BEFORE THE UTAH PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
PACIFICORP FOR APPROVAL OF A 2009 REQUEST	)	Docket No. 05-035-47
FOR PROPOSALS FOR FLEXIBLE RESOURCE	)	

COMMENTS OF THE AES CORPORATION

General Background

Pursuant to the Utah Public Service Commission's ("Commission") September 26, 2006 Scheduling Order in the above-referenced docket, The AES Corporation ("AES") submits the following comments related to PacifiCorp's draft "2012 Request for Proposals Base Load Resources", revised by PacifiCorp and filed on October 4, 2006 ("Draft RFP").

AES Background

AES is one of the world's largest global power companies, with 2005 revenues of $11 billion. With operations in 26 countries on five continents, AES's generation and distribution facilities have the capacity to serve 100 million people worldwide. Our 14 regulated utilities amassed 2005 annual sales of over 82,000 gigawatt-hours and our 121 generation facilities have the capacity to generate approximately 44,000 megawatts. Our global workforce of 30,000 people is committed to operational excellence and meeting the world's growing power needs.

AES's business includes the development, construction, ownership and operation of power generation facilities in the U.S. and worldwide. AES has developed and constructed 29 power plants around the world during the last 20 years. In the U.S., AES owns and operates 29 power plants representing over 12,500 MW, and utilizing coal, gas, biomass, and wind.

AES's interest in this proceeding relates to its development efforts in Utah and Wyoming related to baseload generating facilities.

AES Comments

AES recently attended the technical conference held on September 21, 2006 related to PacifiCorp's Draft RFP, and the workshop conducted by PacifiCorp related to determination of the proposed credit requirements and credit methodology. In addition, AES has had an opportunity to review the Draft RFP.

We are pleased and encouraged with the Commission's facilitation and review of an open and competitive procurement process to provide ratepayers with the least cost, most reliable power supply available that provides appropriate protection and balance of costs and risks. The Commission's continued monitoring and involvement in this process will help to ensure that a transparent and open process is maintained, with the ratepayers benefiting from the value of a truly competitive process.

While the Draft RFP as proposed provides an opportunity to establish a true competitive process for the procurement of capacity and energy in Utah, we believe there remain some serious deficiencies which will serve to limit competition and ultimately will result in a non-optimal outcome for ratepayers. The two primary areas we believe deserve further discussion and review are: (1) Debt Imputation; and (2) Credit Requirements. Our specific comments are outlined below.

Debt Imputation (Inferred Debt)

In spite of rigorous, and in our opinion, valid issues raised by previous commenters (including LS Power Associates, LP and State of Utah Division of Public Utilities) regarding the use of an inferred debt penalty for PPA's, the recently filed Draft RFP continues to include the use of an inferred debt penalty in PacifiCorp's proposed evaluation of bids. While PacifiCorp has modified the Draft RFP to eliminate the use of the inferred debt penalty during the initial review and evaluation of bids, it is anticipated that the use of this evaluation criteria will remain for the selection of the final shortlist. We believe that it is important to have an open and robust discussion of the inferred debt issue prior to the issuance of the final RFP rather than waiting for a point later in the process to debate the issue, as PacifiCorp is suggesting. Previous commenters have raised relevant issues to which PacifiCorp has yet to respond. We view the issue of inferred debt to be a threshold issue with regard to the success of this RFP and its ability to produce a low cost for ratepayers. Given the significant time and expense involved in responding to an RFP of this nature, deferring this issue to a point later in the process could have a chilling affect on the RFP process and result in potential bidders (including ourselves) declining to participate in a process that may not produce a transparent and robust outcome. We would encourage PacifiCorp to respond to the issues raised by previous commenters, and for the Commission to consider a more definitive discussion and debate regarding this issue rather than deferring the debate on the use of the inferred debt penalty to later in the process.

Credit Requirements

While we appreciate PacifiCorp's willingness to have a discussion regarding the methodology used to establish credit requirements associated with the Draft RFP during the September 21, 2006 Technical Conference, we were disappointed that PacifiCorp neither provided a specific response to questions raised during the Technical Conference, nor modified the credit methodology provided in the Draft RFP to address such questions. We fully understand the necessity to require adequate counterparty credit with respect to the supply of capacity and energy on either a short-term or long-term basis. However the implications of requiring adequate credit as opposed to excessive credit could result, again, in an outcome for the ratepayer that is not least cost, and does not provide a balance between cost and risk. Specifically, credit requirements for the procurement of long-term capacity and energy should be set at an amount which fairly represents the potential default exposure to which the ratepayers will be exposed. While we agree that the general methodology (i.e. providing credit to cover the potential exposure faced by ratepayers in the event that, in the case of an asset backed supply, a default occurs requiring PacifiCorp to exercise step-in rights; such exposure being the "cost of cover" during the period of time PacifiCorp is unable to effect its step-in rights) is appropriate, we are not convinced that the specific quantitative analysis is resulting in an optimal and adequate credit requirement as proposed in the calculated credit matrix in the Draft RFP. We believe that the credit requirements proposed could be in excess of the actual risk faced by PacifiCorp (and by implication, the ratepayer). Credit provided to backstop a PPA has a cost, regardless of whether provided by a letter of credit or guarantee, and this cost will be factored in to the ultimate cost of capacity provided by the bidder. If credit requirements are in excess of the actual credit exposure, then the ratepayer will essentially be paying for security in excess of their exposure. From a bid perspective, credit requirements in excess of actual exposure could result in the selection of bid which does not represent the least cost alternative. Therefore we believe that the credit methodology should properly evaluate the true exposure in the event of a default. Specifically, we would request that PacifiCorp provide additional clarification related to the methodology used to develop the credit matrix for asset-backed agreements where PacifiCorp will have appropriate step-in right, including:

- Providing a sample calculation in excel to show all inputs, calculations, and outputs.

- Provide the source of forward market price, e.g., a forward market quotation, output of a forecasting model, extrapolation based on historical data. In addition, PacifCorp should clarify whether it has made any adjustment to the power price for transmission cost or power price basis to PacifiCorp.

- Provide the source of the volatility estimate including its basis of calculation, e.g., daily spot prices, daily or monthly forward prices, or implied volatility from a traded option.

- Clarify to what type of price the volatility is applied, e.g., is the volatility applied to June, July, August, and September as individual months or a summer strip price, other?

- Explain how the time to expiration (i.e., from now until 2012) is accounted for in the stochastic analysis used to derive the 84% confidence interval. Note: high time to expiration tends to increase the band-width of a confidence interval significantly? Was there a mean reversion factor or other year-to-year correlation adjustment applied to keep the calculation from producing significantly high results?

- Hourly and daily prices tend to be more volatile than monthly forward contracts. Given that PacifiCorp may replace power from the bidder by contracting forward, what was assumed?

- Address whether the posted collateral amount should be discounted since the bidder will need to post collateral at the time of PPA signing and the replacement power cost will not be incurred until a future date; has PacifiCorp discounted the amounts it derived from the 84% confidence interval?

AES appreciates the opportunity to participate in this important, competitive process and looks forward to further discussion regarding the issues raised by AES and other commenters.

Sincerely,

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