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SUPPLEMENTAL COMMENTS ON PACIFICORP'S DRAFT RFP

To: Public Service Commission

From: Division of Public Utilities
Constance White, Director
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Subject: In the Matter of the Application of PacifiCorp for Approval of a 2009 Request for Proposals for Flexible Resource; Docket No. 05-035-47

Date: November 13, 2006

BACKGROUND

On June 27, 2005, PacifiCorp (Company) filed an application to issue a Request for Proposals (RFP) in order to procure a resource needed for summer 2009. After several months of meetings and the issuance of a draft RFP, the Company moved to suspend the schedule on October 19, 2005. This motion was granted by the Commission on October 21, 2005. After PacifiCorp reviewed its Integrated Resource Plan (IRP) Update in October and November of 2005, it determined that there was no longer a resource need in 2009. Instead, the resource need had shifted to the summer of 2012. The current RFP was originally filed July 11, 2006 and replaced the RFP for 2009. Until October 25, 2006, the current RFP requested resources to begin serving load in the summers of 2012, 2013, and

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2014. The Division of Public Utilities (Division) filed initial comments on August 16, 2006. The Independent Evaluator filed its report on August 30, 2006. PacifiCorp followed up with reply comments on September 19, 2006. A technical conference and credit workshop were held on September 21, 2006. Due to discussions during the technical conference, the Commission rescheduled the Docket to allow for an updated draft of the RFP and further comments from interveners. The Division and other parties filed comments on the updated draft RFP as filed by the Company on October 4, 2006. Two settlement conferences were held, October 19 and October 24, 2006, during which the parties attempted to resolve issues. The Company filed a new redline version of the RFP on October 25, 2006, that contained changes that directly affected the size and timing of the resources being offered as benchmarks. It also seems to have an affect on the size and timing of the resources being sought. The Division voiced its concerns over these changes in the joint issues matrix filed with the Commission on November 1, 2006 and on November 2, 2006 filed the written comments of Dr. Artie Powell addressing some concerns these changes would have on future needs and reliability. The Commission held a hearing in the aforementioned docket on November 3, 2006. At the conclusion of the hearing, the Commission indicated that it would accept comments concerning resource need until November 13, 2006. The following is the Division's analysis of whether or not the Draft RFP filed on October 25, 2006 is sufficient to meet PacifiCorp's identified resource needs during the RFP timeframe.

ANALYSIS

The Division has identified several issues for discussion regarding the size and timing of the RFP benchmark resources. These issues are grouped under three categories below: Planning Margin, Size and Timing of the RFP Resources, and Transmission/Market Purchases.

PLANNING MARGIN

PacifiCorp has indicated its new RFP draft includes resources needed to fulfill needs based upon a 12% planning margin. Originally, PacifiCorp proposed using a 15% planning margin which was consistent with the 2004 IRP and IRP Update. The Division believes that any change in a major IRP assumption such as the planning margin must be based upon the same type of solid analysis upon which the original assumption was based. The Company's change is not. Although it appears that the Company is going to run a scenario in the current IRP, at the request of Oregon staff, there is no solid analysis to indicate that a 12% planning margin is reasonable or will result in an appropriate or desirable level of reliability. The original assumption was based on the findings of a loss of load probability (LOLP) study completed for the 2004 IRP. This study found that while an 18% planning margin would be necessary to reach the desirable result of a 1 in 10 LOLP, a 15% planning margin would still equate to a 2 in 10 LOLP which was considered by the Division to be an acceptable level of reliability. The Division has seen no evidence, either in this proceeding or in the current IRP proceeding, to suggest that a decrease in the planning margin to 12% will still result in acceptable reliability levels for Utah customers. Indeed, at this point it is not clear what LOLP a 12% planning margin would equate to in terms of reliability levels. Given that the statute requires that a public interest finding take into consideration reliability, the Division is unwilling to advocate a proposal that does not obviously take reliability levels into account.

SIZE AND TIMING OF THE RFP RESOURCES

In addition to changing the planning margin, the filed Draft RFP changes both the timing and size of the resources being sought. Initial or advance drafts of the RFP, which were the basis of earlier proceedings, meetings or discussions in this Docket, indicated a resource deficit of approximately 2,000 MW in 2014. These early drafts indicated that PacifiCorp planned to seek resources to fill this need and described benchmark resources totaling approximately 2,290 MW that could be added in blocks over the years 2012 to 2014. The filed draft RFP proposes design changes that reduce the number of benchmarks from four (4) to two (2); the size of the benchmarks from a range of 1,600 MW to 2,290 MW to a range of 840 MW to 915 MW; and the timing of the benchmarks from three years (2012-2014) to two years (2012-2013). In its filed comments dated November 3, 2006 the Division expressed its concerns that, compared to initial or advance drafts of the RFP which parties worked with during earlier proceedings and meetings, the changes contained in the filed Draft RFP appear to be inconsistent with the 2004 IRP and IRP Update, the projected needs on the East (Utah) side of PacifiCorp's system, and the public interest as defined by Utah state statute.

Table 1 summarizes the load and resource balances for the East (Utah) and West (Oregon) sides of PacifiCorp's system, and for the system as a whole. The information comes from PacifiCorp's 2004 IRP Update, figures 2.3 and 2.4, and assumes a 15%

planning margin. The system total surplus or deficit is the sum of the surplus or deficit for the East and West sides.

As can be seen, the East side of PacifiCorp's system experiences a deficit in 2012 of approximately 700 MW which grows to a deficit of approximately 1,700 MW in 2015. The load and resource balance in the IRP Update, however, does not include the 700 MW of Front Office Transactions (FOT) – they were removed from the needs assessment contained in the 2004 IRP. Including the 700 MW in the needs assessment would increase the deficits in the outer years (2008 to 2015). For example, if the 700 MW of FOT are included in the needs assessment, the deficits in 2012 and 2015 would be 1,400 MW and 2,400 MW respectively.

Table 1: L & R Balance (2004 IRP Update, 15% Planning Margin; Figures 2.3 and 2.4)

	East (Utah)			West (Oregon)			System
	Resources	Obligations	Surplus/ (Shortfall)	Resources	Obligations	Surplus/ (Shortfall)	Surplus/ (Shortfall)
2006	7,435	7,353	82	4,561	4,249	312	394
2007	8,034	7,581	453	4,297	4,307	-10	443
2008	7,846	7,865	-19	3,796	3,687	109	90
2009	7,992	8,091	-99	4,093	3,747	346	247
2010	8,082	8,311	-229	4,124	3,796	328	99
2011	8,082	8,587	-505	4,171	3,841	330	-175
2012	8,101	8,790	-689	3,478	3,885	-407	-1,096
2013	8,101	9,101	-1,000	3,502	3,960	-458	-1,458
2014	8,067	9,393	-1,326	3,362	4,061	-699	-2,025
2015	8,028	9,701	-1,673	3,460	4,139	-679	-2,352

Under the initial drafts of the RFP, ignoring the FOT, the benchmark resources more than offset the need on the East side of PacifiCorp's system. For example, in 2015 the four proposed benchmarks exceed the projected East side need by approximately 600 MW. If the FOT are included in the needs assessment, the originally proposed benchmarks would leave a deficit of approximately 100 MW in 2015, which may be a manageable amount. However, without the FOT, the change in the size and timing of the benchmark resources, and thus the change in the size and timing of the resources sought under the RFP, would leave the East with a deficit of approximately 800 MW in 2015; with the FOT the deficit would be approximately 1,500 MW. (See Table 2)

During the hearing held on November 3, 2006 Company witness Mr. Mark Furman indicated that the reason for the change in the size and timing of the benchmarks was due to the fact that PacifiCorp could not build the benchmarks as initially proposed and that a new RFP could be issued next year to seek resources for the years beyond the 2012-2013. In a technical conference prior to PacifiCorp's October 19, 2005 filing requesting that the original schedule for the 2009 RFP be suspended, the Division raised the concern that any delay in the schedule could jeopardize the timing of resources. The Division raised this same concern again later in the process when PacifiCorp delayed issuing advanced drafts of the 2012 RFP. It appears that our concerns about resource timing were not unfounded.

Furthermore, even if the FOT are not included in the needs assessment, the proposed changes in the size and timing of the benchmarks appear inadequate to meet the needs even in 2012 and 2013. As Table 2 indicates, the proposed smaller benchmark resources would leave the East side of the system short by approximately 350 MW and 160 MW in 2012 and 2013 respectively. Including the FOT would increase these deficits by 700 MW.

Table 2: Comparison of Need and RFP Resources in MW (15% Planning Margin; East Side)

	Initial RFP			
	Deficit	Benchmark	Cumulative Benchmark	Surplus/(Shortfall)
2012	-689	940	940	251
2013	-1,000	750	1,690	690
2014	-1,326	600	2,290	964
2015	-1,673		2,290	617
	Filed RFP			
2012	-689	340	340	-349
2013	-1,000	500	840	-160
2014	-1,326		840	-486
2015	-1,673		840	-833

The apparent deficits remaining in 2012 to 2013 could be filled by market purchases or, if PacifiCorp does seek a new RFP, by shorter horizon resources (i.e., gas plants). However, in either case, Utah ratepayers could potentially be exposed to the risk of volatile market or gas prices as a result of PacifiCorp's short-sighted planning decisions. If a new RFP is not issued by the end of this year seeking resources to fill the needs beyond 2013, the same decisions we are faced with now for the deficits in 2012 to 2013 could confront again: PacifiCorp (and other potential bidders) may have inadequate time to bring less expensive resources online, leaving Utah ratepayers exposed to the vagaries and volatility of the market either through purchases or gas-fired generation.

Transmission/Market Purchases

In order to allow for the smaller number of benchmark or solicited resources, PacifiCorp seems to be depending upon the ability to purchase resources in the market to make up any deficit. This assumption concerns the Division. Discussions, testimony, and other contacts with the Company have led the Division to believe that the Wasatch Front, the major load center in Utah, is seriously transmission constrained. In fact, the Division understands that the various paths into the Wasatch Front are either completely assigned or otherwise not available on any large scale. The Division has been led to believe that it is not even possible to get energy to the Wasatch Front from any prospective Company built plant, such as a Hunter 4, without first upgrading the transmission system. The question that then comes to the Division's analysts is this: If the Company cannot move power north from its own plants, how can it be so sure that it can move large quantities of market power north on the same fully utilized transmission lines? The Division is unwilling to accept this transmission assumption without an explanation of not only how such a task could be accomplished, but also what specific changes have occurred to allow for market power to flow where Company power cannot.

In addition to the feasibility of moving the needed power north, the Division is also concerned about the amount of risk associated with such a large scale exposure to energy markets. While it is possible that the RFP will prompt insufficient market response to fill the needed load even if such request is made, asking for too few resources may guarantee that Utah is exposed to market risk at such time when the power is sought.

Conclusions and Recommendations

Although in the recent hearing, the Company asserted that the difference between a 12% and a 15% planning margin is small, the Division believes that a difference that equates to roughly ½ of a coal plant is large enough to be of concern, particularly given that the Company is already planning on needing to procure an additional 700 MW of Front Office Transactions in the 2012-2013 time frame. In addition to the size consideration, the Division is also concerned over the manner in which assumptions based on solid analysis are set aside without any reasoned or rational explanation. Therefore, the Division recommends that the Commission condition the acceptance of this RFP on changes in the language that require PacifiCorp to seek resources on a level commiserate with the actual projected need, including the Front Office Transactions included in the 2004 IRP as planned resources. The Division suggested language in its comments dated November 3, 2006: the current draft reads, "The Company may opt to contract for more or less power, depending among other things …" One alternative wording would read: "The Company intends to contract for power up to the amounts reflected in its 2004 IRP Update, approximately 1,000 MW, depending among other things …" This recommendation would cover the period to 2013 as proposed by PacifiCorp's RFP excluding the Front Office Transactions.

. In addition, the Division remains concerned that the Company's decision to remove 2014 from the RFP could lead to a situation in which the Company is unable to consider a full range of resource options due to time restrictions. It is clear to the Division that the Company realistically needs around six full years in order to permit and build a coal plant. In order to insure that this remains an option for 2014, the Division recommends that the Commission condition acceptance of this RFP on one of the following two options: Require the Company to fully consider any bid for 2014 in the current RFP process, using the same price and non-price factors to be used for the 2012-2013 resources, or file a new RFP for 2014 no later than December 31, 2007, in order to ensure that the process would be completed in time to allow for any type of resource to remain a viable consideration. Without these changes, the Division is unable to state that this RFP is indeed in the public interest.

To summarize, the Division makes the following recommendations to the Commission:

1. condition the acceptance of this RFP on changes in the language that require PacifiCorp to seek resources on a level commiserate with the actual projected need, including the Front Office Transactions included in the 2004 IRP as planned resources

2. condition the acceptance of this RFP on one of the following two options: Require the Company to fully consider any bid for 2014 in the current RFP process, using the same price and non-price factors to be used for the 2012-2013 resources, or file a new RFP for 2014 no later than December 31, 2007, in order to ensure that the process would be completed in time to allow for any type of resource to remain a viable consideration.

CC Dave Taylor, PacifiCorp

Dan Gimble, Committee of Consumer Services