- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the 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 ORDER ON ECONOMIC MODELING ISSUES

ISSUED: February 24, 2010

By the Commission:

PROCEDURAL HISTORY

On February 15, 2008, PacifiCorp, by and through its Rocky Mountain Power division ("PacifiCorp" or "Company"), and pursuant to Utah Code § 54-17-201 et seq. and Utah Administrative Code ("UAC") R746-420-1 et seq., filed an application with the Public Service Commission of Utah ("Commission") for approval of the solicitation and solicitation process contained in the Company's 2008 All Source Request for Proposals ("All Source RFP") to meet up to 2,000 megawatts of the Company's capacity and energy resource needs for calendar years 2012 to 2016. On September 25, 2008, the Commission approved a revised All Source RFP, which was filed by PacifiCorp on August 5, 2008, subject to editing changes.

On February 26, 2009, pursuant to UAC R746-100-3.A.1.a and R746-420-1(4)(c), the Company filed a motion requesting the Commission approve suspension of the All Source RFP on an expedited basis. On April 6, 2009, the Commission approved suspension of the All Source RFP subject to conditions.

On October 6, 2009, the Company filed a notice of intent to resume the All Source RFP and request for approval of an updated schedule for the solicitation process. On October 26, 2009, the Commission approved the Company's request to resume its All Source RFP and approved a schedule governing the resumption of the All Source RFP. The approved schedule included a November 2, 2009, technical conference to discuss the Company's proposal for addressing the economic modeling issues raised in our May 23, 2008, order ("May Order") in this case, and a date for stakeholders to file comments and conclusions on modeling and schedule.

Specifically, the May Order stated, "The Company shall convene a workgroup to review and make recommendations regarding: 1) a mechanism for the comparison of alternative portfolios; and 2) the criteria for selecting final shortlist resources from the highest performing portfolios, as discussed herein. The Company shall report to the Commission its conclusions with respect to these two issues prior to bid evaluation."[1]

At the November 2, 2009, technical conference, parties agreed the Company would file its proposal for addressing the issues raised in the May Order on November 12, 2009, and parties would file comments on the Company's proposal by November 25, 2009. On November 16, 2009, the Company filed its proposal for addressing the issues raised in the May Order. Given this later filing date, on November 23, 2009, we extended the date for comments on the Company's November 16, 2009, filing to December 3, 2009. On December 3, 2009, the

[1] May 23, 2008, Docket No. 07-035-94, "In the Matter of the 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," page 19.

Independent Evaluator[2] (IE), Office of Consumer Services ("Office"), and jointly, Western Resource Advocates and Utah Clean Energy ("WRA/UCE") filed comments.

POSITIONS OF THE PARTIES

In its November 16, 2009, paper entitled "Final Short List Development for the All Source Request for Proposals," the Company describes both: 1) the mechanism for the comparison of alternative portfolios; and 2) the criteria for selecting final shortlist resources from the highest performing portfolios.

The Company describes a modeling approach consisting of two steps of the bid evaluation process which would be applied after establishment of the initial short list of bidders in Step 1. The Company states it will advance all unique portfolios emerging from its deterministic analysis (referred to as Step 2) to its stochastic analysis (referred to as Step 3a). It will then compare alternative portfolios in Step 3a primarily by ranking each portfolio by the average risk-adjusted present value revenue requirement ("PVRR") across three assumed carbon dioxide ("CO_2") tax levels, $8, $45, and $100 per ton. The risk-adjusted PVRR is calculated as the mean PVRR plus the expected value of the 95^{th} percentile PVRR where the expected value equals $P(PVRR)_{95}$ x 5%. If the top-ranked portfolios are not materially different based on risk-adjusted PVRR, i.e., the differences among the top portfolios is less than 0.5%, then the top-ranked portfolios will be re-ordered based on customer rate impact.

The final shortlist will consist of the individual resources in the top ranked portfolio in Step 3a. The Company will also rank these resources according to the frequency of

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[2] Merrimack Energy.

occurrence in the top four portfolios. Finally, in its Step 3b, the Company determines and compares the PVRRs for the top four portfolios [in Step 3a] under the alternative case assumptions used in Step 2. In Step 3b, the Company keeps the resources in the top four portfolios fixed, but allows the model to dispatch the resources economically. Step 3b identifies the cost of each portfolio under assumptions that are different than the assumptions used to create the portfolio initially, thus providing a measure of resource robustness (optimal under a variety of conditions).

The Company states it will use the preferred portfolio from its 2008 Integrated Resource Plan ("IRP") to identify the deficit to be filled by benchmark and bid resources. The Company clarifies this means it will remove all planned resources from the preferred portfolio except for the 200 megawatt resource identified to come online in 2012. The Company also states in its November 16, 2009, cover letter bidders may provide proposals commencing prior to 2014. The Company does not indicate whether it will inform bidders of this fact other than through this cover letter.

The IE reviewed the Company's November 16, 2009, paper and states the approach proposed by the Company for selecting portfolios and resources appears reasonable and consistent. However, the IE states the Company describes the method but provides no example showing how the method will be applied. To eliminate any confusion with Step 2 and Step 3, the IE suggests the Company provide an example of the proposed process using hypothetical bids and results to demonstrate how the final short-listed resources will be selected.

The Office generally supports the Company's proposed two-step modeling approach. However the Office is concerned with several underlying assumptions contained in Steps 2 and 3.

With respect to Step 2, the deterministic analysis, the Office has the following three concerns. First, the Office is concerned the Company is using its 2008 IRP preferred portfolio as the baseline for Step 2 evaluation. The Office argues this is an inferior portfolio with less wind resource and using this portfolio could impact which bid is ultimately selected. Second, the Company relies heavily on front office transactions and from the Company's description of its Step 2 process, the Office is unclear how the use of front office transactions in system optimization will affect resource selection. Third, the Office is concerned the Company's use of a 12 percent planning margin is inappropriate and understates resource requirements.

With respect to Step 3a, the stochastic analysis, the Office notes the Company's proposed ranking of portfolios in the All Source RFP differs from the Company's proposed ranking of portfolios in its 2008 IRP. The Office recommends aligning the weighting schemes used in the All Source RFP and the 2008 IRP. Additionally, the Office requests Commission and, perhaps, IE guidance on the appropriate weighting scheme.

With respect to the Company's proposed decision criteria for selecting and ranking resources, the Office notes the Company should maintain a back-up list of resources and work with the IE to develop and propose criteria for replacing bids eliminated from the final short list.

WRA/UCE argue the Company's proposed evaluation process and economic modeling do not appear to lead to a least-cost, risk-adjusted outcome. First, WRA/UCE object to the Company's proposal to screen resources on price factors in Step 1. WRA/UCE argues use of a price screen prior to economic evaluation could eliminate dispatchable renewable technologies from any further consideration. WRA/UCE notes these technologies mitigate the risks of high and volatile market and natural gas prices and comply with potential environmental regulation of carbon dioxide and therefore could otherwise be selected in Steps 2 and 3. WRA/UCE recommend addressing this problem by either eliminating the price evaluation component of Step 1 or by automatically advancing resources with no fuel expense to Step 2.

Second, WRA/UCE, like the Office, questions the Company's use of its 2008 IRP preferred portfolio as the starting point for development of least cost portfolios. WRA/UCE contends this portfolio is not the least-cost, risk-adjusted portfolio identified in the 2008 IRP and probably will over-acquire fossil-fuel resources at the expense of demand side management and renewable resources.

Third, WRA/UCE argues the Company's current proposal to rely on frequency counting, either implicitly or explicitly, to determine "robust resources" is unresponsive to the Commission's direction in the May Order. Rather, WRA/UCE supports use of the resource portfolio identified by either Step 3a, the risk-adjusted PVRR, or by Step 3b, the scenario risk assessment.

DISCUSSION, FINDINGS, AND CONCLUSIONS

We accept the Company's approach for comparing alternative portfolios with the following adjustments. First, the Company must include in its range of CO_2 costs, a $0 cost per ton in Steps 2 and 3. The $0 cost per ton assumption is necessary to understand the potential cost of compliance of a change in environmental regulation. Second, we concur with WRA/UCE the Step 1 evaluation process needs modification. We direct the Company to establish its initial short list by identifying the top resources by fuel-type within each eligible category. This will ensure all resource types will be fully considered in the evaluation process. Both of these changes are consistent with past orders.[3]

We also accept the Company's proposal to rank portfolios using primarily the average risk-adjusted PVRR across three assumed carbon dioxide tax levels, including one at $0 per ton as discussed above, and secondarily based on customer rate impact. Although the Office recommends consistency of the IRP and RFP portfolio performance weighting schemes, it does not recommend which one of the two to use. We also have received no other objections to the Company's proposed performance ranking approach. Therefore, we will accept the Company's ranking proposal. However, we note the Company states it will provide other metrics, i.e., mean PVRR, the 95th percentile PVRR, customer rate impact, risk-adjusted PVRR, variable cost standard deviation, and annual energy not served. These performance measures will aid in evaluating whether any Company decision properly complies with the statutory requirements governing selection of a significant energy resource at the appropriate time in this proceeding.

We also accept the Company's proposal to advance the individual resource bids in the top-ranked portfolio to the final shortlist. However, the Company's proposal to further

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[3] See Docket No. 05-035-47, "In the Matter of the Application of PacifiCorp for Approval of a 2009 Request for Proposals for Flexible Resource," December 21, 2006, order at pages 22and 23. See also the August 5, 2008, approved RFP in Docket No. 07-035-94 which states on page 58 the range of assumptions used will be consistent with the IRP range of assumptions. Both the 2007 and 2008 IRPs include a zero value in the range of CO_2 cost adders.

rank these final shortlist resources according to the frequency of occurrence in the top four portfolios remains unsupported by any analysis and the purpose of this step is unclear. Further, the Company does not indicate how it will use the Step 3b process in the final shortlist evaluation process. We concur with WRA/UCE the Step 3b process provides a better measure of resource robustness. Therefore, we direct the Company to use the Step 3b results in its determination or ranking of the final shortlist and to explain how it does so.

Because bids are due March 1, 2010, we find it untimely to adopt the IE's recommendation for the Company to prepare an example to illustrate the proposed evaluation process. However, we direct the IE to raise any concerns with the application of the methods approved herein as soon as practicable for resolution.

With respect to the Office's comments regarding back-up bids, we direct the same process be used to identify the back-up list of resources as for the final shortlist of resources.

ORDER

Wherefore, pursuant to our discussion herein, we order:

1. The Company to use its proposed methods for comparing portfolios and identifying final shortlist resources, with the exceptions noted herein.
2. The Company shall include a zero cost per ton of carbon case in its deterministic and stochastic analyses and portfolio ranking metric.
3. The Company shall establish the initial shortlist in Step 1 by each fuel type in each eligible category.
4. The Company shall use the Step 3b results in its determination or ranking of the final shortlist and explain how it does so.

5. The Company shall identify any back-up list of resources using the same process as used in the identification of the final shortlist.

DATED at Salt Lake City, Utah, this 24th day of February, 2010.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#65430