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Department of Commerce
Division of Public Utilities

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Memorandum

To: **Utah Public Service Commission**

From: **Division of Public Utilities**
Philip Powlick, Director
Artie Powell, Manager, Energy Section
Thomas Brill, Technical Consultant
Charles Peterson, Technical Consultant

Date: March 21, 2008

Subject: Application of PacifiCorp, by and through its Rocky Mountain Power Division, for Approval of a Solicitation Process for a Flexible Resource for the 2012-2017 Time Period, and for Approval of a Significant Energy Resource Decision, Docket No. 07-035-94.

Rocky Mountain Power (Company) has applied to the Utah Public Service Commission (Commission) for approval of a solicitation process for a 2012-2017 flexible resource. The Company intends to issue a Request for Proposals (RFP) for the 2012-2017 time period to meet up to 2,000 MW of the Company's capacity and energy resource needs. The Scheduling Order of March 4, 2008 requested that comments on the RFP be submitted to the Commission. Following the Commission's Report and Order of January 28, 2008, the Division will now refer to this entire process, from RFP preparation to approval of a significant energy resource decision, as the "2017 All Source RFP."

Background

Previously, in Docket No. 05-035-47, the Commission approved the Company's proposed request for proposals for the 2012-2014 time period (RFP 2012). Responding to developments that arose during both the qualification and evaluation stages of the RFP

2012, the Company filed a motion to amend the RFP 2012. Given the opposition from various interveners to the Company's motion and after discussions with Utah parties on potential alternatives to amending the RFP 2012, the Company withdrew its motion and issued a new All Source RFP.

The scope of the new 2017 All Source RFP is focused on system-wide, east and west control area, energy and capacity generation capable of delivering energy and capacity in or to the Company's transmission system. The 2017 All Source RFP is seeking energy and capacity resources that do not include coal or intermittent resources. As legislative or technological developments eliminate carbon risk, the Company has stated it will reconsider the decision to not consider coal in the future.

The Division appreciated the opportunity to discuss its concerns about the previous RFP and the RFP Amendment with the Company. The Division believes the lessons learned during the RFP 2012 will contribute to the new 2017 All Source RFP in a positive manner. After Commission approval of the 2017 All Source RFP, the Company will issue the 2017 All Source RFP, and then accept and evaluate bids. Upon completion of the final short list from the 2017 All Source RFP and completion of negotiations with bidders, the Company will seek approval of the significant energy resource. The Division acknowledges that the Company is requesting expedited review of the 2017 All Source RFP.

Recommendations

In order to alleviate confusion, the Division strongly recommends that the Company not use the year 2008 in the name of the RFP and throughout the document or any attachment. The current RFP 2012, which sought new resources for the 2012-2014 time period, is already established. The following recommendations include many of the lessons learned from the previous RFP.

1. Bid categories

The Division agrees with PacifiCorp's revisions to the bid categories to Base Load, Intermediate Load, and Summer Peak resources in the screening process that will establish the short list for Integrated Resource Plan (IRP) modeling.

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2. Resource flexibility

The Division does not agree with excluding coal resources. The Division is not opposed to excluding intermittent resources, since these would be available in a renewable RFP. The Division believes that for an RFP to be an "All Source RFP," all energy resources, including coal, should be considered. The Division maintains that all resources should be eligible, that the bidders bear the responsibility that their proposals are viable and can survive the scrutiny of reasonable externality and potential carbon costs, and that the modeling and evaluation results will dictate the winning bids. The Division recognizes the climate change regulatory and legislative uncertainty of the past several years and appreciates that the Company will reconsider this decision with future clarification of carbon risk. In particular, the Company needs to demonstrate through its RFP evaluation and analysis that it has selected the least-cost least-risk resource. The Company cannot do this without including coal in its analysis.

All supply-side proposals with the exception of QFs are required to offer a minimum of 100 MW. A minimum bid of 100 MW is not reasonable for biomass and geothermal resources. The Division recommends a 10 MW minimum for geothermal resources and significantly less for biomass resources.

3. Submission of Self-Build Proposals

The Division recommends that the self-build proposals be submitted to the Independent Evaluators (IEs) one day in advance of other bids. This language needs to be written into the RFP.

4. Number of Bids Submitted

The Division recognizes it is a burden on bidders (with no value to the Company or IEs) to provide a signed original and 10 hard copies for each IE. Five hard copies for each IE should be sufficient.

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5. Blinding of Bids

The Division questions the value of blinding and suspects the level of effort for both the bidders and the IEs is not worth the benefit. While the Division is raising this as an issue, it will accept the positions of the Company and the other parties on the blinding of bids.

6. Schedule

Based upon the previous RFP, the Division is concerned that a 45-day period to complete the evaluation is too short and suggests that a 60-day period would be more realistic. The Division suspects that even a 60-day period may not be adequate.

7. Proposal Options

Based upon the experience of the previous RFP, the Division supports several proposal options. The Division agrees with the intent of the Company's creative proposal options that add value to customers. For example, bidders could be allowed to provide a base bid and up to two alternatives under the same bid fee. Another example is that bidders may offer up to three additional alternatives at a fee of $1,000 each. In addition, the Division recommends that bidders should be encouraged to bid multiple pricing options under the allowed alternatives, such as offering different indexing mechanisms. The Division recommends that the Company allow bidders to offer different prices for different security requirements to assess what the cost of security really adds to the bid price. The Division supports the Company's objective to optimize the benefit from the solicitation by combining proposals of different sizes, terms, and in-service dates.

8. Flexibility of Proposals

The Division suggests that specific milestones for establishing deferral, acceleration, and buyout options should be identified in Form 2. Currently, the RFP states that bidders should either provide pricing for all the milestones identified or

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provide pricing based on their desired milestones. The Division suggests that bidders may respond with pricing if specific milestones are identified.

9. Indexing

The previous RFP allowed bidders to index 40 percent of their capacity price or capital cost to two indexes, the CPI and the PPI – Metals and Metal Products. The other 60 percent was required to be fixed. The Division recommends reversing this and allowing up to 60 percent of the cost to be indexed. In addition, the Division suggests that the bidders should have the opportunity to suggest alternative indexes in alternative bids. In this case, the Company and IE would determine whether the index proposed would be accepted. This will provide more bidder flexibility to link bid prices to the cost structure in their Engineering, Procurement, and Construction (EPC) contracts. Bidders requesting alternative indexes would have to request the index in advance or provide it as an alternative bid. In addition, the Company would have to determine if it can obtain a reasonable forecast for the specific index. The Division notes that, based on Company and IE discussions with EPC contractors, the indexing option provided value, but the limited indexes that were allowed and the fixed percentages did not adequately capture the cost structure of the projects.

10. Term Sheets

In the previous RFP, the Company spent several weeks working with bidders to develop term sheets that summarized in detail the Company's understanding of the specific elements of the proposal. The current RFP makes no mention of this phase in the process. The Division recommends that the Company should commit to bidders to develop term sheets shortly after receipt of bids.

11. Transmission Assessment

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The Division suggests that one of the lessons learned in the previous RFP was that transmission costs will have a major effect on the evaluation results. The IE found that the transmission cost for some delivery points tripled from the Attachment 13 included in the RFP to the revised Attachment 13 that included the delivery points for the specific bids proposed. The Division recommends that the IE meet with PacifiCorp Transmission to ensure a full understanding of how the transmission costs are developed. In addition, the Company should provide more information in the RFP about its transmission plans in order to guide bidders on possible resource options and locations.

12. Price Evaluation

Based on the lessons learned in the previous RFP, the Division is concerned with several issues with regard to the modeling methodology. First, as indicated in comments to the previous RFP, the price comparison metric in Step 1 (page 49) needs to be flexible. For example, if this metric was applied as described in the previous RFP most bids would have received 0 price points and non-price points would have determined which bids would have made the short-list. Thus, there needs to be some flexibility applied to ensure the weightings are maintained as proposed. Second, the evaluation process identified on page 47 indicates that PacifiCorp will rely on PVRR Tail Risk for its risk assessment metric. The Company needs to clarify whether Tail Risk or Risk Adjusted PVRR, as used in the 2012 RFP evaluation, will be used as the risk metric in the evaluation and selection process.

13. Benchmarks vs Self-Build Options

The Company is proposing in the 2017 All Source RFP that the self-build proposals will be submitted under the same set of principles as third-party bids rather than as benchmarks. In the last RFP the benchmark bids included all the information that was provided by other bidders. If the Company does not divulge its plans and bids like everyone else, third-party bidders may not be discouraged from bidding. This should be a benefit associated with self-build options as opposed to benchmarks.

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It would appear that the Company may offer bids for gas-fired resources. Under the previous benchmark option, the site and details about the benchmarks were revealed to bidders. If the Company proposed benchmarks in this case for units at existing PacifiCorp sites (i.e., Currant Creek and Lakeside), the Division believes it is unlikely that third-party bids would elect to submit a proposal. Since the Currant Creek and Lakeside sites are also available to other bidders, competition would be increased under this proposal.

14. Credit

The Division recognizes that credit was the key issue in the previous RFP and previously stated that the Company was too flexible on granting time extensions to bidders but too inflexible on the issue of credit. In particular, there was inconsistency in the RFP language about a "comfort letter" and a "commitment letter." In addition, the Company was adamant about a commitment letter during the pre-qualification stage. The discussion in the main RFP document on how the required credit is determined may still be confusing. Attachment 21 is clear, but the main RFP document still needs work. The Division suggests the critical problem is the unrevised form of the credit commitment letter and the letter of credit in Attachment 22.

Although the Division recognizes that the Company has attempted to ease the credit requirements, the Division believes that the credit issue is still not completely addressed. On the issue of credit, the Division defers to the IE who will address timing and specific language in the formal IE comments. The Division understands that the IE will identify these credit issues and attempt to propose language or request examples describing more clearly how this process actually works.

15. Schedule

A critical lesson learned from the previous RFP was the recognition of many delays in the schedule. Given an expedited schedule, the issue of delays becomes an even greater concern. In the previous RFP, these delays were often due to bidder

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confusion. The Division recommends that the Company, before bids are received, develop a consistent policy for granting time extensions, if any, to bidders.

Conclusion

The Division strongly recommends a careful assessment of the many lessons learned from the previous RFP and believes the lessons learned during the RFP 2012 will contribute to the new 2017 All Source RFP in a positive manner. The Division appreciated the opportunity to discuss its concerns about the previous RFP and the RFP Amendment with the Company. Finally, the Division is aware of the challenge of bringing much-needed resources on-line over the next decade and will make a good-faith effort in complying with any approved expedited schedule. This, of course, recognizes the constraints imposed by the work load from other dockets.

cc: Dave Taylor, Rocky Mountain Power
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