustained low natural gas prices and lack of momentum for CO2 legislation.

This Tab provides the coincident peak and annual energy summary tables which summarize the load forecasts from the November 2011 forecast. The coincident peak and annual energy sales summary is provided by state. PacifiCorp will update its load forecast prior to the evaluation of the final short list.

***Tab 8 – Gas Transportation***

Tab 8 provides natural gas transportation cost information for each proposed power supply proposal based on the project location and the gas transportation or pipeline delivery options to the plant. The majority of the gas transport costs are based on the pipeline tariff for each of the delivery options. This includes transportation demand charges, variable transportation costs and fuel reimbursement. PacifiCorp has also included a gas adder as an additional cost component for each pipeline option. The gas adder represents the [REDACTED]

The Gas Transport tab has not been part of the IRP process. However, Merrimack Energy requested that PacifiCorp develop such a cost information matrix for each of the pipeline options in the previous PacifiCorp All Source RFP for purposes of consistently evaluating the offers based on their gas transportation routing. PacifiCorp provided even more detailed information on pipeline costs and options for this 2016 All Source RFP.

PacifiCorp indicated that the Company recently went through a gas transportation RFP and used that information in the development of the gas transportation options and costs presented in Tab 8.

***Tab 9 – Transmission Integration Costs***

This Tab is essentially Attachment 20 updated for changes in cost for upgrades necessary for delivery at Harry Allen. PacifiCorp may need to increase transmission import capability and upgrade its network system capacity in order to integrate a resource delivered to the preferred point of delivery. Attachment 20 indicates the possible additions necessary and the indicative costs associated with the upgrade. The adjustment illustrated a reduction in transmission integration costs from \$76 million in January 2012 to \$10 million currently.

***Tab 10 – Owners Costs***

This Tab includes the estimated cost that PacifiCorp will incur internally during the development and construction phase associated with both the EPC option at the Currant Creek site as well as a possible APSA option at a Bidder’s site. The costs range from [REDACTED] for the owners costs at an APSA site to [REDACTED] for costs for the EPC option at the Currant Creek site. These costs will be added to the EPC costs for each option to ensure all bids are evaluated using a consistent base of cost information.

***Tab 11 – Owners Development Cost***

These costs generally represent the costs incurred by PacifiCorp during the development phase of the project.

***Tab 12 – EPC Plant Outage, Equivalent Forced Outage Rates (EFOR) and Degradation***

This Tab presents information for plant outages, EFOR rates and capacity and heat rate degradation rates for GE “F” technology, Siemens “F” technology and Mitsubishi “F” and “G” technology.

***Tab 13 - Market Caps***

This Tab includes a table which estimates how much capacity PacifiCorp could sell at each Point of Delivery. This considers the liquidity and market depth at each Point of Delivery. This information is not currently included in any IRPs but PacifiCorp proposes to include this information in the next IRP.

**IE Comments on the Input Assumptions**

On May 7, 2012 the IE responded to PacifiCorp that the input assumptions appeared reasonable and consistent and that the IE was in agreement with the proposed input assumptions to be used for the assessment of the indicative bids. The input assumptions reflect a combination of assumptions included in the 2011 IRP or IRP Update as well as other assumptions not previously used in Company IRP processes but included in this RFP for the first time (i.e. non-firm multiplier, elevation multiplier for O&M costs, and Revenue Requirements adder associated with the inclusion of major overhaul costs in the Variable O&M component).

The IE reviewed the Input Assumptions Files in detail and participated in discussions to review all assumptions including assumptions not included in previous IRPs. PacifiCorp’s approach for developing its forward price curves based on a combination of market transactions with a transitioning to a fundamental forecast is consistent with industry practices. The forecasts appear consistent with other forecasts we have reviewed. Also, PacifiCorp has attempted to compile all costs associated with APSA and EPC options to ensure that all resource options are equitably treated, including developing fixed and variable O&M costs by technology as well as plant outage rates and degradation and owners costs that PacifiCorp would incur through an EPC option.

As noted, while PacifiCorp included assumptions such as the [REDACTED] [REDACTED] for the first time in this RFP, Company representatives provided reasonable justification to support the values underlying these assumptions. While we have not seen such assumptions explicitly included in other RFPs, the IE concluded that the assumptions appeared reasonable and consistent and should not bias one type of resource at the expense of others. In particular, the adjustments for [REDACTED] and the reclassification [REDACTED] are reasonable as is the adjustment to reduce the value of non-firm capacity relative to firm capacity proposals.

Merrimack Energy has not been able to justify the reduction in the integration costs for delivery at Harry Allen as reflected in Attachment 20 but notes that this information was prepared by PacifiCorp Transmission, which is independent of the project team for this RFP.



The IE raised one caveat about the application of assumptions based on the different versions of the IRP available (i.e. 2011 IRP, 2011 IRP Update, and 2013 IRP). The IE raised the point that if there are any Commission decisions associated with the IRPs that may have implications for the use of certain assumptions during the solicitation process, that the implications of such a decision should be reviewed by the IEs and PacifiCorp. Other than that issue, the IE was in agreement with the assumptions utilized in the Step 1 evaluation.

**Receipt of Bids**

Bids were due on May 9, 2012. The IE was present at the Commission’s offices in Utah for receipt and review of bids on May 9, 2012. Merrimack Energy prepared a spreadsheet summary of the bids received upon review to ensure the same bids were submitted to both Utah and Oregon. The results of the review did indicate that both sites received the same bids and all bids were effectively accounted for. Merrimack Energy’s spreadsheet summary of the bids received was included with the May 2012 Status Report.<sup>11</sup> The information presented in the summary included:

- Project Name
- Bidder
- Project Location
- Resource Category (baseload, intermediate, summer peaking)
- Delivery Point
- Technology
- Product
- Term
- COD
- Capacity
- Heat rate
- Pricing

Exhibit 3 provides a high level summary of the proposals submitted by category, which includes the number of bidders, proposals, options offered and capacity. Key summary information for the bids received is provided below based on review of the bids. Exhibit 3 illustrates that nearly [REDACTED] times the amount of capacity was offered relative to the amount requested, indicating that this was a very competitive solicitation process.

**Exhibit 3: Summary of the Bid Received**

<b>Product Category</b>	<b>Number of Bidders</b>	<b>Number of Proposals</b>	<b>Options Proposed</b>	<b>Capacity (MW)</b>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

<sup>11</sup> Merrimack Energy has not included the summary spreadsheet for each proposal in this report. Instead, we have included the Step 1 analysis prepared by PacifiCorp for each resource category which reflects any adjustments to capacity and other project metrics as a result of developing the term sheets for each project.

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

- A total of [REDACTED] proposals were received representing [REDACTED] projects. [REDACTED] bidders offered the same project in both the base load and intermediate categories;
- Of the total [REDACTED] proposals received, [REDACTED] were classified as EPC bids, [REDACTED] additional base load projects were offered, [REDACTED] proposals were offered as intermediate, as well as [REDACTED] summer peaking resources and [REDACTED] base load renewable resources;
- There were also a total of [REDACTED] alternatives proposed. Bidders for the same project offered APSA and tolling options, different contract terms, different project sizes, and different COD dates. [REDACTED] EPC bidders offered different gas-fired combined cycle technologies;
- Of the [REDACTED] projects proposed, [REDACTED] were located in Utah (including all [REDACTED] EPC bids), [REDACTED] were located in Washington, [REDACTED] in Nevada, [REDACTED] in Oregon, [REDACTED] in California, and [REDACTED] in Wyoming;
- A total of approximately [REDACTED] MW was bid. This number assumes only one project is listed for the EPC option at Currant Creek since all [REDACTED] bids are mutually exclusive. Of this amount, [REDACTED] MW was in the base load category, [REDACTED] in the intermediate load category, [REDACTED] MW in the summer peaking category and [REDACTED] MW in the Renewable base load category;
- All bids with the exception of [REDACTED] projects were gas-fired generation options with a range of different technologies. [REDACTED] geothermal projects were proposed, with [REDACTED] of the projects located in Nevada and [REDACTED] in California.

The proposals received offered a variety of technologies, products (e.g. tolling agreements, PPAs, APSAs, etc.), terms, locations, pricing options and in-service dates.

A list of the proposals and options received are provided in Exhibit 4.

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12 [REDACTED]  
[REDACTED]  
[REDACTED]

**Exhibit 4: Summary of Bid Received**

Bidder	Project Name	Project Size (MW)	Resource Option	Project Location	Technology Type
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]




**Bid Review, Clarification and Summaries**

One of the activities undertaken by PacifiCorp after receipt of the proposals was to confirm the accuracy of the bids prior to undertaking the quantitative evaluation process. In past RFPs, PacifiCorp received the bids, prepared the term sheet based on the information submitted in the bid, contacted bidders to confirm or revise the term sheet based on the confirmation of the proposal terms, and then finalized the term sheet in conjunction with the bidders.

For this RFP, PacifiCorp took a slightly different approach designed to expedite the bid review and term sheet development process. For this RFP, PacifiCorp included the term sheet in the RFP document and required bidders to complete the term sheet and include it with their proposal. PacifiCorp then contacted the bidders to ensure the information was accurate and agreed to by both parties prior to undertaking the Step 1 modeling process.

**Project Eligibility**

██████████ projects were deemed ineligible by PacifiCorp and were reviewed by the IEs to determine if they were non-conforming. The IEs agreed with PacifiCorp’s assessment of these projects. The projects were eliminated from further consideration due to failure to meet the eligibility requirements. The following is a description of the reasons for which the projects were deemed ineligible.

██████████ was rejected because the bidder had not submitted an Intent to Bid as required. ██████████ argued that they offered the project as part of ██████████ Notice of Intent to Bid. ██████████ indicated in an email that they had missed the Intent to Bid date and so were teaming up with one of the approved bidders that had applied under the Intent to Bid process. In addition, the project offered was proposed as a load curtailment option based on a customer of PacifiCorp starting up a ██████████ ██████████ ██████████

After review by the IEs and PacifiCorp it was agreed that the project would not be eligible to compete based on the fact that the project [REDACTED] offered in their Intent to Bid was not the same project offered by [REDACTED]. The [REDACTED] project was a different project. Also, the proposal offered was not under the [REDACTED] name but under the project name.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The IE agreed with PacifiCorp's decisions regarding the tolling agreement options and the revision in the timing of the [REDACTED] option to 2016.<sup>13</sup>

**Implementation of the Bid Evaluation and Selection Process**

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<sup>13</sup> [REDACTED]

The next step in the process after all proposals were clarified was for PacifiCorp to begin the bid evaluation process for the purpose of selecting a shortlist. According to the RFP document, the bid evaluation and selection process for the RFP will be focused on finding the best combination of resource opportunities to meet customer requirements at the least cost on a risk adjusted basis. This section of the report provides a detailed description of the steps involved in the bid evaluation and selection process.

### **Step 1 – Selection of the Initial Shortlist of Bids**

As stated in the RFP, the selection of the initial shortlist of bids was designed to be based upon price and non-price factors taking into account fuel source. The price factor would be derived in the initial short list analysis using the PacifiCorp Structuring and Pricing RFP Base Model. The price and non-price factors would be evaluated separately and combined to determine a bid ranking in each category. The price factor would be weighted up to 70% and non-price factor would be weighted up to 30%. The price and non-price evaluation results would be added together and used to determine the initial shortlist. The initial shortlist would be made up of the highest scoring proposals in each of four separate categories: (1) base load; (2) intermediate load; (3) summer peak resources and (4) renewable base load resources.

With regard to the price factor evaluation, the RFP contains a description of the methodology to be used for allocating price factor weights. The Company's objective is to use the RFP Base Model to screen the proposals and to assign the price ranking for the eligible bids received into the bid categories by fuel type. The RFP Base Model will compare the cost<sup>14</sup> of each proposal against the value of expected energy priced at the forward price curve. The price score will be calculated for each proposal (and each alternative as applicable) using a market ratio metric. The market ratio will be expressed as a percentage and will be calculated by dividing the nominal levelized PVRR of expected energy value, expressed on a \$/kW-month basis, into the nominal levelized PVRR of proposed costs, expressed on a \$/kW-month basis. A market ratio less than 100% indicates that the PVRR of proposed costs are lower than the equivalent market alternative, and therefore favorable to customers.

According to the RFP, three categories were established for allocating price factor weights. Bids that had a price less than or equal to 60% of the adjusted price projections (e.g. forward curve) would receive the full 70% of the weight. Bids with a price equal to or greater than 140% of the adjusted price projection would receive 0% of the weight. Bids that were between 60% and 140% would be linearly interpolated. The net PVRR component views the value of the energy and capacity as a positive (market value of the power based on projected price curves) and the offsetting costs (bid prices and other costs) as a negative. The larger the net PVRR, the more valuable a given resource is to the Company's customers. The net PVRR/kW-month metric is the annuity value, which when applied to the nominal kilowatts on a monthly basis and present-valued will result in the same net PVRR as a straight NPV calculation.

As will be discussed below, for the previous RFP Merrimack Energy had recommended that the price ceiling should be flexible and could be revised based on the range of actual bids received to ensure that a price to non-price weight would be maintained and avoid the possible case where

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<sup>14</sup> The cost of each proposal includes the following cost categories: (1) fuel costs; (2) fixed and variable O&M; (3) transmission integration costs; (4) gas demand charges; (5) capacity charges or annual capital revenue requirements in case of an APSA or EPC; (6) third-party transmission costs; (7) emissions costs.

non-price scores drive final results. For evaluation of the bids PacifiCorp maintained the ceiling of 140% for the evaluation of base load bids but increased the ceiling to 300% for the evaluation of intermediate bids. The IE was in agreement with this revision since it was consistent with previous Commission Order's and addressed the concern previously raised by the IE to maintain flexibility to adjust the floor and ceiling to maintain the proposed price weights in the Step 1 evaluation.

Non-price factors were weighted at 30%. Non-price categories and sub-categories along with the weights for each are identified in the RFP document include the following:

- Development Feasibility/Risk (maximum 10%)
  - Critical path/schedule (0-5%)
  - Engineering, design, and technology (0-2.5%)
  - Fuel supply and transportation strategy (0-2.5%)
- Site Control and Permitting (maximum 10%)
  - Permits required (0-5%)
  - Access to water (0-2.5%)
  - Rights of way (0-2.5%)
- Operational Viability and Risk Impacts (maximum 10%)
  - Environmental compliance strategy (0-2.5%)
  - Environmental impact (0-1.5%)
  - Operating and maintenance plan (0-2.5%)
  - Safety compliance/strategy (0-1.0%)
  - Experience/Qualifications (0-2.5%)

According to the RFP, bids will be evaluated and scored in three discrete categories for the non-price scores: (1) 100% of the percentage weight; (2) 50% of the percentage weight; or (3) 0% of the percentage weight. Bids will be evaluated based on their ability to demonstrate the proposal is thorough, comprehensive and provides limited risk to the buyer prior to the company performing due diligence on any given Bid. Bids which have a demonstrated track record or are mature proposals will be more highly evaluated.

**Bid Evaluation Results for Step 1**

***Base Load Bids***



The results of the evaluation of base load units are presented in Exhibit 5. Exhibit 5 includes a summary of all base load options ranked by score in Step 1 of the evaluation.

**Exhibit 5: Summary of Base Load Bid Evaluation and Ranking**



Bidder	Project Name	Type	Term	Cost-Benefit Ratio	Price Score	Non-Price Score	Total Score	Rank
<b>BASELOAD BIDS</b>								
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

For the short list in the base load category, PacifiCorp selected [REDACTED] offers and variants as well as the [REDACTED]. The next highest ranked option was the [REDACTED] which had a total bid score 3% points lower than the [REDACTED] bid overall and had a higher cost to benefit ratio. Merrimack Energy reviewed the price and non-price evaluation conducted by PacifiCorp and was able to verify the rankings of the proposals.<sup>15</sup> [REDACTED] presents the results of Merrimack Energy’s summary of the cost components for each base load bid as well as other project information such as capacity factor and heat rates.

Both the Utah and Oregon IEs were eventually in agreement with PacifiCorp’s recommendation for short list selection.

<sup>15</sup> The approach undertaken by Merrimack Energy to review the bid evaluation results generated by PacifiCorp was to review in detail the price evaluation results and to prepare a detailed summary from each model run from the RFP Base Model to test the reasonableness of the cost components for each bid. Merrimack Energy also prepared a summary of the pricing for each bid as well as the operational information and used this information in testing the results. For example, one metric Merrimack Energy reviews is the capacity factor of the project based on the variable fuel and O&M costs as well as the heat rate of the unit as a reasonableness test of the evaluation. In addition, Merrimack Energy undertook an independent review and scoring of the non-price factors for the base load and intermediate bids since there were the only categories where competition was present with regard to short list selection.

However, the Utah IE was concerned that there were no other long-term [REDACTED] that would be competitive with the [REDACTED]. The [REDACTED] [REDACTED] The Utah IE did not immediately approve PacifiCorp’s shortlist recommendation for the base load category but withheld approval subject to review and assessment of the intermediate proposals.

**Intermediate Bids**

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

For conducting this analysis, PacifiCorp relied upon the bidder’s proposal for each of the TSA options. For APSA options, PacifiCorp included its own forecast assumptions for fixed and variable operating costs for specific technologies as the basis for conducting the evaluation under the premise that PacifiCorp will own and operate the unit upon the sale of the asset.

The results of the evaluation of the intermediate units are presented in Exhibit 6. Exhibit 6 includes a summary of the evaluation results for each of the eligible intermediate bids. The IE reviewed and assessed the results of the price and non-price evaluation and scored the bids based on non-price criteria. [REDACTED] presents the results of Merrimack Energy’s summary of the cost components for each intermediate bid as well as other project information such as capacity factor and heat rates. While the IE’s non-price scores deviated a bit from PacifiCorp’s scores, the rankings of the bids and short list results were consistent.

**Exhibit 6: Summary of Bid Evaluation Results**

Bidder	Project Name	Type	Term	Cost – Benefit Ratio	Price Score	Non-Price Score	Total Score	Rank
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The results of the evaluation highlight a few key issues:

1. [REDACTED]
2. PacifiCorp revised the price factor weighting range for determining the price score from a high of 140% as noted in the RFP to [REDACTED]. As a result, all bids that had a ratio of costs to benefits in excess of [REDACTED] were awarded 0 price points. For these bids, the total score was based solely on the non-price scores.
3. Existing projects generally scored very well from a non-price perspective since development risk is eliminated. While we were potentially concerned that non-price scores could determine the ranking even though the initial objective was that price was much more important than non-price (i.e. 70%/30%), there was no evidence that non-price scores for existing projects biased the short list results, since these projects also had the most favorable economics.
4. Although the [REDACTED] plant was self-classified as an intermediate bid, based on the heat rate of the unit, the project really performs as a base load unit and as a result dominates other intermediate bids with higher heat rates. Based on review of the evaluation results it is evident that intermediate bid results are very sensitive to the proposed dispatch price for each unit (i.e. gas commodity or energy costs, variable O&M charge, and start-up charges, if any) and the unit heat rate. All else considered, proposals with a low heat rate and lower dispatch price were ranked highest in the queue.

[REDACTED]

**Summer Peaking (O3) Bids**

[REDACTED]

<sup>16</sup> Since the analysis is predicated on the selection of shortlisted bids within each category, the important criteria at this point is to ensure a consistent evaluation of bids within each resource category. This methodology is not generally applicable for comparing bids across categories if the price ranges used to calculate a price score is changed.

[REDACTED] presents the results of Merrimack Energy’s summary of the cost components for each Summer Peaking bid. The results of the evaluation for each variant are included in Exhibit7 below.

**Exhibit 7: Summary of Summer Peaking Bid Evaluation and Ranking**

Bidder	Project Name	Type	Term	Cost-Benefit Ratio	Price Score	Non-Price Score	Total Score	Rank
<b>Summer Peaking BIDS</b>								
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

All summer peaking proposals were selected for the short list. In addition, PacifiCorp revised the price factor weighting range for purposes of calculating the market ratio to be from 60% to [REDACTED] as the upper end as opposed to 140% as the upper end.

[REDACTED]

**Renewable Base Load Bids**

[REDACTED] the results of Merrimack Energy’s summary of the cost components for each Renewable Base Load bid. Exhibit 8 provides the evaluation results for these three proposals. All proposals were selected for the short list.

**Exhibit 8: Summary of Renewable Base Load Bid Evaluation and Ranking**

Bidder	Project Name	Type	Term	Cost-Benefit Ratio	Price Score	Non-Price Score	Total Score	Rank
<b>Renewable Base Load BIDS</b>								
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

All eligible Renewable Base Load proposals were selected for the short list. In addition, PacifiCorp revised the price factor weighting range for purposes of calculating the market ratio to be from 60% to [REDACTED] as the upper end as opposed to 140% as the upper end.

**Short List Selection**

For purposes of undertaking the review and evaluation of the Step 1 evaluation process, PacifiCorp prepared and submitted to the IEs beginning in late June 2012 detailed presentations on the evaluation results for each bid category. The Company also provided the IEs with password protected flash drives with the detailed backup model results, input files for each bid, and other supporting information. In addition, PacifiCorp also provided bid summary information in tabular and graphic form for each bid. The presentations prepared by PacifiCorp for the base load, intermediate, summer peak, and renewable base load categories respectively are included as [REDACTED].

Based on review and ranking of bids, PacifiCorp proposed a short list in each bid category. Exhibit 9 provides a compilation of the short list in each category. Short list selection was generally based on selecting twice the amount of capacity requested from the RFP in each category. [REDACTED]

[REDACTED] The IEs did not oppose this recommendation.

**Exhibit 9: Shortlisted Proposals**

Bidder	Project Name	Type of Offer	Size MW (Full Load)	Term
<b>Baseload</b>				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Intermediate</b>				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Renewables</b>				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Summer Peak Capacity</b>				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Issues Associated With Short List Decisions**

A few issues were identified by the IE for discussions during the short list evaluation process. These included:

- Why did the [REDACTED] project perform poorly in this solicitation given its strong performance in the prior solicitation? How was it evaluated given some of the issues in the previous solicitation associated with the ability of the project to deliver power into the PacifiCorp system due to transmission access issues?
- Should the [REDACTED] project be selected for the Intermediate short list?
- Was there a risk that only [REDACTED] offers would be the only competitive bids in the base load category, possibly leading to a bias toward EPC options only?

A description of these issues and the basis for resolution of the issues is provided below.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>17</sup> PacifiCorp completed the Base Load evaluation and short list selection before completing the evaluation of the Intermediate Load bids and other options. PacifiCorp asked the IEs to approve each short list after completion of the evaluation. However, the Utah IE suggested that PacifiCorp complete the evaluation of the bids in the other resource categories before providing a final agreement to the Base Load short list.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

---

<sup>18</sup> PacifiCorp also proposed including two options for [REDACTED] on the short list ahead of either of the above two projects.

<sup>19</sup> [REDACTED].



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

## Conclusions from Step 1

In addition to reviewing the presentations and model results prepared by PacifiCorp, Merrimack Energy submitted several questions to PacifiCorp and found a few errors in the analysis which were subsequently verified and corrected by PacifiCorp. PacifiCorp adjusted the results of its analysis to reflect the revisions to the data. Importantly, the adjustments were minor and did not result in a change in the rankings.<sup>22</sup> The evaluation results and analysis prepared by PacifiCorp ( [REDACTED] ) was very thorough and facilitated the review and assessment by the IEs. In addition, the graphs and data provide by PacifiCorp highlighted the factors driving the economics of the various resource options. In conclusion, Merrimack Energy was in agreement with PacifiCorp's short list decisions for all resource categories and confirmed our agreement via email in early July 2012. All bidders were notified by PacifiCorp on or around July 9, 2012 whether they had been selected to the short list or not, consistent with the schedule included in the RFP document.

## Load and Capacity Update

On July 26, 2012 PacifiCorp submitted a slide presentation regarding its Load and Capacity Update to the IEs and Division and scheduled a call with the IEs and Division to review the Load and Capacity Update. The purpose of the call was for PacifiCorp to discuss the changes to the Company's load and resource forecast, which exhibited significant changes from the previous forecast. In the presentation, PacifiCorp stated that existing resources are lower by [REDACTED] MW and that the preliminary peak load forecast indicates that peak load for 2016 will be lower by approximately [REDACTED] MW compared to the 2011 IRP Update. The lower peak load forecast is driven by updates to the industrial class to reflect use of on-site generation,<sup>23</sup> and reduced load growth from new customers. PacifiCorp noted that while the Company had seen significant load growth from new large industrial customers in Wyoming and Utah, it has also seen cancelled or delayed new load requests. PacifiCorp also indicated that it was implementing a new industrial forecasting methodology based on a regression based methodology. Based on the combination of lower load growth, changes in existing capacity, and the associated impact on reserve requirements, [REDACTED]

[REDACTED]

PacifiCorp provided an update to the July 26, 2012 presentation on its capacity position on August 3, 2012.<sup>24</sup> The updates would be included in the evaluation of the best and final offers from the All Source RFP for 2016 Resources. Exhibit 10 provides a snapshot of the change in the 2016 Capacity Position for the PacifiCorp system based on the information provided by PacifiCorp on August 3, 2012.

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<sup>22</sup> [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### Exhibit 10: PacifiCorp's 2016 Capacity Position (MW)

Description	2011 IRP Update (MW)	July 2012 (MW) (August 3, 2012 Update)	Net Change (MW)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

PacifiCorp stated in the presentation that the capacity deficit compared to the 2011 IRP update is reduced by [REDACTED] MW, driven by system peak loads that are down by [REDACTED] MW in 2016 driven primarily by reduced loads in the east side of the PacifiCorp system. PacifiCorp also stated that it was incorporating new DSM supply curves into the System Optimizer model.

A copy of the July 26, 2012 Load and Resource update presentation is included as Attachment [REDACTED] while the August 3, 2012 presentation is included as Attachment [REDACTED].

#### Updated Input Assumptions File

On July 26, 2012 PacifiCorp convened a conference call with the IEs and the Division to discuss the input assumptions it intended to use for the Step 2 evaluation and discuss the schedule going forward. PacifiCorp indicated that it intended to use its June 29, 2012 forward curve for the natural gas and power prices.<sup>25</sup> As previously noted, both natural gas and power prices were projected to be higher for 2016 relative to the April 2012 forecast. PacifiCorp is also projecting decline in the GDP growth rate as well as a decline in the rate of growth in the CPI. PacifiCorp also updated its O&M costs for the EPC options based on the information PacifiCorp received from the equipment vendors on O&M costs.

PacifiCorp also revised its forecast of CO2 costs from the May 2012 Input Assumptions file to the August 6, 2012 Input Assumptions File. This change affected the Market Price Scenarios to be used for purposes of determining the portfolios in Step 2. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

<sup>25</sup> A comparison of the April 24, 2012 and June 29, 2012 annual gas and electricity price forecasts as prepared by PacifiCorp based on the monthly forward curves is included in [REDACTED]. The monthly forecasts for April 24, 2012 and June 29, 2012 are provided as Attachment C and Attachment O, respectively.

[REDACTED]

The revision in the CO2 costs will also affect gas and power price forecasts since natural gas prices are adjusted to reflect changes in electric sector natural gas demand driven by a change in CO2 prices. The Market Price Scenario table included in the Input Assumptions file presented to the IEs on July 25, 2012, August 3, 2012 and August 6, 2012 is included below as Exhibit 11.

**Exhibit 11: Market Price Scenario Cases for Step 2 Portfolio Evaluation**

Scenario	CO2 Tax (\$/ton)	Natural Gas Case
Scenario 1	[REDACTED]	[REDACTED]
Scenario 2	[REDACTED]	[REDACTED]
Scenario 3	[REDACTED]	[REDACTED]
Scenario 4	[REDACTED]	[REDACTED]
Base	[REDACTED]	[REDACTED]
Scenario 5	[REDACTED]	[REDACTED]
Scenario 6	[REDACTED]	[REDACTED]
Scenario 7	[REDACTED]	[REDACTED]
Scenario 8	[REDACTED]	[REDACTED]

Finally, PacifiCorp updated its load forecast, which reflects a decrease in load because of the lower than expected industrial load in Wyoming and Utah. The load forecast for 2012-2021 from the May 4, 2012 Input Assumptions file reflected an average annual growth rate of [REDACTED]. Also, the project load growth from 2021 to 2030 is projected to average [REDACTED] per year. This compares to the August 6, 2012 Input Assumption forecast, in which the average annual load growth from 2013-2022 shows a substantial decline to a [REDACTED] average annual growth, while load growth is also projected to average [REDACTED] from 2022 to 2030.

The August 6, 2012 Input Assumption File is included as [REDACTED]

In conclusion, the revised Input Assumptions files presented to the IEs in late July and early August in preparation for a lock-down of the assumptions by August 6, 2012 illustrate a [REDACTED]

<sup>26</sup> The IE asked PacifiCorp to explain the basis of the High CO2 price forecast. PacifiCorp responded that in developing base, high and low CO2 price assumptions the Company reviews projections available from third party experts and other information. This review yields a range of forecasts. For the Step 2 evaluation PacifiCorp indicated that the High case is based off a third party experts high CO2 price projection.

█████ in preparation for the Step 2 evaluation. In particular, the magnitude in the reduction in load demonstrated that the need for the capacity solicited in the All Source RFP for 2016 was virtually eliminated.

**Best and Final Offers**

As noted, PacifiCorp selected short lists for four different resource categories: (1) base load; (2) intermediate; (3) Q3; and (4) renewable base load. In addition, included in the base load category are the bids for EPC contractors to construct a gas-fired combined cycle facility on PacifiCorp’s Currant Creek site.

On July 20, 2012 PacifiCorp sent an email to all short listed bidders after discussions with the IEs to inform bidders of the filing requirements associated with submission of their best and final offers. In addition, PacifiCorp reminded the short listed bidders of the 10% increase limit in their costs from the original indicative bid to the best and final offer.

Best and Final offers from the short listed bidders were due on August 8, 2012. All short listed bidders submitted best and final offers. Once the best and final offers were received, PacifiCorp screened the bids to ensure they met the 10% price increase limit. No bids increased their total cost by 10% or more from the initial proposal and therefore all bids and variants selected were eligible for Step 2 evaluation. Also, similar to the experience with the indicative bid stage, several of the EPC proposals included inconsistencies for which PacifiCorp had to seek clarification or the bidder provided updates after submission of their best and final offers.

The assessment contained in this section of the Report will focus initially on the EPC bids and then on the remaining short listed bids. For each bid, Merrimack Energy will compare the pricing included in the indicative bid with the Best and Final offer.

***EPC Proposals***

The Best and Final EPC proposals for Currant Creek in the base load category are summarized below. ██████████

██████████ provides more detailed information on each EPC option including a comparison of the indicative bids and best and final offers. ██████████ also shows a breakdown between the combined cycle capacity for each bid and duct-firing capacity, as well as the heat rates for each component of the project and the full load heat rate for the total project. All bids included a combined cycle component and a duct-firing component.

Exhibit 12 presents a summary of the best and final offers for each EPC bid on the short list.

**Exhibit 12: EPC Best and Final Offer Bids for Currant Creek**

EPC Contractor	Equipment	Total Capacity (MW)	Installed Cost (\$million)	Cost/kW
██████████	██████████	████	██████	██████
██████████	████	████	██████	██████
██████████	██████████	████	██████	██████
██████████	████	████	██████	██████

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

With regard to the EPC bids, ([REDACTED]) offered the same price for the best and final offer as in the indicative bid; [REDACTED]  
[REDACTED]

***Review of Other Bids***

Exhibit 13 provides a summary of the indicative bids and best and final offers for each of the remaining short listed options. As illustrated, all bidders either [REDACTED] their prices or [REDACTED] the same from the indicative bid to the best and final offer.

**Exhibit 13: Summary of Indicative Bids and Best and Final Offers for Other Bids**

Bidder	Indicative Bid	Best and Final Offer
<b>Baseload</b>		
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	
	[REDACTED]	
[REDACTED]		
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	

	[REDACTED]	
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

As noted, [REDACTED]  
[REDACTED].

**Step 2 Analysis: Portfolio Development/Optimization**

*Introduction*

For the Step 2 evaluation, PacifiCorp used Ventyx Energy’s System Optimizer capacity expansion model to develop optimized portfolios using the bid resources under a range of alternative cost assumptions for future emission expense levels and market prices (i.e. Market Price Scenario Cases). System Optimizer will develop a corresponding number of optimized portfolios – one for each combination of emission and wholesale market and natural gas price assumptions – drawing from resource options in the initial short list. An optimal portfolio will be established for each combination of emission and wholesale market and natural gas price assumptions. As illustrated in Exhibit 11, PacifiCorp intended to evaluate the portfolios based on nine market price scenarios and assess which resources would be selected in each scenario.

### ***Background***

As previously noted, PacifiCorp has provided the IEs with several sets of input assumptions for undertaking the evaluation of bids at various stages in the process (e.g. input assumptions to be used in the initial short list evaluation in Step 1 and updated assumptions to be used to undertake the Step 2 evaluation based on the best and final offers). Included in the list of assumptions is the base resource plan that would be used to assess the value of the RFP resources. PacifiCorp’s analysis of Step 2 starts with removal of the required resource under the base plan (i.e. in this case approximately 600 MW combined cycle needed in 2016).

The RFP identified the process PacifiCorp will follow for evaluating the RFP bids in the Step 2 and Step 3 processes. As noted in the RFP document (page 54):

“Based on the initial short list, Ventyx Energy LLC’s System Optimizer model (previously called the Capacity Expansion Model or CEM) will be used to develop optimized portfolios under various assumptions for future emission expense levels and gmarket prices. System Optimizer will develop a corresponding number of optimized portfolios – one for each combination of emission and wholesale market and natural gas price assumptions – drawing from resource options in the initial short list. These assumptions will be conceptually consistent with the 2011 IRP low, medium and high cases, but may reflect more recent data at the time the analysis is conducted. An optimal portfolio will be established for each combination of emission and wholesale market and natural gas price assumptions.

The starting point for System Optimizer portfolio development is the set of preferred resources and input assumptions that will be consistent with PacifiCorp’s 2011 IRP. The resource in the year for which there is a capacity need as defined by the resource portfolio (i.e. approximately 600 MW in 2016) will be removed in order to create a capacity deficit that the model must fill with one or more bid resources. The model will also be allowed to select a variable quantity of firm market purchases, or “front office transactions” to ensure that a specified annual planning margin is maintained throughout the simulated period. If assumption updates are made prior to receipt of Bidders best and final pricing for proposals selected to the initial short list which affect the timing and/or size of the resource need, the portfolio may be revised accordingly. For the period prior to the year for which there is a capacity need being addressed by this RFP, resources not removed to create a capacity deficit, except for front office transactions, will be fixed for all portfolios. That is, all resources, except for Front Office Transactions, prior to 2016 will



be hardwired in the System Optimizer model. Resources beyond the identified resource need year, which is 2016 in the 2011 IRP, will not be fixed but will be allowed to change to respond to the changes in resources.

The System Optimizer will produce an optimized portfolio for each combination of carbon dioxide (CO<sub>2</sub>) and natural gas price assumptions input into the model (“market price scenarios”). In addition to a base case price scenario, additional price scenarios will be modeled. The price scenarios will be locked down by the IEs prior to receipt of bids.

Each System Optimizer will be a candidate for the optimum combination of resources to be selected through the RFP process and will therefore be advanced to the stochastic/deterministic analysis step described below. Resources bid into the RFP that are not included in any of the portfolios resulting from this step will no longer be considered candidates for acquisition by the Company”.

### **Portfolio Options**

For the Step 2 evaluation, PacifiCorp used Ventyx Energy’s System Optimizer capacity expansion model to develop optimized portfolios using the bid resources from each short list (i.e. base load, intermediate, Q3 peaking, and renewable base load options as presented in Exhibit 9) under a range of alternative price and cost assumptions to account for uncertainty surrounding key variables. An optimized portfolio refers to a capacity expansion plan that minimizes the present value of revenue requirements (PVRR) over a 20-year period based on the set of input assumptions and planning reserve margin constraints. The capacity expansion plan accounts for the dispatch of both existing and future resource options, factors in amortized investment costs for generation and transmission resources, and solves for the optimal level of spot market transactions for system balancing. This Step screens portfolios for stochastic production cost analysis (Step 3a), and indicates the frequency that bid resources are selected under alternative futures modeled deterministically.

### **Request for Delay in Schedule**

On September 10, 2012 PacifiCorp informed the Commission that it will not meet the deadline of September 10, 2012 for completion of the final short list in accordance with page 6 of the Commission Order on the RFP issued on January 3, 2012. According to the Commission Order the Company was required to seek Commission approval if the schedule, as shown, deviates by more than five business days. PacifiCorp stated that due to the fact that vendor supplied upgrades and updates to the Company’s IRP modeling tools have encountered obstacles, it will not meet the original schedule. As a result, PacifiCorp will utilize its existing modeling tools and anticipates it will complete the final short list by September 21, 2012. The Commission approved the schedule change required due to the modeling upgrades on October 15, 2012.

### **Step 2 Evaluation Report**

On September 19, 2012 PacifiCorp provided the IEs with the initial results of the Step 2 evaluation based on the System Optimizer runs. The All Source Request for Proposals Step 2 Evaluation Report (“Step 2 Report”) provided to the IEs by PacifiCorp is included as [REDACTED]. A call was scheduled on September 20, 2012 to discuss the results and answer

any questions from the IEs and Division staff. During the call, PacifiCorp discussed the evaluation process and results and presented its rationale for not selecting any resources at this time from the 2016 All Source RFP. The basis for that decision and the analysis provided by PacifiCorp is discussed in this report.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]. The IE views this bandwidth as representing reasonable ranges of potential CO2 costs.

In its Step 2 evaluation report, PacifiCorp provided several Portfolios of resources to reflect both the pre-2016 period and the period 2016 to 2030. The portfolios presented in the Report include:

1. Locked down Portfolio delivered to the IEs on August 3, 2012. This portfolio reflects PacifiCorp's updated load forecast under base case assumptions. This base portfolio is derived by essentially letting the model to select the resource needs from a list of options based on price and operating characteristics. The base portfolio now shows a need for the next combined cycle unit in 2025. This portfolio locked down resources expected to be added to the PacifiCorp system prior to 2016. This included Lake Side II (638 MW) in 2014 and 338 MW gas-repowering of a coal plant in 2015<sup>27</sup>. In addition, this portfolio includes DSM and Front office transactions between 2016 and 2020;
2. Updated resource Portfolio with Updated DSM Supply Curves (Portfolio used to evaluate bids in the Step 2 evaluation process)<sup>28</sup>The portfolio essentially updates Portfolio 1 with the results from the DSM Supply curves developed after the August 3, 2012 portfolio. In the second portfolio, the amount of DSM resources added is lower relative to the initial resource plan provided to the IEs. In the resource plans, all resources past year 2016 are allowed to float for purposes of selecting the preferred portfolio of resources;
3. Base Case System Optimizer Model Portfolio With Bids from the RFP;
4. High load portfolio with no RFP bids compared to the base load portfolio with no RFP bids. Under this high load portfolio case, PacifiCorp projects that a new combined cycle project (i.e. 423 MW) will be required in 2018;

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<sup>27</sup> The System Optimizer Portfolios presented by PacifiCorp as part of the Input Assumptions Files either did not identify the repowering capacity or provided a net capacity amount to reflect the addition of gas-fired repowered capacity offset by the retirement of several coal units. The System Optimizer portfolio used to conduct the bid evaluation only included the additional 338 MW of capacity for repowering but did not show a capacity offset. PacifiCorp later confirmed that the 338 MW addition reflected the Naughton 3 gas conversion. PacifiCorp also noted that the table did not show the offsetting reduction, which is captured in the load and resource balance, in coal capacity totaling 324 MW (330 MW capacity for Naughton 3 less a 6 MW de-rate).

<sup>28</sup> During the July 26, 2012 conference call to discuss the Load and Resource Update, PacifiCorp noted that it intended to update the load forecast and DSM amounts based on receipt of updated DSM supply curves from its consultant.

## Results of the Step 2 Portfolio Evaluation

The results of the Step 2 evaluation illustrated that only the [REDACTED]

[REDACTED] As a result, these two resources are selected because they lowered the overall cost of the PacifiCorp’s portfolio. As PacifiCorp has concluded, the value of these resources is attributed to their value in deferring other resources such as front office transactions, DSM, and the deferral of a combined cycle resource by one year from 2029 until 2030.

To test the factors influencing selection of the summer peaking options in the Step 2 evaluation, PacifiCorp evaluated four sensitivity cases, assuming Base Case market prices and CO2 price assumptions. PacifiCorp concluded that the sensitivities provided confirmation that the benefits of the selected bids are related to deferral of DSM resources, deferral of a long-term future combined cycle resource to 2025 from 2016 and the reduction of front office transactions. The additional capacity is not needed to meet load growth but only to defer other resources. For example, [REDACTED]

The sensitivity cases are described below.

- ***Sensitivity 1***

This sensitivity allows the System Optimizer Model to select RFP bids using the pre-2016 DSM resources submitted to the IEs. The results show that [REDACTED] bids are selected and that the benefits are driven by deferral of DSM resources, long-term future combined cycle resources and front office transactions. PacifiCorp’s analysis shows that while the long term economic benefits are positive under the scenario whereby the [REDACTED] MW from the [REDACTED] are selected, these options represent a negative cost to customers through 2023,

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<sup>29</sup> Merrimack Energy asked PacifiCorp to run a case whereby the model selects an EPC option in 2016 to assess the impacts of adding a large scale combined cycle resource in 2016 as originally anticipated.

with the benefits occurring after 2023. [REDACTED]

- *Sensitivity 2*

This sensitivity fixes both pre-2016 resources consistent with the more current base case data and fixes all Class 1 DSM resources beyond 2016. [REDACTED] bids are selected; however absent the deferral benefit of the Class 1 DSM resources, the PVRR favorable to the RFP bids drops from [REDACTED]. In this sensitivity, the System Optimizer Model shows an incremental one year deferral of a 2025 generic combined cycle resource. As a result, [REDACTED]

- *Sensitivity 3*

This sensitivity fixes pre-2016 resources, all Class 1 DSM resources, and further prohibits the model from deferring long-term combined cycle resources. In this sensitivity, only the [REDACTED] is selected, which defers front office transactions and small amounts of Class 2 DSM resources. [REDACTED]. The PVRR benefits of this portfolio drop to [REDACTED] million as compared to the portfolio absent RFP resources.

- *Sensitivity 4*

This sensitivity fixes all base portfolio resources except for front office transactions. The [REDACTED] is selected, offsetting front office transactions over the 2016 to 2020 timeframe with the PVRR benefit dropping to [REDACTED] as compared to the portfolio absent any RFP resources.

As a result of the sensitivity analysis, PacifiCorp concluded that the benefits of the Q3 resources are influenced by the benefits of deferring long-term Class 1 DSM, combined cycle resources and front office transactions. In addition, the benefits associated with deferring front office transactions are dependent upon the cost of front office transactions over the period 2016-2020.

PacifiCorp also ran a high load forecast case to determine what the potential risk of physical supply would be if loads are greater than currently forecast. The results show the need for a [REDACTED]. [REDACTED] PacifiCorp concludes that it would have sufficient time to issue another RFP if the need arises.

### IE Comments

The Utah IE raised two comments regarding the evaluation and selection process:

- While the IE understands the concern over [REDACTED]. In addition, [REDACTED]

the results of the analysis demonstrate that the [REDACTED] is economic in every sensitivity case;

[REDACTED]

With regards to the [REDACTED], PacifiCorp concluded that the [REDACTED] is selected as a preferred resource in the Step 2 evaluation and remains marginally favorable when only front office transaction deferral benefits are considered. As PacifiCorp concluded, however, this is very much dependent upon the assumed cost of front office transactions over the period 2016 to 2020. [REDACTED]

The Utah IE requested that PacifiCorp conduct an analysis of the impacts of selecting the best EPC option for a 2016 in-service date based on the most updated load forecast. PacifiCorp provided the results of the analysis considering inclusion of an EPC option at Currant Creek as an alternative resource.

[REDACTED]

[REDACTED]

[REDACTED]

**Issues Associated with PacifiCorp’s Step 2 Evaluation**

The IE asked PacifiCorp to provide a more detailed assessment supporting its decision not to select the [REDACTED]. On October 2, 2012 PacifiCorp provided a response to the IE and supported its contention why the [REDACTED] bid should not be selected. The following are the primary reasons identified by PacifiCorp to support its position:

1. Primarily driven by an updated lower load forecast, the Needs Assessment shows that the 2016 load and resource balance has improved by [REDACTED] MW (the resource need has been reduced) as compared to load and resource balance in the 2011 IRP update;
2. With the updated load and resource balance, the updated resource portfolio shows that resource needs can be met most cost effectively by acquiring FOT and DSM resources, and deferring acquisition of a significant new resource from 2016 to the 2025 timeframe;

Two summer peaking bids were selected in the Step 2 evaluation – [REDACTED]

4. PacifiCorp undertook sensitivity previously described in this report. The sensitivity analysis showed that selection of both resources is heavily influenced by the prospective benefits of deferring generic long-term Class 1 DSM and combined cycle resources, such that customers would incur increased near-term costs on the bet of highly uncertain and speculative long-term cost savings;
5. Absent long-term benefits associated with resource deferral, [REDACTED]  
[REDACTED] However, PacifiCorp argues that the moderately favorable economics do not support selecting this bid. PacifiCorp claims that the bid displaces FOTs but it does not dispatch.<sup>31</sup> Consequently, the system increases dispatch to replace energy, leading to increased system fuel and VOM costs;
6. The true cost of FOTs through the 2020 timeframe is uncertain, and lower FOT costs than those assumed for the base case would erode uncertain benefits associated with deferral of FOTs;
7. The [REDACTED] is not selected in all scenarios evaluated in Step 2 of the evaluation process;
8. FOTs identified in the 2011 IRP Action Plan have been and are being pursued through other competitive solicitation processes that would target specific market products representing the full range of potential alternatives to FOTs. The Company procures these market-based products through the Company’s market RFPs which may solicit bids up to a five year tenor;
9. This product is akin to a long-term hedge which is outside the traditional range in Utah of [REDACTED]

### **Updated Step 2 Evaluation Results**

On October 9, 2012 PacifiCorp provided an updated version of the Step 2 report that included a few corrections to the analysis results but which PacifiCorp stated did not change the conclusions of the evaluation. In particular, the analysis showed that the cumulative PVRR of System Benefits associated with the inclusion of [REDACTED]

### **Step 3 Evaluation**

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<sup>31</sup> The analysis completed by PacifiCorp in the Step 1 process using the RFP Base model illustrated that the [REDACTED] project had an [REDACTED] However, the analysis completed in Step 2 using the System Optimizer model illustrates that the unit would not dispatch.

In Step 3 (Risk Analysis), stochastic and deterministic analyses will be performed on each optimized portfolio in order to identify the resources in the highest performing (least cost, adjusted for risk) portfolios. Step 3 includes both a Step 3(a) Stochastic analysis using the Planning and Risk (PaR) model <sup>32</sup>and Step 3(b) Deterministic Scenario Analysis using the System Optimizer model. <sup>33</sup>Consistent with the IRP, the Company will use the PaR and System Optimizer to assess the risks of each Eligible Resource Alternative. The PaR Model will model hydro conditions, thermal outages, gas prices, electricity prices, and load on a stochastic basis. The System Optimizer will model CO<sub>2</sub>, fuel prices (natural gas and coal) and electricity prices on a scenario basis.

PacifiCorp did not conduct the Step 3 analysis for this RFP since it decided not to select any resources as a result of the Step 2 analysis.

### **IE Comments on the Evaluation Results**

The IE understands PacifiCorp's rationale for not selecting the [REDACTED] [REDACTED] PacifiCorp's analysis demonstrates that the benefits associated with this project (in combination with the [REDACTED]) do not turn positive until 2020. Before that time, the cost to customers increases as a result of the contracts. Furthermore, PacifiCorp has demonstrated that this bid would not be selected under certain sensitivity cases. The long term nature of this bid also adds risk associated with the commitment to pay a fixed cost with little or no energy value.

However, the [REDACTED] does provide benefits relative to use of Front-office transactions, although the overall benefit is small. PacifiCorp does present several compelling reasons for not selecting this project, not the least of which is that the project is an [REDACTED] with which PacifiCorp could negotiate a contract outside the RFP process and not have to wait until 2016 before taking power under the contract. The lead time for taking power under the contract, the ability of PacifiCorp to do a bilateral contract outside the RFP process (i.e. the contract is less than 10 years which is exempt from the solicitation process) or solicit this power via a shorter term solicitation process, and the small benefits attached to this project raise questions about whether it is economically reasonable to contract with this project through this solicitation process.

On the other hand, the IE has difficulty accepting the Company's arguments that the benefits associated with this project are based on deferral benefits associated with deferral of front office transactions. Deferral benefits are common to any evaluation of this nature. For example, if load did not drop and PacifiCorp selected a [REDACTED] contract as the winning project, it can be

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<sup>32</sup> The PaR model will be used in stochastic mode to develop expected PVRR and PVRR volatility parameters. PaR is an hourly dispatch model that varies loads, wholesale gas prices, wholesale electricity prices, hydro variations and thermal unit performance to reflect uncertainty. Stochastic representations of these variables include specific volatility and correlation parameters. The model dispatches resources to meet load with given markets and transmission access to minimize PVRR using linear programming techniques. The resulting distribution of PVRR, typically over 100 draws of the variables, can be evaluated for the expected PVRR, tail risk PVRR, and PVRR volatility. According to PacifiCorp's IRP, PaR makes time path dependent Monte Carlo draws for each stochastic variable based on the input parameters. The Monte Carlo draws are a percentage deviation from the expected forward value of the variables.

<sup>33</sup> The optimal portfolios will be subject to a more in depth deterministic dispatch model using the System Optimizer with each portfolio being assessed for each of the future scenarios described in Step 2. This step is intended to identify portfolios with especially poor performance under certain future scenarios and used to inform the selection of final resource options.

argued that [REDACTED] is what is required to meet load requirements while the other [REDACTED] is selected because of deferral or displacement benefits. PacifiCorp would not go back to the EPC contractor and attempt to negotiate the project size down to [REDACTED] since it is rare that construction or acquisition of large blocks of capacity can exactly match need. In most cases, the utility may purchase or construct more capacity than is required in the year of need due to the lumpiness of large scale generation projects and “grow” into the project by displacing existing generation or deferring other sources of capacity. In either case, if construction or purchase of the [REDACTED] of capacity is the least cost option and provides system benefits it would likely be selected even if it does not exactly match requirements.

Another issue is PacifiCorp’s failure to undertake Step 3 of the evaluation as envisioned or anticipated as part of the overall evaluation process. The question arises whether conducting Step 3 will shed any light on the resource selection process. The IE is of the opinion that Step 3 is not necessary since in the IE’s opinion only the [REDACTED] represents a reasonable option based on the Step 2 evaluation. Therefore, there are no portfolios or multiple competing resources on which to conduct the risk assessment.<sup>34</sup> PacifiCorp’s sensitivity analysis in Step 2 essentially replaces the Step 3 analysis, although PacifiCorp does not provide any justification for not completing Step 3 or using the sensitivity analysis from Step 2 as a reasonable substitution for Step 3.

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[REDACTED]



## **VI. Description of the Contract Negotiation Process**

**Not Applicable**

## VII. Assessment of the Solicitation Process

This section of the Report provides our overall assessment of PacifiCorp’s solicitation process with respect to the consistency of the process to the solicitation requirements included in Section R746-420-3 and Chapter 54 of the Utah Code.

### Consistency of the Process With Regard to Utah Statutes

Exhibit 14 includes a detailed description and assessment of the results of the solicitation process relative to each of the solicitation requirements outlined in Section R746-420-3. As illustrated, the IE concludes that the design and implementation of the solicitation process is generally consistent with the solicitation requirements outlined in Section R746-420-3. Any specific issues we have with the process are also described in this Exhibit and are discussed in more detail in the Conclusions section of the report, as warranted. In our view, overall the process was undertaken in a fair and reasonable manner and in the public interest. As we have noted in this report, PacifiCorp has generally followed its processes and procedures.

#### **Exhibit 14: Adherence of the Solicitation Process with Section R746-420**

<b>Solicitation Requirements included in Section R746-420-3</b>	<b>Adherence to Solicitation Requirements</b>
<b><i>1. General Requirements</i></b>	
<ul style="list-style-type: none"> <li>The solicitation process must be fair, reasonable and in the public interest</li> </ul>	<p>In our view, the solicitation process overall was generally fair, reasonable and in the public interest. All bidders, including bidders for EPC contracts and the other alternatives were treated the same, had access to the same information at the same time, and had an equal opportunity to compete. PacifiCorp was diligent in maintaining confidentiality of information. Furthermore, the process was a very transparent process with active involvement and oversight by the IEs.</p>
<ul style="list-style-type: none"> <li>The solicitation process must be designed to lead to the acquisition of electricity at the lowest reasonable cost</li> </ul>	<p>In our view, the solicitation documents were transparent and detailed and provided significant information on which bidders could structure their proposals and decide how to compete. The bid evaluation and selection process was designed to lead to the acquisition of electricity at the lowest reasonable cost based on the detailed portfolio evaluation methodology proposed and the flexibility afforded bidders via a range of eligible resource alternatives. The implementation of the solicitation was structured to maintain competition at every step of the process.</p> <p>In addition, we feel that the two step pricing process (e.g. initial bid/best and final offer) was an effective process and led to more</p>

	competitive pricing opportunities.
<ul style="list-style-type: none"> <li>The solicitation process should consider long and short term impacts, risk, reliability, financial impacts and other relevant factors</li> </ul>	<p>The All Source solicitation process generally met these requirements with regard to the bid evaluation and selection process. In the bid evaluation stage, the analysis addressed short and long-term system impacts and risk associated with CO2 costs and gas and power price ranges. In addition, the assessment of the [REDACTED] proposals included an evaluation of risks associated with each proposal, the financial/rate impacts to PacifiCorp and its customers, system reliability issues, and resource options.</p>
<ul style="list-style-type: none"> <li>Be designed to solicit a robust set of bids</li> </ul>	<p>PacifiCorp has maintained a large database of potential bidders and informed the list of bidders of the issuance of the RFP. PacifiCorp’s outreach activities could reasonably be expected to lead to a robust set of bids. PacifiCorp received [REDACTED] proposals with a total [REDACTED] options proposed. The amount of capacity offered adjusted for mutually exclusive EPC options at Currant Creek was approximately [REDACTED] times the amount requested..</p>
<ul style="list-style-type: none"> <li>Be sufficiently flexible</li> </ul>	<p>This RFP continued to maintain a flexible solicitation and evaluation process. Bidders had the opportunity to submit multiple alternatives and had a range of products that could be submitted. Overall, we found the process to be flexible where necessary. There did not appear to be any rigid requirements that created issues for bidders.</p>
<ul style="list-style-type: none"> <li>Be timely in the sense of ensuring adequate time is allotted to undertake the analysis and secure the resource</li> </ul>	<p>PacifiCorp maintained its schedule very closely. PacifiCorp did request a slight delay (e.g. approximately 10 days) in the schedule in accordance with the Commission Order regarding the RFP. The Commission approved the request for the extension as the basis for the request was reasonable and of short duration. The ability of the Company to develop a reasonable schedule and generally follow the schedule was a positive step in the process.</p>
<b>2. Screening Criteria – Screening in a Solicitation Process</b>	
<ul style="list-style-type: none"> <li>Develop and utilize screening and evaluation criteria, ranking factors and evaluation methodologies that are reasonably designed to ensure the process is fair, reasonable, and in the public interest in consultation with the IE and Division.</li> </ul>	<p>The RFP included a description of the screening and evaluation criteria, the evaluation methodologies, and other information to ensure the process was fair, reasonable and in the public interest. In our view, the evaluation criteria and evaluation methodologies were consistent with or exceed standard industry practices. Furthermore, the</p>

	<p>transparency of the criteria allowed bidders to reflect the specific criteria in their proposals. The evaluation and selection methodology has been vetted through application from previous solicitations and Commission oversight via the hearings on the RFP and Commission Order prior to release of the RFP.</p>
<ul style="list-style-type: none"> <li>In developing the screening and evaluation criteria, the utility shall consider the assumptions in the utility’s most recent IRP.</li> </ul>	<p>The Company used a consistent set of assumptions based on the assumptions used in the most recent 2011 IRP update as well as forward price curves and updated load forecasts completed shortly before the evaluation of bids in the Step 1 and Step 2 processes. The assumptions were consistent (e.g. fuel and CO2 costs), were of recent vintage, and were locked down prior to receipt of both indicative bids and best and final offers. PacifiCorp provided the assumptions and inputs with back-up support to the IEs prior to receipt of the bids. PacifiCorp provided several updates of the Input Assumptions files.</p>
<ul style="list-style-type: none"> <li>The utility may consider non-conforming bids</li> </ul>	<p>Non-conforming bids were considered in the evaluation process but were eventually rejected. For example, one bidder offered several in-service dates that were non-conforming. While PacifiCorp did not accept several of the non-conforming bids, the Company worked with bidders to ensure the bidders were able to compete in the process with conforming bids without jeopardizing the competitive nature of the process. Also, [REDACTED] offered options that were non-conforming and were therefore eliminated. In both cases, the bidders also offered options that were conforming bids and were still able to compete in the process. Another bid was classified as non-conforming because it did not provide a Notice of Intent for its project and instead attempted to qualify via a partner who did qualify for another project. PacifiCorp informed the IEs of all these cases and the IEs were in agreement with the decision to eliminate the non-conforming projects from consideration.</p>
<p><b>3. Screening Criteria – Request for Qualification and Request for Proposals</b></p>	
<ul style="list-style-type: none"> <li>The soliciting utility may use a Request for Qualification (RFQ) process</li> </ul>	<p>PacifiCorp used an Intent to Bid Form process for the All Source RFP. While bidders were required to provide generally the same information, the information presented by bidders was not used to formally pre-qualify bidders but served as an initial stage in</p>

	requiring bidders to demonstrate their qualifications, capability and experience as well as its ability to meet credit requirements. Bidders were only required to complete and submit the Intent to Bid Form which included Appendices A and B in order to participate in the RFP. No prospective bidders were eliminated at this stage in the process.
<ul style="list-style-type: none"> <li>The IE will provide each eligible bidder a bid number when the utility, in consultation with the IE, has determined the bidder has met the criteria under the RFQ.</li> </ul>	The Commission Order on the RFP issued on May 23, 2008 granted a waiver of the requirement in R746-420-3 to specifically blind bids. The IE continues to believe that it is time consuming and not necessary to provide bidders a number and blind the bids before the evaluation.
<ul style="list-style-type: none"> <li>Reasonable factors for the RFQ could include such factors as credit requirements, non-performance risk, technical experience, and financial feasibility.</li> </ul>	The pre-qualification requirements were largely comprised of financial requirements and experience requirements. The IE viewed the pre-qualification (i.e. Intent to Bid) requirements to be reasonable and applicable. As noted above, bidders were still required to submit Appendices A and B.
<b>4. Disclosures – Benchmark Options</b>	
<ul style="list-style-type: none"> <li>Identify whether the Benchmark is an owned option or a purchase option</li> </ul>	N/A
<ul style="list-style-type: none"> <li>If the option is an owned option, provide a detailed description of the facility, including operating and dispatch characteristics.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Assurance from the utility that the Benchmark option will be validated by the IE and that no changes will be permitted</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Assurances that non-blinded personnel will not share any non-blinded information about the bidders</li> </ul>	N/A
<b>5. Disclosures – Evaluation Methodology</b>	
<ul style="list-style-type: none"> <li>The solicitation shall include a clear and complete description and explanation of the methodologies to be used in the evaluation and ranking of bids including evaluation procedures, factors and weights, credit requirements, proforma contracts, and solicitation schedule.</li> </ul>	The RFP document contains a detailed description of the methodologies to be used to evaluate the bids, as well as the evaluation procedures, factors, weights, credit requirements, proforma contracts and schedule. Also, similar information was provided to bidders through the Bidders conference presentations, and the Transmission Technical Conference. Previous RFPs and recent IRPs were other sources of information regarding the methodology.
<b>6. Disclosures – Independent Evaluator</b>	
<ul style="list-style-type: none"> <li>The solicitation should describe the role of the IE consistent with Section 54-17-203 including an explanation of the role, contact information and directions for</li> </ul>	The RFP (e.g. Attachment 18) contains a description of the Role of the Independent Evaluator. In addition, the contact information for the Independent Evaluators is provided in

<p>potential bidders to contact the IE with questions, comments, information and suggestions.</p>	<p>the RFP and presentation materials. Bidders were also encouraged to contact the IEs either via Merrimack Energy’s website or directly.</p>
<p><b>7. General Requirements</b></p>	
<ul style="list-style-type: none"> <li>• The solicitation must clearly describe the nature and relevant attributes of the requested resources</li> </ul>	<p>In our view, the RFP document was a transparent document, providing significant information about the nature and attributes of the requested resources including describing the specific resource and requirements, providing in most cases copies of specific and relevant contracts for the resource, and in some cases specifications for resource options.</p>
<ul style="list-style-type: none"> <li>• Identify the amounts and types of resources requested, timing of deliveries, pricing options, acceptable delivery points, price and non-price factors and weights, credit and security requirements, transmission constraints, etc.</li> </ul>	<p>As noted above, the RFP documents were very transparent and detailed and met all the requirements listed in the Rules.</p> <p>The Transmission Technical conference also provided supporting information underlying information about transmission constraints.</p>
<ul style="list-style-type: none"> <li>• Utilize an evaluation methodology for resources of different types and lengths which is fair, reasonable and in the public interest and which is validated by the IE.</li> </ul>	<p>One of the major issues in a competitive solicitation process is the development and use by the utility of an evaluation methodology that can effectively account for the evaluation of bids with different terms, resource characteristics, and technologies. In our view, all of the models and methodologies used by PacifiCorp allow for a fair, reasonable, consistent and non-discriminatory evaluation of the bids and which is in the public interest. All of the models are either industry standard models or have been applied and refined for similar applications over time. Ventyx Energy LLC System Optimizer Model (previously called the Capacity Expansion Model or CEM) and PaR models are industry standard models that have been tested in the market. The RFP Base Model allows for a consistent and fair evaluation of bids of different technologies and terms and is a reasonable tool for initial evaluation of bids. PacifiCorp provided the IEs with the outputs from all the RFP Base Bid model results for each offer and also provided very detailed summary information underlying the bid evaluations.</p> <p>The IE also concluded that it appeared based on the analysis of the APSA and tolling agreement provided by [REDACTED] bidder for the same project that there was no undue bias associated with the evaluation process since the pricing results were very similar.</p>
<ul style="list-style-type: none"> <li>• Impose credit requirements and other bidding requirements that are non-</li> </ul>	<p>Overall, the IE was of the opinion that the level, type and schedule for posting security</p>

discriminatory, fair, reasonable and in the public interest.	were reasonable and consistent with industry standards. In fact, the posting schedule was more flexible in favor of the bidder. There were no issues raised regarding credit based on the comments submitted by the parties on the Draft RFP, comments during the hearings, or questions from bidders. Issues in the past associated with credit appear to have been resolved based on the experience with the previous two RFPs.
<ul style="list-style-type: none"> <li>Permit a range of commercially reasonable alternatives to satisfy credit and security requirements</li> </ul>	PacifiCorp's credit methodology is a creative methodology designed to determine credit requirements based on the size of the project, the credit rating of the bidders, the type of eligible resource, and whether the contract is asset-backed. PacifiCorp allowed several options for satisfying credit and security requirements including letter of credit, third-party guaranty, cash or other form of security acceptable to PacifiCorp. The credit methodology was not generally revised from the previous RFP.
<ul style="list-style-type: none"> <li>Permit and encourage negotiations with short-listed bidders to balance increased value and risk.</li> </ul>	The RFP document indicates that the Company will further negotiate both price and non-price factors during post-bid negotiations. Since PacifiCorp terminated the RFP prior to initiating the contract negotiation process, this issue is not applicable.
<ul style="list-style-type: none"> <li>Provide reasonable protection for confidential information.</li> </ul>	The Company was very diligent in ensuring that confidential information was shared only with members of the internal team, IEs, Division and other parties as required. All model outputs provided to the IEs were password protected. We saw no evidence where any violations of confidentiality took place. The Company took all reasonable measures to protect confidential information.
<b>8. Process Requirements for a Benchmark Option</b>	
<ul style="list-style-type: none"> <li>Evaluation team may not be members of the Bid team or communicate with the Bid team about the solicitation process.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>The names and titles of each member of the Bid team, non-blinded personnel, and evaluation team shall be provided to the IE.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>The Evaluation team shall have no direct or indirect communications with any bidder other than through the IE until such time as the final short list is selected by the utility.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Each team member must agree to all restrictions and conditions contained in the</li> </ul>	N/A

Commission rules.	
<ul style="list-style-type: none"> <li>All relevant costs and characteristics of the Benchmark options must be audited and validated by the IE prior to receiving any of the bids.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>All bids must be considered and evaluated against the Benchmark option on a fair and comparable basis.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Environmental risk and weight factors must be applied consistently and comparably to all bid responses and the benchmark option.</li> </ul>	N/A
<b>9. Issuance of a Solicitation</b>	
<ul style="list-style-type: none"> <li>The utility shall issue the solicitation promptly after Commission approval.</li> </ul>	On January 3, 2012 the Commission issued its Suggested Modifications and Order in Docket No. 11-035-73 and the RFP was issued on January 6, 2012.
<ul style="list-style-type: none"> <li>Bids shall be submitted directly to the IE</li> </ul>	Bids were submitted to the Utah IE at the Commission's offices in Salt Lake City and to the Oregon IE and the Company's offices in Portland.
<ul style="list-style-type: none"> <li>The utility shall hold a pre-bid conference</li> </ul>	PacifiCorp held an RFP Bid Conference on January 17, 2012 as well as a Transmission Technical Conference on February 22, 2012.
<b>10. Evaluation of Bids</b>	
<ul style="list-style-type: none"> <li>The IE shall blind all bids and supply blinded bids to the Utility and Division.</li> </ul>	As previously noted, the requirement to blind bids was waived by the Commission for the previous RFP. Bids were not blinded for this RFP.
<ul style="list-style-type: none"> <li>The utility shall provide all data, models, materials and other information used in developing the solicitation, preparing the Benchmark option, or screening, evaluating or selecting bids to the IE and the Division staff.</li> </ul>	PacifiCorp provided the input assumptions, input files for all proposals, model outputs from the RFP Base Model and evaluation results for the Step 1 evaluation, and output files and underlying reports for the Step 2 evaluation processes. In addition, the IEs requested several analyses from PacifiCorp which were provided to the IEs. All necessary and required information was provided to the IEs as required in a timely manner.
<ul style="list-style-type: none"> <li>The IE shall pursue a reasonable combination of auditing the utility's evaluation and conducting its own independent evaluation in consultation with the Division.</li> </ul>	The IE primarily audited the Company's pricing analysis rather than undertaking its own independent evaluation. Similar to other RFPs, the IE did undertake an independent non-price evaluation for a number of the bids.
<ul style="list-style-type: none"> <li>Communications with Bidders should occur through the IE on a confidential or blinded basis.</li> </ul>	The IEs was provided the opportunity to be involved in all communications with Bidders and ensured that confidentiality was maintained throughout the bid evaluation and selection process. Since bids were not blinded, the IE did not initiate or facilitate all communications between the utility and bidders but instead was copied on all email traffic. In addition, the IE



	did blind all questions and responses between PacifiCorp and the bidders.
<ul style="list-style-type: none"> <li>The IE shall have access to all information and resources utilized by the utility in conducting its analyses. The utility shall provide the IE with access to documents, data, and models utilized by the utility in its analyses.</li> </ul>	<p>PacifiCorp provided all documentation to the IEs associated with analysis results and inputs. For the Step 1 and Step 2 evaluations, PacifiCorp provided all the inputs and output results and analysis directly to the IEs. PacifiCorp was very forthcoming with this information and at no time did the IE feel access was restricted or limited.</p>
<ul style="list-style-type: none"> <li>The IE shall monitor any negotiations with short listed bidders.</li> </ul>	N/A
<ul style="list-style-type: none"> <li>The Division and IE may ask the PacifiCorp Transmission Group to conduct reasonable and necessary transmission analyses concerning bids received.</li> </ul>	<p>Based on previous RFP experiences, the Utah requested that PacifiCorp Transmission conduct a Technical Workshop for bidders to explain Attachment 20, describe future transmission system upgrades, and also discuss the interconnection process. The Workshop was held on February 22, 2012.</p>

## VIII. Conclusions and Recommendations

The criteria set forth in Section 54-17-302(3)(c) of the Utah Code includes a determination from the Commission that, in ruling on a request for approval of a significant energy resource decision, the utility's decision is compliant with the Energy Resource Procurement Act and its rules, is reached in compliance with the solicitation process approved by the Commission, is in the public interest, taking into consideration whether it will most likely result in the acquisition, production and delivery of electricity at the lowest reasonable costs to retail customers of a utility, reflect long-term and short-term impacts, risk, reliability, financial impacts on the affected electrical utility, and other factors determined by the Commission to be relevant.

The solicitation process and procedures developed and implemented by PacifiCorp, including the bid evaluation and selection process and methodologies are, in substance, consistent with Utah competitive procurement requirements and industry standards and led to a fair, consistent and unbiased evaluation process.

The following are the overall conclusions associated with the All Source RFP for 2016 Resource.

### Conclusions

- The IE does not oppose PacifiCorp's decision to not select a resource from the All Source RFP for 2016 Resource and to terminate the 2016 All Source RFP at this time based on the projected significant decline in the Company's load forecast, and projected resource balance for 2016. Certainly, the Company has clearly demonstrated that there is no need for the originally anticipated 600 MW gas-fired combined cycle as the incremental resource identified in the 2011 IRP. The analysis indicates that the need for the next large-scale combined cycle resource addition has been deferred until 2025. Furthermore, "forcing" a new combined cycle resource into the supply plan would cost customers over [REDACTED] over the life of the project relative to a preferred resource plan. Such a decision would not lead to the lowest reasonable cost to retail customers and would not be in the public interest.

[REDACTED]

[REDACTED], were selected as lowest cost resources in many of the scenarios considered by PacifiCorp. [REDACTED] was selected in [REDACTED] of the [REDACTED] scenarios (e.g. combination of CO2 and gas price cases to reflect possible market price scenarios) evaluated while the [REDACTED] was selected in [REDACTED] scenarios. The total benefit associated with the portfolio of [REDACTED] projects under the base case reaches [REDACTED] by [REDACTED]. However, PacifiCorp demonstrates that the benefits associated with this portfolio selection do not begin to accrue until [REDACTED]. As a result, costs to customers will increase prior to that timeframe [REDACTED]

- To assess the basis for the economic value associated with the portfolio of [REDACTED] PacifiCorp conducted several sensitivity cases based on various assumptions associated with fixing Class 1 DSM resources, Front Office Transactions, and combined cycle resources in the Company's portfolio. PacifiCorp concluded that the sensitivities

showed that the PVRR benefits of [REDACTED] are heavily influenced by the prospective benefits of deferring generic long-term Class 1 DSM, combined cycle resources, and FOTs. As long-term resources are locked down the PVRR benefits of the proposals drop and the [REDACTED] proposal becomes uneconomic. Based on the results, PacifiCorp concluded that the sensitivity analysis provided confirmation that the benefits of the selected bids are related to deferral of DSM resources, long-term future combined cycle resources and reduction in front office transactions. Likewise, the sensitivities confirm that selection of the [REDACTED] bids is not due to a 2016 resource need.

- The IE can certainly understand the Company's decision to not pursue the [REDACTED]. In particular, the [REDACTED] which is proposed as a [REDACTED] adds potential risk without providing benefits in all sensitivities. In addition, the contract provides benefits in the back-end of the contract but adds to resource costs during the first five years of the contract. The long-term nature of the contract [REDACTED] also adds risk and uncertainty.
- PacifiCorp's analysis of the [REDACTED] bid does show that the proposal is [REDACTED] favorable over the term of the contract, providing a benefit of [REDACTED]. The [REDACTED] bid would displace front office transactions. Furthermore, PacifiCorp's analysis showed that the cost impacts would be [REDACTED] only during the [REDACTED] year of the contract. Since [REDACTED] proposal is for [REDACTED] years from an [REDACTED] resource, it appears this resource option would be [REDACTED] risky and would warrant further review and assessment. As a result, the IE asked PacifiCorp to provide a more detailed written assessment of its reasons for not selecting the bid. PacifiCorp provided several reasons for not selecting the [REDACTED] bid, including the following:
  - The moderately favorable base case economics associated with the [REDACTED] do not support selecting this bid to the final short list. When the bid is included in the portfolio, it displaces front office transactions, but it does not dispatch.<sup>35</sup> Consequently, the system increases dispatch to replace energy, leading to increased system fuel and VOM costs;
  - Favorable economics of the [REDACTED] are tied to the deferral of FOTs over the bid's [REDACTED] year term ([REDACTED] through [REDACTED]), with the cost of FOTs tied to the base case;
  - The true cost of FOTs through the [REDACTED] timeframe is uncertain and lower FOT costs than those assumed for the base case would erode uncertain benefits associated with deferral of FOTs;
  - The [REDACTED] is not selected in all scenarios evaluated in Step 2 of the evaluation process;
  - Selection of the [REDACTED] effectively equates to locking down a hedge through the [REDACTED] which results in an approximately [REDACTED] year horizon. The Company's risk policy specifies a [REDACTED] hedge horizon;
- The IE does not object to the majority of PacifiCorp's rationale for not selecting the [REDACTED] bid for the following reasons:

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<sup>35</sup> While PacifiCorp illustrates that the project does not dispatch based on the detailed Step 2 modeling evaluation, the RFP Base Model assessment in Step 1 showed that the project operated at an approximate [REDACTED] capacity factor, although this model does not consider overall system operations as the more detailed and integrated SO model would.

- While the contract is only for [REDACTED], the contract would not be effective until [REDACTED], which adds market risk and uncertainty;
  - The economic benefits associated with the [REDACTED] are relatively [REDACTED] at [REDACTED] under base case assumptions;
  - PacifiCorp could execute a bilateral contract for this project outside the Utah procurement guidelines which requires resources of 100 MW and above and a contract term of 10 years or more to be subject to the procurement process;
  - The resource is an [REDACTED] resource. As a result, PacifiCorp could secure the power from this project via another solicitation process should the power be required.
- PacifiCorp did not undertake Step 3 of the evaluation process. However, since only one bid, the [REDACTED], had a [REDACTED] economic value, there would be no additional portfolios to evaluate for purposes of selecting the preferred portfolio or resources. As a result, the Step 3 process is not necessary.
  - While the IE does not object to PacifiCorp's decision to not select the [REDACTED] bid through this solicitation, the IE does question the rationale used by PacifiCorp to reject the bid based on the deferral value of the resource. Deferral value and displacement value of a resource are often factored into resource evaluation decisions based on the lumpy nature of resource additions. For example, if the load forecast did not change and the lowest cost option was a [REDACTED] gas-fired combined cycle unit to be built at the Currant Creek site, the company would not execute an EPC contract for only [REDACTED]. Instead, if the economics support such a decision the additional capacity would essentially be pre-built and would displace or defer Front-Office Transactions, the next large-scale gas-fired option, or other resources which may be included in the supply plan.
  - The initial or indicative bid/best and final offer process again proved to be a very effective process. This process allowed bidders on the short list to conduct further analysis of the cost of their projects and update pricing closer to the time of initiating contract negotiations. As a result, bidders generally either reduced their pricing or kept their bid prices the same. No bidder violated the 10% cap associated with an increase in price. The IE found that [REDACTED] bidders were particularly competitive during the best and final offer stage.
  - The bidder outreach and communication activities implemented by PacifiCorp were designed to encourage broad participation from the market. PacifiCorp maintains a large database of potential suppliers and informed those suppliers of the development and issuance of the RFP. Furthermore, throughout the process, bidders were informed through bidder and technical conferences, workshops, and Commission hearings. In addition, there were approximately 60 questions and answers posted to Merrimack Energy's website, with the majority of the questions pertaining to the EPC options.
  - Merrimack Energy observed that PacifiCorp was tardy in many cases in providing responses to bidder's questions to the IE for posting on the website. The IE had to send several reminders to the Company to provide a response and in some cases had to resend the original questions to PacifiCorp.

- There was a robust response from the market for base load and intermediate resources with a range of project structures, project locations, and equipment vendors proposed. The level of response to the RFP significantly exceeded bidding requirements and was sufficient to provide a competitive process throughout.
- The IE originally recommended that PacifiCorp select proposals for each resource category rather than allow bidders to identify the category of choice for their proposal. The Commission in its January 3, 2012 Suggested Modifications and Order in this Docket directed the IE to provide an assessment of this issue in the final report. The IE should offer an opinion on whether any bid might have been rejected because it was bid into the wrong category. While no bid was rejected because it bid into the wrong category, there were potential issues associated with a [REDACTED] selecting the resource category to compete in. For example, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] Two implications were possible. First, this project could displace other intermediate bids that could be selected for the short list in that category. Second, the selection of resources in the base load category could be skewed and affect the short list. In this RFP, the base load short list was comprised of all the EPC options and a five year toll. There were no other long-term base load options to compete for the short list, which essentially guaranteed the EPC bids to be selected for the short list. While there was no outstanding issues associated with the bidder selecting its own category, the potential does exist for short list selection to be skewed if bidders “game” the process to ensure they are selected for the short list.
- The Commission in its January 3, 2012 Order also directed the IE to provide an opinion on the impact of the Commission’s decision to not include a separate benchmark in the 2016 RFP outside of the EPC options and provide any recommendations for future RFPs in its final report on the RFP. The IE notes that the response to the EPC options at the Currant Creek site was significant leading to a very competitive process for this resource. The IE concludes that with such a response, allowing for an EPC option at a Company site provides a more than adequate substitute for a benchmark, with detailed cost and operating information provided. In many cases, third-party bids or the utility benchmarks may provide a more generic or conceptual option without providing details on technology or cost details. That was certainly not the case with the EPC bids. In fact, it can be argued that the cost and operating information provided provides a more representative benchmark cost since these contractors will be required to construct the project at the price bid (subject to any change orders).
- The competitive solicitation process is closely linked to the Integrated Resource Planning process. This includes significant input from other market participants and interested parties in the assessment of the need for power and the amount to be bid, input assumptions, modeling methodologies, and resource selection process.
- PacifiCorp provided detailed Input Assumption files to the IE prior to the evaluation of the initial bids and prior to receipt of the best and final offers. The level of detail included in the Input Assumptions File continues to increase in breadth and detail. Some of the

assumptions are tied to the IRP process, while PacifiCorp has added assumptions based on the specific technology, location of the project, and firmness of the capacity offered. While PacifiCorp introduced several assumptions for the first time in this RFP, the Company was able to provide detailed support for use of the assumptions based on the review and discussions with the IE. The IE felt that the list of assumptions for both sets of analysis were reasonable, although we felt the Company did not provide adequate support for the high CO<sub>2</sub> case provided prior to undertaking the Step 2 analysis. However, since all resources were gas-fired options we did not view this to have implications on the final evaluation.

- With one minor exception, PacifiCorp followed its Schedule for the process as outlined in the RFP. In this case, PacifiCorp notified the Commission it would not be able to meet the schedule as required, cited the reason for not meeting the schedule and asked for a short extension. The Commission approved the Company's request for a slight delay in the schedule.
- All bidders were treated the same and provided access to the same information. The PacifiCorp management team was very effective in providing consistent information to all bidders throughout the process.
- The Bid Pricing Sheets (Form 1) were clear and transparent and led to consistent information provided by all bidders. PacifiCorp's efforts to also complete bid summaries or term sheets with bidders was a positive step to ensure that bidders and PacifiCorp fully agreed with the components of the offer. PacifiCorp requested that bidders complete the Term Sheet and provide it along with their proposals rather than work with bidders to complete the term sheet after the proposals are received. This served to reduce (but not eliminate) the time for completing the term sheet.
- PacifiCorp offered a range of resource alternatives which allowed bidders to structure their proposals to take maximum advantage of their capabilities and project characteristics. The definitions of the products and the information required from bidders for each alternative were clearly described in the RFP.
- The combination of the range of resource alternatives and the allowance for bidders to offer alternative bids led to creative project offerings including both Tolling Service Agreements and Asset Purchase and Sale Agreements for the same projects.
- While bidders offered several creative alternatives, PacifiCorp's models and methodologies were capable of effectively model such alternatives.
- The Bid evaluation models and methodologies are very appropriate for the cost and risk analysis undertaken by PacifiCorp. In particular, the models and methodology underlying the Step 1, Step 2 and Step 3 analysis provide very comprehensive and complete evaluation results.
- PacifiCorp provided the individual models and results for each proposal underlying the Step 1 evaluation (RFP Base Model) to the IEs. In addition, PacifiCorp provided very thorough and detailed evaluation reports for all resource categories that allowed the IEs

to easily review the model inputs and results. Conference calls were also held between PacifiCorp, the IEs and Division to discuss the results for each category. PacifiCorp provided similar documentation for the Step 2 evaluation, including providing the IEs with detailed reports on the inputs and outputs. While the IEs did not have direct access or control over the models themselves, the level of detail provided and the explanation of the results was sufficient. Thus, the IE can confirm that we did have access to all data, model results, input assumptions and other information necessary to render a thorough evaluation of the quality and comprehensiveness of the process. There were no occasions where we felt PacifiCorp was not responsive to our requests for information. Furthermore, given the nature of the models used by PacifiCorp, it was the view of the IEs that requesting that PacifiCorp run other cases and reviewing and questioning the results of the evaluation was more effective and timely than if the IEs attempted to run the models ourselves or undertake a totally independent evaluation.

- Merrimack Energy has concluded that the models and methodologies used are very detailed and comprehensive, accurately accounting for all costs associated with the evaluation. The modeling methodologies are state of the art and are among the most comprehensive and effective methodologies utilized in all the solicitation processes in which we have participated. Also, the individual models used in Steps 2 and 3 of the evaluation process are standard industry models used by a number of utilities. Furthermore, the price evaluation methodology is designed as an integrated evaluation process for Steps 2 and 3 which reflects the impact on total system cost associated with different resources and portfolios considered.
- Based on comparison of the evaluation results for a bidder which offered both a TSA and APSA from the same project, it appeared that there was no undue bias present in the evaluation results since the pricing was very close in both cases as expected.
- The level of documentation supporting the resource evaluation and selection process was very detailed. In addition, PacifiCorp was responsive to requests of both the Utah and Oregon IEs to conduct other analysis to support the company's conclusions. For example, Merrimack Energy asked the Company to prepare a written analysis on the methodology used for evaluating the [REDACTED]. In addition, we asked the company to conduct an analysis of the cost of selecting a combined cycle unit as well as an assessment supporting the reasons for not selecting any resources.
- The blinding of the questions and answers from bidders prior to bid submission was effective in encouraging bidders to ask questions without identifying their affiliation. Approximately 60 questions were submitted and responses provided.
- The IRP group and quantitative analysis groups within PacifiCorp were thorough and responsive in completing the analysis over a very short timeframe. The members of PacifiCorp's team were generally able to provide thorough responses and explanations of the results and basis for the analysis.
- While the credit methodology and bidder requirements were a source of concern in previous RFPs, for the second RFP in a row, there were no issues or questions associated with credit issues.

- The IE was concerned at the beginning of the process that PacifiCorp have the flexibility to vary the stated price range in the RFP for purposes of awarding price points to ensure the stated balance between price and non-price scores is maintained. PacifiCorp was again required to vary the range for several bid categories to maintain the price/non-price balance.

## Recommendations

- As noted in the Conclusions section, the IE is of the opinion that soliciting EPC bids on a Company site is a positive step forward and provides a more accurate representation of benchmark costs than other methods. PacifiCorp should be required to provide a benchmark option only if it is obvious based on the Intent to Bid response that no or a limited number of EPC bids will likely be submitted.
- The IE recommends that blinding of bids and providing bid numbers should be permanently exempted from the procurement process. We feel such a process adds cost and time to the solicitation without providing benefits to the process. Blinding questions and answers is still a valuable option and should serve to encourage bidders to continue to ask questions to improve their overall bids.
- As noted, the IE concluded that the timeliness of PacifiCorp's responses to bidder questions was not adequate. For future solicitations, we feel PacifiCorp should set a time limit (i.e. provide a response within 5 business days of receipt of the questions from the IE) for responding to questions and do everything possible to meet that limit.
- PacifiCorp should revise the eligibility requirements for [REDACTED] resources either to bids with a term of 10 years or more or require that a bid must be from a new resource or expansion of an existing resource. PacifiCorp argued that one of the reasons for not selecting the [REDACTED] was that the Company has several other FOT alternatives to managing [REDACTED] short positions such as through spot purchases, forward monthly fixed price purchases and out-of-the-money call options. The Company stated that none of these alternative market product type proposals were received from this All Source RFP, which tends towards a robust array of proposals from significant new resources. However, these market-based products are routinely received in the Company's market RFPs, which may solicit bids up to [REDACTED] tenor, such as the [REDACTED]. If this is the case, then it makes sense to solicit bids from the [REDACTED] through the shorter term RFP rather than the All Source RFP, which is generally more applicable for longer term, new units.



## **Appendix 1 Competitive Bidding Requirements in Utah**

Utah Code Section 54-17-101, known as the Energy Resource Procurement Act (2005) requires that an affected electric utility seeking to acquire or construct a significant energy resource<sup>36</sup> shall conduct a solicitation process that is approved by the Commission. The Commission shall determine whether the solicitation process complies with this chapter and whether it is in the public interest taking into consideration whether it will most likely result in the acquisition, production, and delivery of electricity at the lowest reasonable cost to the retail customers of an affected electric utility located in the state.

Rule R746-420 outlines in detail the requirements of a solicitation process with regard to implementation of the Energy Resource Procurement Act. Among other issues, Rule R746-420 provides general provisions regarding the filing requirements for the soliciting utility in seeking approval of the solicitation, a description of the solicitation process and associated requirements, and the roles and responsibilities of an Independent Evaluator to oversee the solicitation process.

This Section of the Report will address three major issues. Sub-section A will provide a summary of the solicitation requirements in Utah as a means of setting the stage for a discussion of whether PacifiCorp effectively met the requirements of the Utah statutes. Sub-section B provides an overview of the required role of the Independent Evaluator in the process. Sub-section C identifies Merrimack Energy's criteria for an effective competitive procurement process based on our involvement in a number of competitive procurement processes throughout the US and Canada. These criteria will serve as the basis for evaluating the performance of PacifiCorp in developing, managing and implementing the solicitation process from initiation of the RFP and related documents through the negotiation of the final contract with the selected bidder.

### **A. Solicitation Requirements in Utah**

The specific requirements for the solicitation process are included in section R746-420-3 of the Rules. The key provisions by topic area in the rules are summarized below. In our assessment of PacifiCorp's solicitation process, adherence to these requirements will be a focus of our discussion.

#### **(1) General Objectives and Requirements of the Solicitation Process**

- The solicitation process must be fair, reasonable and in the public interest
- Be designed to lead to acquisition of electricity at the lowest reasonable cost to retail customers in the state
- Consider long and short term impacts, risk, reliability, financial impacts on the utility, and other relevant factors
- Be designed to solicit a robust set of bids
- Be sufficiently flexible

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<sup>36</sup> A significant energy resource is defined as a resource that consists of a total of 100 MW or more of new generating capacity that has a dependable life of ten or more years.

- Be timely in the sense of ensuring adequate time is allotted to undertake the analysis and secure the resources

(2) **Screening Criteria – Screening in a solicitation process**

- Develop and utilize screening and evaluation criteria, ranking factors and evaluation methodologies that are reasonably designed to ensure that the Solicitation Process is fair, reasonable and in the public interest in consultation with the IE and Division. Initial screening criteria can include cost to ratepayers, credit requirements, transmission impacts, impacts of direct and inferred debt and environmental impacts, among other factors.
- In developing the screening and evaluation criteria, the utility shall consider the assumptions in the utility’s most recent IRP.
- The utility may consider non-conforming bids

(3) **Screening Criteria – Request for Qualification and Request for Proposals**

- The soliciting utility may utilize a Request for Qualifications (RFQ) process
- The IE will provide each eligible bidder a bid number when the utility, in consultation with the IE has determined the bidder has met the criteria under the RFQ
- Reasonable criteria for the RFQ could include such factors as credit requirements, non-performance risk, technical experience, and financial feasibility

(4) **Disclosures – Benchmark Option**

- Identify whether the Benchmark is an owned option or a purchase option
- If the option is an owned option, provide a detailed description of the facility, including operating and dispatch characteristics
- Assurance from the utility that the Benchmark Option will be validated by the IE and that no changes to any aspects of the Benchmark option will be permitted after the validation of the benchmark option by the IE
- Assurances that non-blinded personnel will not share any non-blinded information about the bidders.

(5) **Disclosures – Evaluation Methodology**

- The solicitation shall include a clear and complete description and explanation of the methodologies to be used in the evaluation and ranking of bids including all evaluation procedures, factors and weights, credit requirements, proforma contracts, and solicitation schedule

(6) **Disclosures – Independent Evaluator**

- The solicitation should describe the role of the IE consistent with Section 54-17-203 including an explanation of the role, contact information and directions for potential bidders to contact the IE with questions, comments, information and suggestions.

(7) **General Requirements**

- The solicitation must clearly describe the nature and relevant attributes of the requested resources
- Identify the amounts and types of resources requested, timing of deliveries, pricing options, acceptable delivery points, price and non-price factors and weights, credit and security requirements, transmission constraints, etc.
- Utilize an evaluation methodology for resources of different types and lengths which is fair, reasonable and in the public interest and which is validated by the IE
- Impose credit requirements and other bidding requirements that are non-discriminatory, fair, reasonable and in the public interest
- Permit a range of commercially reasonable alternatives to satisfy credit and security requirements
- Permit and encourage negotiation with short-listed bidders to balance increased value and risk
- Provide reasonable protection for confidential information

**(8) Process Requirements for a Benchmark Option**

- Evaluation team may not be members of the Bid team or communicate with the Bid team about the solicitation process
- The names and titles of each member of the Bid team, non-blinded personnel, and Evaluation team shall be provided to the IE
- The Evaluation team shall have no direct or indirect communication with any bidder other than through the IE until such time as a final short list is selected by the Soliciting Utility
- Each team member must agree to all restriction and conditions contained in the Commission rules
- All relevant costs and characteristics of the Benchmark option must be audited and validated by the IE prior to receiving any of the bids
- All bids must be considered and evaluated against the Benchmark option on a fair and comparable basis
- Environmental risks and weight factors must be applied consistently and comparably to all bid responses and the benchmark option

**(9) Issuance of a Solicitation**

- The utility shall issue the solicitation promptly after Commission approval
- Bids shall be submitted directly to the IE
- The utility shall hold a pre-bid conference

**(10) Evaluation of Bids**

- The IE shall blind all bids and supply blinded bids to the utility and Division
- The utility shall provide all data, models, materials and other information used in developing the solicitation, preparing the Benchmark option, or screening, evaluating or selecting bids to the IE and the Division staff

- The IE shall pursue a reasonable combination of auditing the utility's evaluation and conducting its own independent evaluation, in consultation with the Division.
- Communications with bidders should occur through the IE on a confidential or blinded basis
- The IE shall have access to all information and resources utilized by the utility in conducting its analyses. The utility shall provide the IE with access to documents, data, and models utilized by the utility in its analyses
- The IE shall monitor any negotiations with short listed bidders
- The Division and IE may ask the PacifiCorp Transmission group to conduct reasonable and necessary transmission analyses concerning bids received.

## **B. Role of the Independent Evaluator**

The Scope of Work for the IE is presented in several documents including the Request for Proposals for Consulting Services for the IE issued by the Commission, Utah statutes (Section 54-17-101 and Rule R746-420), and Attachment 4 (Role and Function of the Independent Evaluator and Communication Protocols) in the All Source RFP. The scope of work for the assignment requires the Independent Evaluator (IE) to participate in all three phases of the solicitation process: (1) Solicitation process approval; (2) Solicitation process bid monitoring and evaluation and (3) Energy resource decision approval process. The specific tasks for the Independent Evaluator under each phase of the solicitation process are listed below. The specific tasks outlined guide the activities of the Independent Evaluator throughout the solicitation process.

### ***1. Requirements Outlined for the IE***

The requirements of the IE are summarized below for each stage of the process.

#### ***a. Solicitation Process Approval***

1. Review PacifiCorp's proposed solicitation process to assure it will most likely result in the acquisition, production, and delivery of electricity at the lowest reasonable cost to PacifiCorp's retail customers taking into consideration long-term and short-term impacts, risk, reliability and the financial impacts on PacifiCorp.
2. Review PacifiCorp's proposed solicitation process to assure the evaluation criteria, methods and computer models are sufficient to evaluate the benchmark option and prospective bids in a manner that is fair, unbiased and comparable, to the extent practicable, and that the evaluation tools will be sufficient to determine the best alternative for PacifiCorp's retail customers.
3. Review the adequacy, accuracy and completeness of all proposed solicitation materials including bid evaluation templates, bidding documents (i.e. RFP, Bid Form or Response Package, and the proposed Contracts), disclosure of evaluation criteria (including

financial and credit requirements), methods and modeling methodology to ensure the process is fair, equitable and consistent.

4. Review, evaluate and audit the benchmark options cost assumptions and calculations and the proposal for disclosing information about the benchmark to potential bidders.
5. Review and validate the adequacy and reasonableness of the proposed evaluation methods, any computer models used to screen and rank bids from initial screening to final resource selection (including spreadsheet screening models and production cost models), and input assumptions. This task requires an assessment of the extent to which the evaluation methods and models are consistent with accepted industry standards and/or practices and the appropriateness of any adjustments made for debt imputation are assessed. Provide input to the Soliciting Utility on the development of screening and evaluation criteria and evaluation methodologies.
6. Provide a written evaluation including recommendations to the Commission regarding the results of the above tasks. Include recommendations on approval of the proposed solicitation or modifications required for approval and the bases for recommendations.
7. Testify before the Commission regarding approval of the proposed solicitation, if necessary.

***b. Solicitation Process Bid Monitoring and Evaluation***

1. Monitor, observe, validate and offer feedback to the Soliciting Utility, the Commission, and the Division of Public Utilities on all aspects of the solicitation process, including: (1) content of the Solicitation; (2) communications between bidders and PacifiCorp; (3) evaluation and ranking of bid responses; (4) selection of the “short list” of bidders; (5) post-bid negotiations between short list bidders and PacifiCorp; (6) ranking of the final list of alternatives; (7) selection of energy resource(s); and (8) negotiations of the proposed contracts with successful bidders.
2. Provide input to the Soliciting Utility on: (1) the development of screening and evaluation criteria, ranking factors and evaluation methodologies to ensure the solicitation process is fair, reasonable and in the public interest; (2) the development of initial screening and evaluation criteria that take into consideration the assumptions included in the most recent IRP; (3) whether a bidder has met the criteria specified in any RFQ and whether to reject or accept non-conforming RFQ responses; (4) whether and when data and information should be distributed to bidders to facilitate a fair and reasonable competitive bidding process; (5) negotiation of proposed contracts with successful bidders; and (6) other matters as directed by the Commission.
3. Participate in the pre-bid conferences.
4. Following the pre-bid conference, and before the bids are due submit a status report to the Commission and the Division noting any unresolved issues that could impair the equity or appropriateness of the solicitation process.

5. Facilitate and monitor communications between the Soliciting Utility and Bidders.
6. Review and validate the assumptions and calculations of any Benchmark options.
7. Analyze the Benchmark option for reasonableness and consistency with the Solicitation Process.
8. Participate in the receipt of bids and “blind” bid responses.
9. Establish a webpage for information exchange between bidders and PacifiCorp.
10. Monitor all communications with bidders after receipt of bids and negotiations conducted by PacifiCorp and any bidders. Communications between a Soliciting Utility and potential or actual bidders shall be conducted through or in the presence of the Independent Evaluator.
11. Audit the evaluation process and validate that evaluation criteria, methods, models and other solicitation processes have been applied as approved by the Commission and consistently and appropriately applied to all bids. Audit the bid evaluations to verify that assumptions, inputs, outputs and results are appropriate and reasonable.
12. Advise the Commission, Division and PacifiCorp at all stages of the process of any issue that might reasonably be construed to affect the integrity of the solicitation process and provide PacifiCorp an opportunity to remedy the defect identified.
13. Periodically submit written status reports to the Commission and Division on the solicitation as directed by the Commission or as the IE deems appropriate.
14. File a report with the Commission and Division detailing the methods and results of PacifiCorp’s initial screening evaluation of all bids. Include a description of the bids, selection criteria, and provide the basis for the selection of the short-listed bids and rationale for eliminating bids.

Also, upon advance notice to the Soliciting Utility, the IE may conduct meetings with intervenors during the Solicitation Process to the extent determined by the Independent Evaluator or as directed by the Commission. The IE shall also document all substantive correspondence and communications with the Soliciting Utility and the bidders.

***c. Participation in the Energy Resource Decision Approval Process***

1. File a detailed Final Report (confidential and public versions) with the Commission and provide a copy to the Division as soon as possible following the completion of the Solicitation Process. The Final Report shall include analyses of the Solicitation, the Solicitation Process, the Soliciting Utility’s evaluation and selection of bids and resources, the final results, and whether the selected resources are in the public interest.
2. Participate in any Utah technical conferences related to the Energy Resource Decision Approval Process.

3. Participate in and testify at Commission hearings on approval of the solicitation process and/or approval of a Significant Energy Resource Decision.

As identified in the RFP, the first three steps described above constitute the formal evaluation process and will lead to the compilation of the final shortlist of resources for further negotiation. After completing the formal evaluation process described above, but before making the final resource selections to be submitted for approval or acknowledgement, in Step 4 the Company will take into consideration, in consultation with the IEs, certain other factors that are not expressly or adequately factored into the formal evaluation process, but that are required by applicable law or Commission order to be considered. Utah Code Title 54 Public Utilities Chapter 17 Energy Resource Procurement Act (54-17-402) requires consideration of at least the following factors in determining whether a resource selected by the Company should be approved as in the public interest:

- Whether it will most likely result in the acquisition, production, and delivery of electricity at the lowest reasonable cost to the retail customers of an affected electrical utility located in this state;
- Long-term and short-term impacts;
- Risk;
- Reliability;
- Financial impacts on the affected electrical utility; and
- Other factors determined by the Commission to be relevant.

## Appendix 2

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