

Final Report of the Utah Independent Evaluator

PacifiCorp All Source Request for Proposals

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***Merrimack Energy Group, Inc.
155 Borthwick Avenue
Suite 101
Portsmouth, NH 03801
(603) 427-5036***



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Executive Summary

On December 21, 2010, Rocky Mountain Power (“Rocky Mountain Power” or “Company”), a division of PacifiCorp submitted an application to the Public Service Commission of Utah (“Commission”) for approval of a Significant Energy Resource Decision resulting from the All Source Request for Proposals and for a Certificate of Public Convenience and Necessity. In its application, the Company requests that the Commission approve its significant energy resource decision to acquire a combined cycle combustion turbine (“CCCT”) generating plant (“CH2MHill Lake Side 2”), to be constructed by CH2MHill E&C, Inc. (“CH2MHill”), as engineering, procurement, and construction contractor (“EPC”).¹ The Company states that the basis for this Application is that CH2MHill Lake Side 2 is the lowest reasonable cost, qualifying resource resulting from the Company’s Request for Proposals for Flexible Resources (“RFP”) approved by the Commission on September 25, 2008 in Docket No. 07-035-94.

Merrimack Energy Group, Inc. (Merrimack Energy) was retained by the Public Service Commission of Utah (“Commission”) to serve as the Independent Evaluator (IE) for PacifiCorp’s (the Company) All Source Request for Proposals (RFP). 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.

Merrimack Energy’s involvement as Independent Evaluator, therefore, began at the very initiation of the RFP development process and continued through final evaluation, selection, and negotiations of the preferred resources(s). The roles and functions of the Independent Evaluator in Utah are defined in the Energy Resource Procurement Act and in Rule R746-420-6. As defined, the overall objective of the Independent Evaluator is to ensure the solicitation process could reasonably be expected to be undertaken in a fair, consistent and unbiased manner.

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

1. A detailed description of the solicitation process and the Independent Evaluators’ involvement, role, observations regarding the process, conclusions about the process and recommendations.
2. Fairness assessment of the process, including the treatment of third-party bids and benchmarks, contract negotiations, and access to necessary information and data by the Independent Evaluator. In particular, in cases where a host utility bid or benchmark bid is considered, fairness issues involve detailed scrutiny of the

¹ According to the Application, the CH2MHill proposal consisted of a wet-cooled gas-fired combined cycle plant located at the Company’s Lake Side site in Utah, with a capacity of 637 MW and an on-line date of June 1, 2014.

evaluation process to ensure the utility bid or benchmark is treated the same as other bids.

Merrimack Energy 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; (2) receipt and evaluation/selection of proposals; and (3) monitoring contract negotiations. The objective of this involvement has been to ensure the process is fair and unbiased and provides the best deal for consumers and to raise any concerns along the way, if necessary, to ensure the process stays on track to meet these objectives.

The solicitation process and procedures developed and implemented by PacifiCorp, including the bid evaluation and final short list 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 and selection process. The IE is of the opinion that PacifiCorp effectively implemented and followed the solicitation process with regard to selection of the CH2MHill Lake Side 2 project as the preferred resource. As a result, the IE concludes that PacifiCorp's application for Commission approval of the Lake Side 2 project is in the best interest of customers. Furthermore, the IE believes that the implementation of the contract negotiation process with CH2MHill and the benchmark resource at Lake Side was expertly accomplished. The results from the All Source competitive procurement process associated with the contracting for the Lake Side 2 project should lead to 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, risks, reliability and financial impacts on PacifiCorp. In that regard, the Lake Side 2 resource selected through this process represents a resource that was subject to detailed scrutiny and evaluation, was vetted through a fair and equitable process, is subject to a contractual arrangement that ensures an effective balance of risk with benefits to customers should market conditions render other resources more economic, and represents the lowest cost resource available through this competitive solicitation process to meet base load requirements. (reference: 2c – page 13)

The IE also believes that PacifiCorp followed its protocols, procedures, and methodologies in selecting the _____ project for the final short list and commends PacifiCorp for undertaking detailed due diligence on the project. However, the IE is of the opinion that PacifiCorp did not follow its procedures in later terminating negotiations and due diligence on the _____ project prematurely and rejecting the _____ project even though the resource was included in the lowest cost portfolio from a Risk Adjusted PVRR basis, which PacifiCorp proposed as the key criteria underlying resource selection. (reference: 1f – page 13)

There were also a number of lessons learned, both positive and negative, from previous solicitations that had an impact in designing and implementing the All Source procurement process. We found that several of the issues raised by bidders and the IEs in

previous RFPs (i.e. credit, timing of contract negotiations, etc.) were not issues in the All Source RFP due to revisions in the RFP to address these issues.

As noted on pages 12 and 13 of this report, the Scope of Work prepared by the Commission for the Independent Evaluator identifies specific requirements for the IE to confirm whether or not the solicitation process was undertaken in a fair manner. The following overall conclusions associated with the All Source solicitation process will address these requirements, among others.

Conclusions and Recommendations

- The solicitation process was undertaken in a fair, equitable and unbiased manner by the Company with the oversight of the IE up through the contract negotiation process. (reference: 2c – page 13) While the IE feels that PacifiCorp followed its procedures and processes in selecting and negotiating a contract with the CH2MHill Lake Side 2 project, the IE feels that PacifiCorp may have deviated from its stated procedures and evaluation methodology in its decision to suddenly and prematurely terminate due diligence and negotiations with the project, after previously selecting the project for the final short list based on its bid evaluation and selection process. While PacifiCorp did follow the process for evaluation and selection of resources, the IE is of the view that PacifiCorp prematurely terminated negotiations and due diligence on the project.
- The CH2MHill Lake Side 2 project was the lowest reasonable cost option for customers taking into account all costs and risks. This project was selected in all portfolios in both Steps 2 and 3 of the evaluation. In addition, PacifiCorp was able to effectively negotiate a contract with the project that balances risk to the developers and customers. (2b – page 13).
- PacifiCorp's analysis illustrates that Portfolio 2, which included both the CH2MHill project and the project, is the least cost portfolio on a Risk Adjusted PVRR basis under a range of CO2 cost scenarios ranging from \$0/ton to \$100/ton. PacifiCorp states that the reason that Portfolio 2 does better than Portfolio 1 on a stochastic cost basis is the opportunity for the plant to sell into the markets, particularly the Mead market. PacifiCorp also concludes that its due diligence demonstrates that transmission access is not adequate to deliver the power from the facility to its load until 2016.
- PacifiCorp treated the benchmark option fairly and consistently relative to all other bids. The benchmark resource was required to provide the same information as all other bidders and was evaluated consistently. Furthermore, PacifiCorp took care in the evaluation to ensure all cost information provided by the bids at the Lake Side site was consistent and complete. PacifiCorp utilized the benchmark resource option expertly in this process to negotiate more favorable pricing and contract terms from competitive options. (reference: 2d – page 13)

- PacifiCorp undertook detailed due diligence in assessing the potential acquisition of the project as should be expected of such a resource acquisition process. PacifiCorp organized a due diligence team with expertise in a range of disciplines associated with power generation project ownership and operations.
- PacifiCorp has identified several reasons for terminating negotiations with the project including the resource is not used and useful and there are a number of uncertainties associated with transmission availability and access to the markets to sell the power from the project in the near term. (reference: 1d – page 13) As noted above, the IE is of the opinion that PacifiCorp terminated due diligence and negotiations prematurely with project. (reference: 1f – page 13)
- The RFP process was a highly transparent process, providing detailed information about the requirements for bidding, the products requested, the evaluation methods and methodology, the evaluation process, bid evaluation criteria (both price and non-price), the weights for the criteria, information required of the bidder, requirements of the bidder for submitting its proposal, the schedule for undertaking the process, and risk parameters of the Company as identified in the RFP and related contracts. In conjunction with the role of the IEs throughout the process, in our view the transparency of the process significantly exceeds industry standards for other competitive bidding processes.
- The initial or indicative bid/best and final offer process 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. (reference: 1b – page 13)
- 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 120 questions and answers posted to Merrimack Energy’s website prior to suspension of the All Source RFP in February 2009 and another 22 questions and answers after resumption of the All Source RFP.
- There was a robust response from the market for base load and intermediate resources with a wide range of project structures, project locations, and technologies proposed. The level of response to the RFP significantly exceeded bidding requirements and was sufficient to provide a competitive process throughout. The selected resource was a lowest cost option and should not possess the specific risks to development that other resources faced.
- The solicitation process led to the ultimate selection of only one resource for 2014 capacity in the amount substantially less than that requested in the RFP.

- 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.
- All bidders were treated the same and provided access to the same information, including both third-party bidders and the benchmark team. The PacifiCorp management team was very effective in providing consistent information to all bidders throughout the process, even during conference calls with bidders. (reference: 2f – page 13)
- The Code of Conduct and communication protocols were well developed and clearly identified in the RFP and were taken very seriously by PacifiCorp. Members of the bid teams were subject to training on the protocols prior to receipt of bids and were informed of the importance in following the protocols. We were not aware of any violations of PacifiCorp’s Code of Conduct and communication protocols. The Company appeared to diligently follow the Code of Conduct and did not deviate from the requirements.
- The IE can document that the confidentiality requirements associated with the exchange of information between PacifiCorp, the IE and the bidders were maintained. The IEs were copied on all communication between PacifiCorp and the bidders and were invited to participate in all negotiations or discussions between PacifiCorp and any of the bidders. (reference: 2i – page 13)
- 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. Our only issue with the bid summaries is that the process is fairly lengthy and could be shortened by informing bidders of a specified schedule for completing the bid summaries.
- 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. In some cases, bidders offered a short term tolling agreement followed by an Asset Purchase option in a specific year.

- While bidders offered several creative alternatives, PacifiCorp’s models and methodologies were capable of effectively model such alternatives.
- PacifiCorp offered one of its own sites to Bidders, which provided several options for bidders to consider in structuring their proposals. This is not a common practice in competitive bidding processes.
- The Benchmark resources provided the same information required of all bidders. Furthermore, the Benchmark team provided detailed back-up information to the IE on the cost and operating characteristics of the benchmark resources and responded to all questions about the resources. The IE audited and validated the information and concluded that the cost and operation information was conservative and complete and was not intended to provide a “low ball” cost estimate. (reference: 2d – page 13)
- PacifiCorp evaluated the benchmark resources consistently with other bids in all steps of the evaluation process, i.e. the Step 1, Step 2 and Step 3 phases of the price evaluation. (reference: 2d – page 13)
- 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 are state of the art and provide very comprehensive and complete evaluation results. (reference: 1e – page 13)
- 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 the base load options and intermediate options that allowed the IEs to easily review the results. Conference calls were also held with the IEs to discuss the results. PacifiCorp provided similar documentation for the Step 2 and Step 3 evaluations, including providing the IEs with detailed model runs. 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. (reference 2h – page 13)
- 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. (reference: 1e – page 13)

- The level of documentation supporting the resource evaluation and selection process was very detailed and significant. The Company provided the detailed back-up documentation to the IEs during the Step 2 and Step 3 evaluations.
- All bids were required to provide consistent information, including the benchmark resource. The Term Sheet process proved to be an excellent step to ensure that all bids provided consistent information and were fairly and consistently evaluated.
- The IE confirms that the negotiations between PacifiCorp and CH2MHill and PacifiCorp and plant were conducted in a fair and consistent manner, with no undue biases toward any bidder. PacifiCorp negotiated fairly but aggressively throughout the negotiation process. There were no attempts on the part of PacifiCorp or the counterparty to affect the timing of the negotiations process attempt to inhibit good faith negotiations. In particular, we felt that PacifiCorp was able to leverage the presence of the benchmark resource to negotiate favorable price and commercial terms with CH2MHill for the Lake Side II project. In addition, PacifiCorp has secured a reduced price from the best and final offer. (reference: 2j – page 13)
- 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 120 questions were submitted and responses provided prior to suspension of the RFP and another 22 questions and answers were submitted after resumption of the RFP.
- 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.
- The RFP took several important steps in the right direction in moving toward comparability for third-party power purchase agreements and cost of service options. This included the allowance for indexing of capacity or capital costs, contract provisions designed to balance risk, the implementation of the two-stage pricing process (initial bid/best and final offer) and the recognition that contract negotiations would address both price and non-price factors. (reference: 1e – page 13)

- PacifiCorp made significant strides in developing a credit methodology, credit support amounts and a security posting schedule that leads to credit requirements that are consistent with industry standards and offer some flexibility to bidders. (reference 1e – page 13)
- PacifiCorp’s decision to address imputed debt impacts at the bid selection phase of the process rather than in the initial evaluation phase is a positive step for encouraging third-party bidder participation and putting projects from third-party bidders on a more equal footing with utility cost of service options since the application of imputed debt is not included in the bid evaluation and selection process. (reference 1e – page 13)
- The information provided by the Benchmark resource options was totally consistent with the information required of third-party bids.
- The credit requirement issues that plagued the 2012 RFP were not an issue in the All Source RFP. PacifiCorp did make adjustments in the requirement for bidders to provide a guaranty commitment letter from the entity providing guaranty credit assurances on behalf of the bidder and/or necessary letter of credit commitment letter from the financial institution providing letter of credit assurances. The All Source RFP required that Bidders provide the guaranty commitment letter within 20 days after the Bidder is notified by the Company that the Bidder has been selected for the final short list rather than at the time of submission of pre-qualification information. None of the bidders raised credit as an issue in this solicitation.
- The evaluation criteria, weights, and scoring factors were generally applied consistently among all bids and the benchmark. The Step 1 evaluation was generally completed as outlined in the RFP. The price and non-price evaluation and scores were completed by PacifiCorp and provided to the IEs. PacifiCorp initially completed the evaluation of the base load bids and followed up with the evaluation of the intermediate bids. In both cases, PacifiCorp provided detailed documentation of the results to the IEs. Merrimack Energy conducted an independent assessment of the non-price scores for each of the intermediate bids and was able to verify PacifiCorp’s rankings. Since all base load bids were selected for the short list (in agreement with the IEs), Merrimack Energy did not complete a non-price assessment for the base load bids. (reference: 2e – page 13)
- 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 required to vary the range for the intermediate bids to maintain the price/non-price balance.

- As noted by the IE in comments on the 2012 RFP, the blinding of bids by the IEs proved to be time consuming without much value to the process. The Commission granted a waiver from blinding of bids in this solicitation. The IE does not believe blinding the bids in this process would have added value. It is difficult to maintain anonymity and any attempt is a time consuming process. The ability of PacifiCorp to produce detailed output reports and the ability of the IE to review the reports and ask questions during the evaluation process is more than adequate to address any bias concerns. If blinding is to occur in future solicitations, the IE recommends that it be limited to questions and answers from bidders only.
- While a few bidders mentioned that indexing of capacity and capital costs has some value, the limited application of the indices does not meet the specific cost components that are of most concern to bidders. Bidders expect project costs, including equipment and EPC costs to continue to change, with EPC contractors unlikely to offer a fixed price proposal in the early stages of the bidding process. However, the opportunity for bidders on the short list to submit a best and final offer allowed the bidders to firm up the costs of their projects closer to time of contract negotiations. (reference: 1e – page 13)
- The Transmission workshop provided by PacifiCorp with the assistance of PacifiCorp Transmission is a valuable component of the process and provides the opportunity for bidders to get a better perspective on transmission projects, costs of interconnection, transmission constraints, and interconnection requirements. In most solicitation processes, transmission and interconnection are among the most complex and uncertain issues and PacifiCorp has taken a positive step in providing information to bidders with regard to these issues.
- In our view, timeframe for completing the solicitation process was reasonable and was certainly shorter than the 2012 process. While the indicative bid/best and final offer process added a few months to the evaluation process, the quality of the offers and the initiative taken by PacifiCorp to encourage bidders to review model contracts prior to negotiations was a positive. As a result, the contract negotiation process was quicker and more efficient.
- Our assessment of the terms and conditions of the Engineering, Procurement and Construction contract between PacifiCorp and CH2MHill for the Lake Side II project shows a well managed balancing of risk among customer interests, Company interests, and EPC contractor interests. Consistent with industry practices skillfully applied, the agreement is soundly structured. Within that structure, the risk is well managed in ways which benefit the customers of the Company. PacifiCorp has maintained an active role in monitoring and effectively overseeing project development and construction activities. (reference: 2g – page 13)

I. Introduction

On December 21, 2010, Rocky Mountain Power (“Rocky Mountain Power” or “Company”), a division of PacifiCorp² submitted an application to the Public Service Commission of Utah (“Commission”) for approval of a Significant Energy Resource Decision resulting from the All Source Request for Proposals and for a Certificate of Public Convenience and Necessity. In its application, the Company requests that the Commission approve its significant energy resource decision to acquire a combined cycle combustion turbine (“CCCT”) generating plant (“CH2MHill Lake Side 2”), to be constructed by CH2MHill E&C, Inc. (“CH2MHill”), as engineering, procurement, and construction contractor (“EPC”).³ The Company states that the basis for this Application is that CH2MHill Lake Side 2 is the lowest reasonable cost, qualifying resource resulting from the Company’s Request for Proposals for Flexible Resources (“RFP”) approved by the Commission on September 25, 2008 in Docket No. 07-035-94.

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 (the Company) All Source Request for Proposals (RFP).⁴ 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.

Merrimack Energy’s involvement as Independent Evaluator, therefore, began at the very initiation of the RFP development process and continued through final evaluation, selection, and negotiations of the preferred proposal(s). The roles and functions of the Independent Evaluator in Utah are defined in the Energy Resource Procurement Act and in Rule R746-420-6. As defined, the overall objective of the Independent Evaluator is to ensure the solicitation process could reasonably be expected to be undertaken in a fair, consistent and unbiased manner.

The Scope of Work prepared by the Commission for the Independent Evaluator with regard to the final report identifies two 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, observations regarding the process, conclusions about the process, and recommendations, including:

² Throughout this report Rocky Mountain Power, the Company and PacifiCorp are used interchangeably.

³ According to the Application, the CH2MHill proposal consisted of a wet-cooled gas-fired combined cycle plant located at the Company’s Lake Side site in Utah, with a capacity of 637 MW and an on-line date of June 1, 2014.

⁴ Merrimack Energy was originally retained to serve as Independent Evaluator for the Company’s Request for Proposals for Flexible Resources (“RFP”), now referred to as the All Source RFP

- a. A detailed description of the evaluation and selection process and the company's approach for undertaking the evaluation and selection;⁵
 - b. Description of the process for evaluating and ranking bids and the benchmark option and the reasons for evaluating and ranking bids;
 - c. Reasons and basis for selecting the winning bid or the benchmark option;⁶
 - d. Reasons and basis for rejecting any bids;
 - e. Description of the "watch list" issues and a discussion regarding how these issues were addressed and resolved;
 - f. Identification of any issues with regard to the evaluation and selection of bids on which the independent evaluator disagrees or has reservations with regard to the rationale for PacifiCorp's decision.
2. Fairness assessment of the process, including the treatment of third-party bids and the benchmarks, contract negotiations, and access to necessary information and data by the Independent Evaluator. In particular, in cases where a host utility bid or benchmark bid is considered, fairness issues involve detailed scrutiny of the evaluation process to ensure the utility bid or benchmark is treated the same as other bids. Specific issues include:
- a. Identification of the criteria which the independent evaluator will use to assess the fairness of the solicitation process;⁷
 - b. Confirmation that the resource selected is the lowest reasonable cost option for customers taking into account all costs and risks;
 - c. Confirmation that the solicitation was fair, equitable, and unbiased;
 - d. Confirmation that the benchmark option was evaluated in the same manner as all other bids, with no inherent biases;
 - e. Confirmation that the evaluation criteria, weights, and scoring factors were applied consistently among all bids including the benchmark;
 - f. Confirmation that all bids provided consistent information and were fairly and consistently evaluated;
 - g. Assessment of the implication of the key contract terms and risk factors (i.e. credit requirements, liquidated damage provisions, etc.) on the evaluation and selection of bids;
 - h. Confirmation that the independent evaluator had access to all the data, models, model results, and other information necessary to render a thorough evaluation of the quality and comprehensiveness of the process;
 - i. Documentation that the confidentiality requirements of the exchange of information between PacifiCorp, the Independent Evaluator and the bidders were maintained at all times;
 - j. Confirmation that negotiations between PacifiCorp and bidders were conducted in a fair and consistent manner, with no undue biases toward any bidder. In addition, this assessment will identify any efforts on the part of PacifiCorp or the bidder to affect the timing of the negotiation process or attempt to inhibit good faith negotiations;

⁵ Please see Section VI of this Report

⁶ Please see Section VI of this Report

⁷ Please see Section II of this Report.

- k. Provide an overall assessment of the performance of PacifiCorp in carrying out the solicitation process relative to the criteria established by Merrimack Energy for evaluating such performance.⁸

Chapters V-VII address the first major task identified on the previous page. Chapter VIII addresses the fairness issues and scrutiny of the solicitation process.

Merrimack Energy has been actively involved in PacifiCorp's All Source and other recent solicitations that have led up to the All Source solicitation process 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; (2) receipt and evaluation/selection of proposals; and (3) monitoring contract negotiations. The objective of this involvement has been to ensure the process is fair and unbiased and provides the best deal for consumers and to raise any concerns along the way, if necessary, to ensure the process stays on track to meet these objectives.⁹

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

1. An overview of the competitive bidding requirements in Utah which serve to guide the implementation of the bidding process;
2. A list and description of the Scope of Work of the Independent Evaluator as well as the actual activities undertaken by the IE relative to the tasks included in the Utah statutes;
3. A list of the criteria relied upon by the IE to assess the performance of PacifiCorp during the solicitation process;
4. Background to the regulatory decisions and processes leading up to request for approval of the selected resource.
5. A brief description of the contents of the RFP document, including the objectives of the RFP, requirements of the bidders, the proposed evaluation process, Code of Conduct and other information. This information is included for reference purposes with regard to the discussion of PacifiCorp's performance;
6. A brief description of the activities undertaken by the IE at each stage of the solicitation process;

⁸ Please see Section VIII of this Report

⁹ It is important to note that the Company was ultimately responsible for all final decisions. The IE provided observations or input to the Company, Commission and Division as required.

7. Description and assessment of the entire competitive solicitation process including preparation for receipt of bids, bid evaluation and selection process for establishing the conditional shortlist of preferred proposals and the initial negotiation process to address conditions associated with each short listed proposal;
8. Description of the contract negotiation process including an assessment of the effectiveness of the negotiation process with the award group of bidder(s) as well as a risk assessment of the contract provisions included in the final contract between PacifiCorp and the project sponsors;
9. Assessment of PacifiCorp's performance in managing and implementing the process relative to the requirements outlined in the Utah Procurement Rules, key criteria for a fair and equitable solicitation process, and lessons learned from the process;
10. Conclusions and recommendations for improving the competitive bidding process.

II. 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 ¹⁰ 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

¹⁰ 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 designed to solicit a robust set of bids
- Be sufficiently flexible
- 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.

Merrimack Energy performed all these functions as IE in this process. Examples of the specific functions undertaken by Merrimack Energy are described within the Report for each of the phases of the solicitation process. This Report is the Final Report required of the IE as described above.

C. Criteria for an Effective Competitive Solicitation Process

Based on Merrimack Energy's experience with competitive bidding processes and observations regarding such processes, the key areas of inquiry and the underlying principles used by Merrimack Energy to evaluate this solicitation process includes the following:

1. Were the solicitation targets, principles and objectives clearly defined?
2. Did the solicitation process result in competitive benefits for customers?
3. Was the solicitation process designed to encourage broad participation from potential bidders?
4. Did PacifiCorp implement adequate outreach initiatives to encourage a significant response from bidders?
5. Was the solicitation process consistent, fair and equitable, comprehensive and unbiased to all bidders?
6. Were the bid evaluation and selection process and criteria reasonably transparent such that bidders would have a reasonable indication as to how they would be evaluated and selected?
7. Did the evaluation methodology reasonably identify how quantitative and qualitative measures would be considered and applied?
8. Did the Solicitation Documents describe the bidding guidelines, the bidding requirements to guide bidders in preparing and submitting their proposals, and the bid evaluation and selection criteria.
9. Did the utility adequately document the results of the evaluation and selection process?
10. Did the solicitation process include thorough, consistent and accurate information on which to evaluate bids, a consistent and equitable evaluation process, documentation of decisions, and guidelines for undertaking the solicitation process.
11. Did the solicitation process ensure that the Power Contracts were designed to minimize risk to the utility customers while ensuring that projects selected can be reasonably financed.
12. Did the solicitation process incorporate the unique aspects of the utility system and the preferences and requirements of the utility and its customers.

III. Background to the All Source Competitive Procurement Process

Based on the “twists and turns” the All Source RFP process has followed, a brief background on the regulatory decisions and history of the process is provided to understand the evolution of the solicitations and establish an overall perspective.

On December 21, 2007, pursuant to Utah Code Annotated 54-17-101, et. seq., Energy Resource Procurement Act and Commission Rules R746-420 et. seq., PacifiCorp, by and through its Rocky Mountain Power Division (“Company”) filed an application to the Public Service Commission of Utah (“Commission”) for purposes of opening a docket for the approval of a solicitation process for a flexible resource for the 2012 to 2017 time period (“2012-2017 RFP”), for appointment of Merrimack Energy as the Independent Evaluator for the solicitation process, and for approval of the acquisition of a significant energy resource. In its initial application, the Company also requested the Commission grant expedited review of the 2012-2017 RFP, and authorize the Company to begin working with the IE on the 2012-2017 RFP. The Company stated that the All Source RFP is a direct outgrowth of the 2012 RFP. During the evaluation stage of the 2012 RFP, the Company filed a request to amend the 2012 RFP to permit the inclusion of new Company benchmark resources to replace coal-based benchmark options, arguing that rapidly changing industry conditions had undermined the continuing viability of the 2012 RFP’s benchmark options.

On February 15, 2008, the Company filed a notice and application to the Commission for approval of the solicitation and solicitation process contained in the Company’s Draft 2008 All Source Request for Proposals (“All Source RFP”) to acquire or construct up to 2,000 megawatts of resources for calendar years 2012 to 2016. Comments were filed by interveners in March 2008. On April 11, 2008, the IE filed the Report of the Independent Evaluator regarding PacifiCorp’s All Source Request for Proposals. Reply comments were filed in April. On May 1, 2008 a hearing was conducted to hear comments on the April 25, 2008 version of the All Source RFP.

The Company represented that the All Source RFP will solicit bids to fulfill a portion of the capacity and energy resource needs identified by the Company in the 2007 IRP. The Company cites a resource deficit ranging from 2,446 MW in 2012 to 3,171 MW in 2016, assuming a 12 percent planning margin.

The Company proposed several benchmark resource options for the All Source RFP including the following: (1) Currant Creek 2, a natural gas-fired combined cycle unit rated at 535 to 700 MW; (2) Lake Side 2, a natural gas-fired combined cycle unit with a rated capacity of 550 to 580 MW; (3) three to seven advanced natural gas-fired simple cycle combustion turbines at one or more locations ranging from 250 MW to 290 MW per location.

At the hearing, outstanding issues were raised for Commission consideration and determination as to whether the Commission should approve, suggest modifications to, or reject the April 25, 2008 version of the All Source RFP. The Commission issued its

Suggested Modifications and Order on May 23, 2008. The issues addressed and the Commission decisions regarding each issue as stated in the Order are described below:

Credit – PacifiCorp has made improvements to the credit requirements from the 2012 RFP based on experience with the RFP, including requiring a commitment letter after selection of the final short list and establishing credit requirements for different resource categories. The Commission agreed to the credit requirements suggested by the IE.

Indexing – The Commission agreed with the Company that the Company’s proposal to include the option for bidders to index up to 40 percent of capital cost, with flexibility regarding alternate indices to be used, provides a reasonable balance between bidder flexibility and customer risk;

Resource Eligibility – The Commission concluded that the RFP must subject any coal bids to the full evaluation process in order to determine optimal least cost and least risk resources;

Proposal Options – The Commission agreed with the Company proposal to allow bidders to submit multiple options under a specified fee structure as a means of encouraging as many options as possible;

Price and Non-Price Evaluation – The Commission agreed with the IEs proposal to allow flexibility to adjust the pre-specified price range included in the RFP for evaluating the price scores of bids in Step 1. The Commission also agreed with that the benchmarks should be included in the price evaluation step in order to have a consistent evaluation of bids and benchmarks throughout the process;

CO2 Risk Allocation – Commission agreed with the IE that if a bidder wishes to offer a bid in which it proposes to assume all or a portion of the cost associated with potential future regulation of CO2 emissions, it may do so in an alternative bid;

Economic Evaluation Models and Methodologies – Commission directed the Company, IE and interested parties to develop a workgroup to review, and make recommendations regarding the Company’s criteria for selecting the resources from the highest performing portfolios that will advance to the short list and to report to the Commission on these issues.

Comparability – The Commission concurred with the IE that adequate measures can be employed in the All Source RFP to address comparability issues between bids and benchmarks, including adding increased flexibility regarding indices that can be used; increase the number of alternative bids that can be submitted, allow bidders to provide alternative bids which exclude security costs, and require bids and benchmarks to be evaluated in all steps of the evaluation process.

Blinding of Bids – Based on comments in this case, the Commission granted a waiver of the requirements in R746-420-3 to specifically blind bids for the All Source RFP.

On September 25, 2008, the Commission approved the revised All Source RFP filed by the Company on August 5, 2008 subject to editing changes.

On October 2, 2008, PacifiCorp issued the All Source RFP to the market and received bidder's proposals on December 16, 2008.

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, indicating the Company had determined it was not in the best interests of customers to proceed with the All Source RFP at that time in light of changes in economic and market conditions. The motion further requested that bidders should be allowed to either withdraw their bids or leave bids pending as the Company continued to assess the market over the next six to eight months. 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. The Company listed other changes to the All Source RFP that it would like to make to the approved RFP and argues that these changes are immaterial and therefore do not warrant approval by the Commission. The changes included a proposed schedule and a change to the benchmark resources to now include only benchmark at the Lake Side site (i.e. Lake Side 2). On October 19, 2009, the Division, IE, and Office of Consumer Services filed comments and recommendations. The IE and Division raised several issues with regard to the proposed schedule, notably to reduce the timeframe for completing the evaluation and negotiations.

The All Source RFP was subsequently reissued to the market on December 2, 2009 and sought up to 1,500 MW of cost-effective resources consisting of base load, intermediate load, and summer peak resources to meet the Company's system position during calendar years 2014 to 2016.

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

IV. Key Provisions of the All Source RFP

The key provisions of the RFP document and 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. As previously noted, the All Source RFP has evolved from the previous 2008 and 2012 RFPs and includes a few revisions which reflect lessons learned from previous procurement processes. In addition, several of the revisions reflect the May 23, 2008 Commission's Suggested Modifications and Order.

Exhibit 1 Provisions of the All Source RFP

RFP Characteristics	All Source RFP Provisions
Resource Requirements	PacifiCorp is seeking up to 1,500 MW of cost-effective resources consisting of Base Load, Intermediate Load and Summer Peak resources to meet the Company's System position during calendar years 2014 to 2016.
Resource Timing	PacifiCorp is seeking resources with an in-service date of either June 1, 2014, June 1, 2015 and/or June 1, 2016.
Eligibility	This RFP is focused on system-wide, east and west control area, energy and capacity generation which is capable of delivering energy and capacity in or to the Company's Network Transmission system. All energy and capacity resources must provide unit contingent or firm resource capacity and associated energy scheduled incremental to the company's existing capacity and energy resources and available for dispatch or scheduling by June 1, 2015, June 1, 2015 and/or June 1, 2016.
Resource Alternatives	Resource Alternatives include: (1) Power Purchase Agreement (PPA); (2) Tolling Service Agreement (TSA); (3) Asset Purchase and Sale Agreement (PacifiCorp sites); (4) Asset Purchase and Sale Agreement (Bidder site); (5) Purchase of an Existing Facility; (6) Purchase of a Portion of a facility jointly owned or operated by the Company; (7) Restructuring of an Existing PPA or Exchange Agreement as well as three exceptions; (8a) Load Curtailment; (8b) QF; (8c) Eligible Renewable Resource.
Bid Alternatives	Bidders are allowed to offer a base proposal and up to two alternatives, including index options, 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. Alternatives are limited to different bid sizes, contract terms, water cooling

	technology, in-service date and/or pricing structures.
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 second stage, bidders are required to submit their proposals and respond to the requirements for the type of resource alternative they are proposing. All bidders must submit the Form 1 Pricing Input Sheets. PacifiCorp will rely upon the information submitted by bidders to select a short list. In stage 3, bids which qualify for the initial short list will be required to provide their best and final pricing, with the requirement that the price bid must be within 10% of the bidders original bid selected in the initial short list.
Utility Bid Options	PacifiCorp proposed one Benchmark resource option, which is a gas-fired combined cycle unit at the Lake Side site.
Price Evaluation Process	<p>PacifiCorp proposed a multi-step price 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. Price will account for a 70% weight. The comparison metric will be the projected net present value revenue requirement per kW month. Bids with a price less than 60% of the adjusted price projection will receive all the 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>The results from Step 1 (price and non-price evaluation) will determine a short list of bids. Short listed bidders will then be subject to Step 2 of the price evaluation (development of optimized portfolios under various assumptions for future emission expense levels and market prices). In Step 3, 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.</p>
Non-Price Evaluation	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 include Development Feasibility/Risk, Site Control and Permitting, and Operational Viability/Risk Impacts
Detailed Evaluation	PacifiCorp intends to subject the short listed bidders to a detailed price/risk evaluation in three remaining steps. In Step 2 PacifiCorp will use Ventyx System Optimizer (previously the CEM model) to develop optimized portfolios under various assumptions for future emission levels and market prices. In

	<p>Step 3a, PacifiCorp will use the PaR model in stochastic mode to develop expected Present Value Revenue Requirements (PVRR) and tail risk PVRR measures for the optimal portfolios developed from Step 2. In Step 3b, PacifiCorp will subject the optimal portfolios to a more in-depth deterministic dispatch model using CEM with each portfolio being assessed for each of the future scenarios described in Step 2 above.</p>
Final Selections	<p>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>
Pricing Mechanism	<p>Bidders are allowed to index their capacity price and capital cost to variable indices. Bidders must provide a minimum of 60% of the capacity charge or capital cost as fixed and may index 40%. A maximum of up to 25% may be indexed to the Consumer Price Index and 15% to the PPI – Metals and Metal Products. The bidders will be allowed to index from the time of bid submission or contract execution until the earlier of the time the Bidder executes the EPC Agreement or the Bidder achieves project financing.</p>
Credit Requirements	<p>PacifiCorp provides Attachment 21: 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. Specific delivery points of</p>

	<p>primary interest to PacifiCorp are identified. 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 13 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 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.</p>
Imputed Debt	<p>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 acknowledgement or cost recovery for the resource selected. 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.</p>
Code of Conduct	<p>A Code of Conduct is included as Attachment 20 to the RFP. PacifiCorp committed to abide by a self-imposed Code of Conduct that will govern intra-company business relationships. These relationships and the team structures and responsibilities are described in the RFP. Chart 3 in the RFP describes the functions. Effectively, PacifiCorp established three teams: (1) Evaluation Team; (2) RFQ Team; and (3) Benchmark Team. Evaluation team members are classified into Blinded and Non-Blinded personnel. Non-blinded personnel include Credit and Legal and Risk. Other team members are blinded and are required to abide by the Code of Conduct with regard to blinding and sharing information with other teams.</p>
Role of the IE	<p>Attachment 4 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.</p>

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 10 months of issuance of the RFP and contract negotiations complete within 13 months from issuance.
Contracts Provided	The RFP document included a Power Purchase Agreement, a Tolling Service Agreement, Asset Purchase and Sale Agreement, Lake Side APSA Rights and Facilities.
Other Documents	The RFP also contained detailed information requested for each type of resource alternative bid, Credit Methodology, Code of Conduct, Role of the Independent Evaluator, Credit Commitment Letter, Pricing Input Sheet, Permitting and Construction Milestones, and other related documents.

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

V. Activities Undertaken by the IE During the Solicitation Process

This chapter provides a summary identification of the specific tasks undertaken by the IE during the solicitation process. These activities are presented for each of the three stages of the solicitation process: (1) Solicitation process development and approval; (2) Bid evaluation and selection process; and (3) contract negotiations.

A. Activities Undertaken by Merrimack Energy

1. Solicitation Process Approval

During the solicitation development phase, Merrimack Energy participated in the technical and stakeholders conferences and conducted calls and meetings with Commission and Division staff, Company personnel, and other interested parties to discuss RFP design issues. Merrimack Energy prepared a major report as required on the draft RFP and solicitation process that was filed with the Commission on April 11, 2008 and which served as a basis for suggesting changes to the RFP.

Merrimack Energy staff also participated in the Commission hearings dealing with the RFP design issues raised by the parties and provided comments on several of the major issues. Merrimack Energy staff participated in the workshop on the bid evaluation and pricing methodology and submitted comments. Merrimack Energy also participated in the RFP Bid Conference and the Technical Conference organized and presented for bidders by PacifiCorp Transmission at the suggestion of Merrimack Energy.

Also, questions and answers with bidders were distributed through Merrimack Energy's website. Merrimack Energy received over 140 questions via its website and posted the responses for bidders. We also posted other documents associated with the RFP on the website as well.

2. Solicitation Process Bid Monitoring and Evaluation

This stage of the process began with the issuance of the RFP originally on August 2, 2008 and after the suspension of the RFP, again on December 2, 2009.

Merrimack Energy participated in several conference calls with the benchmark team at PacifiCorp Energy to review and discuss the benchmark resources. In general, the IE reviewed the information submitted by PacifiCorp Energy on the benchmark bid and submitted a list of questions for discussions. PacifiCorp Energy provided both written and verbal responses to the IE. For the All Source RFP, the IE prepared several reports on the benchmark resources; one based on the initial proposals of the benchmark resources during the initial RFP process in 2008, another report on the single benchmark resource in February 2010 and a third report based on the benchmark resources best and final offer.

The IE also participated in several conference calls with PacifiCorp and the Oregon IEs to discuss the bid evaluation assumptions, address questions of the IE on the gas transportation and gas supply options for each proposal, and issues related to ensuring consistency between the costs included for both the benchmark and other 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. We also reviewed all the proposals and participated in conference calls with bidders to develop a “term sheet” of project information designed to assist PacifiCorp to develop complete and consistent information on which to model and evaluate each proposal. Merrimack Energy and the Oregon IEs also participated in a call with a disgruntled bidder who asked for a call with the IEs to address the bidders’ questions about bid eligibility.

Merrimack Energy also prepared monthly status reports on the bid evaluation and selection process and provided the reports to the Commission and Division staff. For the All Source RFP, the monthly status reports were initiated just prior to receipt of bids, addressed any key issues in the process, and focused on the bid evaluation and selection process. We were also actively involved in discussions with the Company about its decision to suspend the original 2008 solicitation process.

Merrimack Energy also undertook a detailed review and assessment of the quantitative 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 sent detailed presentations of the results of the Step 1 evaluation to the IE and held conference calls 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 and Step 3 evaluation results generated by PacifiCorp and participated in several conference calls to discuss the results.

3. Monitor Contract Negotiations

Subsequent to the selection of the short list of three projects (i.e. the benchmark, the CH2MHill proposal at Lake Side, and the prospective sale of the existing project by), the Company held follow-up discussions with each of the short listed bidders, with the objective of addressing outstanding issues associated with each project. The IE participated in select contract negotiation sessions and reviewed the information exchanged by PacifiCorp and each counterparty. Merrimack Energy prepared brief status reports for the Commission and Division on the status of the short list evaluation and contract negotiation process during this phase of the process.

VI. Description of the Bid Receipt, Evaluation and Selection Process

This section of the Report provides an assessment of the evaluation and selection process for the All Source RFP, including the period from release of the RFP in December 2009 to selection of the final short list in December 2010. This section also discusses the due diligence and contract negotiations activities as they affect final short list selection. Much of the information in this section of the report is from the report previously prepared by Merrimack Energy on the bid evaluation and selection process entitled “Evaluation and Selection of the Final Short List PacifiCorp All Source Request for Proposal” (“Short List Report”). This report was filed by the IE and posted in both Docket No.07-035-94 and Docket No. 10-035-126. In addition, we have included updated information and analysis prepared by PacifiCorp and submitted to the IE up through January 23, 2011. Much of the information contained in the above report is repeated in this report to ensure complete information on the solicitation process is provided herein. However, the Appendices from the Short List Report are not repeated in this Final Report.

In the RFP, PacifiCorp proposed a revised multi-step bid evaluation and selection process for the proposals received. In addition to the three step bid evaluation process, the proposed process would include an initial bid and best and final offer. In Step 1, proposals received will be evaluated based on a price and non-price screen with the purpose of determining an initial short list. Once the initial short list has been established, Bidders and the Benchmark will be required to provide their best and final pricing. Best and final pricing must be from the same site, using the same or equivalent technology bid and must be within 10% of the Bidder’s original bid(s) selected in the initial short list.

As noted in the RFP, the analysis would be focused on finding the best combination of resources to meet customer requirements at the least cost, on a risk adjusted basis. The evaluation process would utilize a screening process to derive an initial shortlist of bids (Step 1) which would be placed in a system-wide production cost model to determine the final short list (Steps 2 and 3). One of the roles of the IE with regard to the evaluation and selection process was to ensure the process was applied consistently with regard to the methodology and objectives outlined in the RFP or the Company had a valid reason to deviate from the stated approach.¹¹ Any deviations from the stated approach will be identified.

According to the RFP document, Step 1 of the evaluation process (i.e. Initial Short List) involves a price and non-price analysis of the eligible bids to determine an initial short list. PacifiCorp would use the RFP Base Model¹² to screen the proposals and to evaluate and determine the price ranking for the eligible bids received in each of three eligible resource categories: (1) base load resources; (2) intermediate load resources; and (3)

¹¹ One of the roles and functions of the IE as identified in the RFP includes access to all important models in order to analyze, operate and validate all important models, modeling techniques, assumptions and inputs utilized by the Soliciting Utility in the Solicitation Process, including evaluation of bids.

¹² The RFP Base Model is contained in a Microsoft Excel workbook that includes a number of proprietary Visual Basic macros, custom add-ins, and computational code written in C++.

summer peak load resources. Price was proposed to be weighted at 70% and non-price at 30%.

From a price perspective, the Company would compare the bid price to its adjusted market price projections (forward curve) and determine a price factor weighting based on the relationship between the two prices. As identified in the RFP, the comparison metric used by the Company for this analysis will be the projected net present value revenue requirements (PVRR) per kilowatt month (Net PVRR/kW-month). The net PVRR component views the value of the energy and capacity from the proposal 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. Price weights will be provided to each bid based on its relationship to the adjusted market price curve and on the range specified in the RFP document.¹³

The RFP also defines the non-price factors that would be considered in the evaluation and the weights for each. After completion of both the price and non-price factors, the scores would be combined and the bids ranked. The initial shortlist would be established using the combined price and non-price results. According to the RFP, the initial shortlist will include the top bids in each of the three eligible resource categories, up to two times the approximate megawatt needs for each year during the term.

As noted in the RFP, in Step 2, Ventyx Energy LLC's System Optimizer model (previously call the Capacity Expansion Model or CEM) would be used to develop optimized portfolios under various assumptions for future emission expense levels and market prices based on the initial shortlist. The objective in this step is for System Optimizer to develop a number of optimized portfolios – one for each combination of emission and wholesale electric market and natural gas price assumptions – based on the bids in the initial shortlist and the Company benchmark(s). An optimal portfolio will be established for each combination of emission and wholesale electric market and natural gas price assumptions. Each portfolio from the System Optimizer scenarios 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.

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

¹³ Merrimack Energy originally raised the issue that the use of pre-specified price ranges could lead to non-price weights having a primary impact on short list selection, if the pre-specified price range is inaccurate, contrary to the established criteria and objectives. In its May 23, 2008 Order on PacifiCorp All Source RFP Suggested Modifications and Order, the Commission concurred with the IE that the Company should be permitted to change the Step 1 pre-specified price ranges after the bids are received in the event that pre-specified price ranges no longer maintain the weights as intended.

using the Planning and Risk (PaR) model ¹⁴and Step 3(b) Deterministic Scenario Analysis using the System Optimizer model. ¹⁵Consistent 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 CO₂, fuel prices (natural gas and coal) and electricity prices on a scenario basis.

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.

The RFP also notes that the Company will further negotiate both price and non-price factors 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 including,

¹⁴ 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 2007 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.

¹⁵ 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.

but not limited to, CO2 risk to the extent the bidder enters into a CO2 indemnity or equivalent.

Proposal Submission and Related Activities

This section of the report will provide an overview and assessment of the activities undertaken by PacifiCorp leading up to receipt of proposals on March 1, 2010. In addition, the role of the IE throughout this process will be identified and described.

Bid Evaluation Methodology Conference/Commission Decision

As previously noted, on October 6, 2009, the Company filed a notice of intent to resume the All Source RFP and requested 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 the Commission's May 23, 2008 order in this case, and a date for stakeholders to file comments and conclusions on modeling and schedule.

The Commission's May 2008 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 short list resources from the highest performing portfolios. The Company shall report to the Commission its conclusions with respect to these two issues prior to bid evaluation.”

At the November 2, 2009 technical conference parties agreed the Company would file its proposal for addressing the issues raised in the May 2008 Order on November 12, 2009. On November 16, 2009, the Company filed its proposal for addressing the issues raised in the May Order. In its November 16, 2009 paper entitled “Final Short List Development for the All Source Request for Proposals,” the Company described both the mechanism for the comparison of alternative portfolios and the criteria for selecting resources from the highest performing portfolios.

The Company described 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 risk-adjusted mean present value revenue requirement (“PVRR”) across three assumed carbon dioxide (“CO2”) tax levels, \$8, \$45, and \$100 per ton. The risk-adjusted PVRR is calculated as the mean PVRR plus the expected value (EV) of the

95th percentile PVRR where EV equals Probability(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.¹⁶

The Company states that the final short list 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 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 3a, the Company keeps the resources in the top four portfolios fixed, but allows the model to dispatch the resources economically. Step 3a 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 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 MW identified to come on line 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.

Merrimack Energy reviewed the Company's November 16, 2009 report and concluded that the approach proposed by PacifiCorp appeared reasonable and consistent.

In the Order on Economic Modeling Issues, issued on February 24, 2010, the Commission accepted the Company's approach for comparing alternative portfolios with the following adjustments:

1. The Company must include in its range of CO₂ costs, a \$0 cost per ton in its deterministic and stochastic analyses and portfolio ranking metric (steps 2 and 3). The Commission further stated that the \$0 cost per ton assumption is necessary to understand the potential cost of compliance of a change in environmental regulation;
2. We concur with WRA/UCE that the Step 1 evaluation process needs modification. We direct the Company to establish its initial short list by

¹⁶ In its 2008 IRP, PacifiCorp discusses the various portfolio performance measures it applies. For the Customer Rate Impact measure, PacifiCorp states that it calculates the customer rate impact associated with each of the portfolios based on the stochastic production cost results and capital costs reported for the portfolio by the System Optimizer model. The rate impact measure is the levelized net present value of the year-to-year changes in the customer dollar-per-megawatt-hour price for the period 2009 through 2028. The cost in the rate numerator consist of the stochastic mean system operating cost (fuel cost, environmental cost, and variable O&M costs of all resources), combined with the fixed O&M and capital costs of the new supply-side and transmission resources. The rate denominator is the retail load.

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;

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 and secondarily based on customer rate impact;
4. We also accept the Company's proposal to advance the individual resource bids in the top-ranked portfolio to the final short list. However, the Company's proposal to rank these final short list 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;
5. The Company shall use the Step 3b results in its determination or ranking of the final short list and explain how it does so;
6. The Company does not indicate how it will use the Step 3b process in the final short list 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 short list and to explain how it does so.

RFP Bid Conference

PacifiCorp held an All Source Request for Proposal Bid Conference on December 15, 2009. The Bid Conference addressed the following issues:

- Overview of the All Source RFP
- Schedule and Timeline
- Resource alternatives
- Delivery points
- Bid fees
- Fixed and index pricing
- Benchmark resource
- Pricing input sheet
- Bid evaluation process and Steps involved
- Credit requirements

The Bid Conference was well attended by prospective bidders. A copy of the presentation made by PacifiCorp is included on PacifiCorp's and Merrimack Energy's websites.

PacifiCorp Transmission Technical Workshop

On January 19, 2010, PacifiCorp held a Transmission Technical Workshop for prospective bidders based on the Merrimack Energy's suggestions from the 2012 RFP. The workshop included a review and description of Attachment 13 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 on PacifiCorp's and Merrimack Energy's websites.

Input Assumptions

PacifiCorp submitted the input assumptions to the IEs on February 2, 2010 and provided an update on February 12, 2010. The objective of this stage of the process was for the IEs to review and critique the input assumptions and for the Company to subsequently lock down the assumptions prior to bid receipt. The list of assumptions that will be used in the evaluation of bids included forecasts and inputs for key parameters in a number of areas including:

- Load forecast
- Monthly forward price curves by market area. Forward price curves serve as the single source for forward electricity and natural gas prices for the company. The date of the forward price curves is December 31, 2009.
- Forecast of REC values
- Emission prices for SO₂ and CO₂
- Financial inputs including inflation forecasts, weighted average cost of capital, property tax rates, asset lives, etc.
- Market price scenarios that will be evaluated in Step 2 and 3
- Resource portfolio included in the 2010 resource plan. Also identified are the resources that will be removed from the plan for purposes of conducting the Step 2 and Step 3 analysis
- O&M cost estimates by type of resource for purposes of consistently evaluating resource ownership and acquisition options
- IRP operational data.

The IEs and PacifiCorp held a conference call on February 9, 2010 to discuss the assumptions and any issues associated with any values or the methodology for generating the forecast. The IEs asked questions relating to the basis for developing the forward price curves for electricity and natural gas, financial inputs, timing for developing the forward curves, and the basis of the O&M cost estimates and their relationship to the O&M costs for the benchmark.

PacifiCorp informed the IEs that for a number of assumptions, such as the forward curves, the Company used its most recent forecast as based on the most recent quarterly forecasts prepared for internal PacifiCorp budgetary analysis. Some inputs were taken from the recent IRP. However, in cases where more up to date information or forecasts were available than the most recent IRP, PacifiCorp would use that information instead. The IEs had no issues with this approach.

Exhibit 2 includes the twelve scenarios originally developed.¹⁷

Exhibit 2: Input Assumptions and Scenarios

Scenario	CO2 Tax (2008\$/ton)	Natural Gas Price Case
Base Case	\$8	12/31/09 Forward Price Curve – Base Case
1	\$45	12/31/09 Forward Price Curve – Base Case
2	\$70	12/31/09 Forward Price Curve – Base Case
3	\$100	12/31/09 Forward Price Curve – Base Case
4	\$8	Adjusted Low Case
5	\$45	Adjusted Low Case
6	\$70	Adjusted Low Case
7	\$100	Adjusted Low Case
8	\$8	Adjusted High Case
9	\$45	Adjusted High Case
10	\$70	Adjusted High Case
11	\$100	Adjusted High Case

Benchmark Resources

Another requirement for the IEs was to review and validate the assumptions and calculations of any benchmark resource options and analyze the Benchmark option(s) for reasonableness and consistency with the solicitation process prior to submission of third-party bids. To undertake this task the IEs held several meetings and phone calls with PacifiCorp’s Benchmark team to review and assess the benchmark resource, which consisted of a gas-fired combined cycle project at the Lake Side site (“Lake Side 2”).

PacifiCorp Energy submitted the benchmark resource to the IEs on February 15, 2010 as scheduled. PacifiCorp submitted one benchmark option in the base load category. The benchmark resource proposed is a nominal 600 MW gas-fired combined cycle project at the Lake Side site.

Consistent with the requirements of the IE for assessing the benchmark resource as identified in Utah Rule R746-420 Requests for Approval of a Solicitation Process, Merrimack Energy reviewed the detailed information submitted by PacifiCorp Energy and prepared a report on the benchmark. In preparation of the report, Merrimack Energy reviewed the information provided by PacifiCorp Energy, submitted a list of questions to PacifiCorp Energy, and participated in a lengthy conference call with PacifiCorp Energy and the Oregon IEs to review the benchmark and the responses to the questions.

¹⁷ As will be addressed later in the report, PacifiCorp also developed a scenario consisting of base case forward price curve assumptions along with a \$0/ton CO2 cost as required by the Commission.

Based on our review of the benchmark submittals, discussions with the Benchmark Team, and review and assessment of supporting information, Merrimack Energy reached the following conclusions with regard to the reasonableness of the Benchmark option:

1. PacifiCorp Energy developed detailed cost information about the benchmark resource and provided the background information to the IEs. The information presented in its submittal is consistent with the information required of any bidder. All relevant information is included in the cost of the benchmark option;
2. The capital cost estimate provided by PacifiCorp Energy for the benchmark cannot be considered a low ball estimate of the expected capital cost. In fact, we have found the capital cost estimates to be similar to or slightly higher than other recent projects of similar technology;
3. Fixed and variable O&M costs, availability factors, and heat rates for the benchmark resource are consistent with other resources of similar but not exact technology;
4. The benchmark option contains all the information required of other bidders. The level and detail of information provided by PacifiCorp Energy is very thorough and exceeds industry standards for benchmark resources at this stage in the process. However, it is expected that additional supporting information may be required for the best and final offer;
5. With the possible exception of O&M costs, we did not find any potential biases in the benchmark proposal that could favor the benchmark over other resources. We suggested that any third-party bids at Lake Side be evaluated using both the O&M assumptions prepared by PacifiCorp Energy and the “assumptions” for O&M contained in the overall evaluation methodology. In addition, PacifiCorp has indicated that other assets such as fuel transportation capacity, water rights, previous permitting work, etc. associated with Lake Side 2 will be made available to the successful bidder at Lake Side, if such a project emerges;
6. In our view, PacifiCorp Energy has conformed to the requirements of Rule R746-420 based on the information provided and their approach for providing the information.

Review of Gas Transportation Options

During the conference call on the input assumptions, Merrimack Energy requested that PacifiCorp prepare a matrix for each proposal identifying the gas pipeline transportation options for each bid, the transportation cost/tariff for each proposal and other information as the basis for evaluating the gas commodity cost and gas transportation cost for each proposal. Since fuel supply and transportation costs represent a significant portion of the total costs for a combined cycle unit, Merrimack Energy wanted to get a better handle on the relative cost drivers for each resource option. PacifiCorp prepared a sample matrix

based on the bids submitted in response to the 2008 All Source RFP as an example prior to receipt of bids.

PacifiCorp provided the matrix to the IEs and a conference call was held on February 26, 2010 to review the basis for the gas supply and transportation methodology to be used in the bid evaluation. PacifiCorp agreed to prepare a similar matrix for the actual bids submitted on March 1, 2010 in response to this All Source RFP and subsequently provided the requested information to the IEs for review.

Receipt of Bids

PacifiCorp received proposals on March 1, 2010. PacifiCorp received proposals in response to the RFP including the benchmark. The total capacity of the proposals submitted is approximately MW or nearly times the capacity requested. This included base load proposals with options and intermediate proposals with options.

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

Bid Summaries

One of the activities undertaken by PacifiCorp after receipt of the proposals is to prepare detailed summaries (or term sheets) for the eligible bids and work with bidders to ensure the input information is accurate before undertaking the Step 1 modeling activity.

Recent PacifiCorp bidding processes have included as an initial step in the evaluation process development of Bid Summaries to ensure that the Company and the bidders are consistent with their interpretation of the bidder's proposal. PacifiCorp is of the view that ensuring upfront that PacifiCorp's bid evaluation team is accurately capturing the specific details of the bidder's proposal will serve to ensure a consistent and accurate evaluation of the bids and eliminate any errors in the interpretation of the bids. The Utah IE agrees with this approach as being an important step in the process to avoid potential errors in the evaluation that could influence project selection and ranking.

To undertake this process, PacifiCorp completes a Bid Summary sheet for each proposal which is comprised of approximately 70 project characteristics ranging from pricing to operational characteristics to environmental factors. Once PacifiCorp completes the draft Bid Summary, the document is sent to the bidder to review and red-line, if any of the information compiled by PacifiCorp is deemed inaccurate by the bidder. PacifiCorp and the Bidders then hold conference calls to review the revisions proposed by the bidder and discuss interpretation of the differences and other characteristics in question. The IEs are invited to monitor these discussions. The Utah IE participated in select sessions and has reviewed the draft summaries. Merrimack Energy also asked PacifiCorp to provide final copies of all the Bid Summaries once they are completed and agreed to by PacifiCorp and bidder. PacifiCorp provided all draft and final copies to the IEs.

While we support this step in the process conceptually, we continue to be surprised that the process takes so long to complete. Although PacifiCorp received a robust response to the RFP we would suggest that PacifiCorp implement a schedule in the future designed to complete the process in 3-4 weeks at the most. In most cases, we feel that PacifiCorp needs to set specific milestones with the bidders, who in many cases do not complete the Bid Summaries on the schedule proposed.

Project Eligibility

Several 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. Several of the projects were eliminated from further consideration due to failure to meet the eligibility requirements.

In addition to the non-conforming bids mentioned above, a few project sponsors proposed pricing mechanisms that were inconsistent with the requirements of the RFP. PacifiCorp highlighted these inconsistencies to the bidder (i.e. use of non-approved indices) and requested that the bidders offer pricing proposals that meet the requirements of the RFP. The IE feels that the RFP is clear on the allowable pricing mechanisms and the options open to the bidders during the proposal development stage to request alternative indices. However, several bidders deviated from these requirements in their proposal submission including one bidder who made the same mistake in the previous RFP.

Data Requirements for Asset Purchase Options at the Lake Side Site

To ensure consistency in the evaluation of the benchmark bids and other resource options at the Lake Side site, PacifiCorp asked the IEs to consider using data on O&M costs, generator availability, water related costs and other costs prepared by the Benchmark team to assess the costs of the other relevant proposal. The IEs have agreed to this request since PacifiCorp will own and operate the project no matter who the best bidder at Lake Side happens to be. In addition, the benchmark and one other bidder for an asset sale at the Company site are proposing the same equipment and configuration. To maintain confidentiality of the data, the IE has received the data from the analyst for the benchmark resource (e.g. member of the IRP group) and transmitted the data to the evaluation team.

Implementation of the Bid Evaluation and Selection Process

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 resource diversity of the term and 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 will 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 three separate categories: (1) base load; (2) intermediate load; and (3) summer peak 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 compare the bid price to the forward price with the comparison metric being established as the projected net present value revenue requirement (net PVRR) per kilowatt month (Net PVRR/kW-month). 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.¹⁸ 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. PacifiCorp increased the ceiling to for the evaluation of base load bids and to for the evaluation of intermediate bids. The IE was in agreement with this revision since it was consistent with the Commission Order and addressed the concern raised by the IE during the Commission hearings on the RFP to maintain flexibility to adjust the floor and ceiling to maintain the proposed price weights in the Step 1 evaluation.

Non-price categories and sub-categories along with the weights for each as 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%)

¹⁸ The calculation of the price score is based on a two step process. In step 1, the ratio of the levelized cost to the levelized benefit for each bid is calculated. In step 2, the price score is determined based on the ratio in step 1 relative to the ceiling value. If the ratio in step 1 is greater than the ceiling value, the price score is zero. If the ratio is lower than the ceiling, the price score equals the difference between the ceiling and the ratio from step 1 divided by the difference between the ceiling and floor values times 70% or whatever the price weight.

- 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 (0-5%)
 - Environmental impact (0-2.5%)
 - Operating and maintenance plan (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.

During April and May, 2010 PacifiCorp completed the Step 1 evaluation process designed to select a short list for both the base load and intermediate bids. PacifiCorp's objective was to select short lists for each category comprised of up to 3,000 MW or 5 bids. According to the RFP schedule, short list selection was scheduled for completion by May 28, 2010.

For the Step 1 evaluation, PacifiCorp uses its RFP Base Model to screen proposals and to evaluate and determine the price scores and ranking based on the specific proposals and the forward price curves and transmission costs from Attachment 13 associated with the location of the project. PacifiCorp also evaluates all proposals relative to the non-price criteria established in the RFP.

The forward curves for electric and gas along with gas demand charges are important input factors in calculating the economics of the various project options since all projects evaluated were gas-fired projects.

Based on the results of the Step 1 evaluation, PacifiCorp prepared and submitted to the IE's in early May detailed presentations for base load and intermediate bids and provided password protected flash drives with the detailed backup model results and supporting information. In addition, PacifiCorp also provided bid summary information in table and graphic form for each bid.

As previously noted, prior to beginning the evaluation of bids, several proposals were eliminated due to failure to conform to the requirements of the RFP. However, it was eventually determined by PacifiCorp and agreed to by the IEs that these projects did not comply with the requirements of the RFP and should be eliminated prior to initiating Step 1.

Base Load Bids

A total of base load bids submitted by bidders, were evaluated in Step 1. The bids included variants. In addition, the benchmark bid is a base load option as well but is in addition to the bids described above. A total of approximately MW was submitted in this category.

The IEs were in agreement with PacifiCorp's selection of base load bids on the short list. However, Merrimack Energy did raise a few points with regard to the analysis methodology for consideration and discussion:

1. Potential for a term/project structure bias associated with the 40 year APSA versus a 20-25 year TSA;
2. Appropriate treatment and inclusion of all costs in the price evaluation;
3. Appropriate treatment of capital expenditures to ensure the project attains a 40 year life for any 40 year ownership option beyond the regular operations and maintenance costs included in the bid evaluation; and
4. Review of the methodology used by PacifiCorp for prorating transmission upgrade costs.

In response to the questions raised by Merrimack Energy, PacifiCorp responded that based on its forward curves, the level of dispatch and capacity factor for projects over time. PacifiCorp also stated that there were no on-going capital expenditures included in the evaluation of 40 year options beyond the costs embedded in the O&M cost forecast. PacifiCorp also explained that all costs were adequately accounted for each bid and described the methodology for allocating transmission costs. PacifiCorp provided reasonable explanations for the last three issues raised above. With regard to potential for term bias, it is difficult to determine if term bias exists based on the evaluation of bids.

Intermediate Bids

There were a larger number of intermediate bids than base load bids. In total, there were original intermediate bids defined by site and technology and bid variants submitted by separate bidders. Of the total, were TSAs, were APSAs, and were a combination TSA for a certain number of years with the option to purchase the project. In addition, there were a range of intermediate technologies proposed.

Bidders also proposed projects from new and existing units, fixed and escalating pricing from the same units, different terms from the same unit, and different acquisition prices based on the date of acquisition of the asset. As a result, there were a wide range of options to consider in the intermediate load category.

PacifiCorp selected proposals totaling MW for the intermediate resource shortlist. PacifiCorp's rationale, which Merrimack Energy agrees with, is that there is a logical split in scores between the top bids and the bottom bids that make this a logical choice for selection. Similar to the base load category, each bidder selected for the initial short list will have the opportunity to provide final/firm pricing for each bid variant.

The IE completed its own independent evaluation of the non-price scores for a large sample of the intermediate bids. We then compared our results for the non-price assessments to PacifiCorp's results. Our results were generally consistent with PacifiCorp's non-price scores. .

Conclusion 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 changes. Importantly, the adjustments were minor and did not lead to a change in the rankings. The evaluation results and analysis prepared by PacifiCorp was 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 both the base load and intermediate bids.

Updated Assumptions

In early July 2010, PacifiCorp provided the IEs with updated input assumptions that would be used for the Step 2 and Step 3 evaluations. A conference call was subsequently held on July 6, 2010 to discuss the updates. PacifiCorp's basis for updating the assumptions is the regulatory requirement to use better, more up-to-date information if available.

PacifiCorp also noted that the updates to the assumptions reflected revisions primarily to three variables:

1. Change in market price scenarios, including an update to base case CO2 costs;
2. Revision to the preferred portfolio;
3. Revision to the load forecast

With regard to the market price scenarios, PacifiCorp informed the IEs that it was revising the base CO2 price case from \$8/ton starting in 2013 in 2008\$ to \$19.00/ton in 2015 escalating at 3% in real terms. PacifiCorp proposed to keep the other CO2 cases the same (i.e. \$45, \$70 and \$100). The revision in the CO2 costs will also affect gas and power price forecasts. The market price curves were updated effective June 30, 2010.

PacifiCorp also removed a third proposed unit from the preferred portfolio for purposes of evaluating the shortlisted resources.

Finally, PacifiCorp updated its load forecast, which reflects a slight decrease in load from the March 2010 forecast because of the lower than expected industrial load in Wyoming.

Best and Final Offers

The next major step in the process was the preparation of the best and final offers from shortlisted bidders. Bids which qualified for the initial short list were required to provide their best and final pricing. According to the RFP, best and final pricing must be from the same site, using the same or equivalent technologies bid and must be within 10% of the Bidders original bid(s) selected in the initial shortlist.

The best and final offer for the benchmark resource was provided to the IEs in late June and the best and final offers for the third-party bids were provided by July 15, 2010 as required. Merrimack Energy provided an updated Benchmark Assessment Report to the Commission and Division in early July which highlighted the changes in project costs and other information associated with the benchmark proposal at the Lake Side site.

Merrimack Energy also reviewed the best and final offer prices submitted by each shortlisted bidder.

Step 2 Analysis: Portfolio Development/Optimization

On August 26, 2010 PacifiCorp provided the IEs with the initial results of the Step 2 evaluation. A follow-up call was scheduled on August 27, 2010 to discuss the results and answer any questions from the IEs.

As noted in the RFP document (page 60):

“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 market 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 along with the Company’s Benchmark Resources. An optimal portfolio will be established for each combination of emission and wholesale market and natural gas price assumptions. 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”.

PacifiCorp also provided the IEs with a revised short list assessment based on the updated “best and final” prices for the short listed bids. The results showed that the base load bids

were ranked highest consistently. The intermediate bids had market ratios that were two to three times higher than the base load bids.

Portfolio Options

For the Step 2 evaluation, PacifiCorp used Ventyx Energy's System Optimizer capacity expansion model to develop optimized portfolios using the bid and benchmark resources under a range of alternative cost assumptions. 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 and benchmark resources are selected under alternative futures modeled deterministically.

PacifiCorp evaluated portfolios for 13 cases with the intent of determining the optimal portfolio for each case:

1. Medium natural gas and \$0 CO2 price (2015\$ per ton)
2. Medium natural gas and \$19 CO2 price – Called Base
3. Medium natural gas and \$45 CO2 price
4. Medium natural gas and \$70 CO2 price
5. Medium natural gas and \$100 CO2 price
6. Low natural gas and \$19 CO2
7. Low natural gas and \$45 CO2
8. Low natural gas and \$70 CO2
9. Low natural gas and \$100 CO2
10. High natural gas and \$19 CO2
11. High natural gas and \$45 CO2
12. High natural gas and \$70 CO2
13. High natural gas and \$100 CO2

Resource Options

In conducting the evaluation of the portfolios, PacifiCorp based its analysis on a 12% planning capacity reserve margin and removed gas resources from the preferred portfolio in the 2012-2016 period in order to create a capacity deficit that the model fills with combinations of bid resources, benchmark resources, and firm market purchases up to prescribed limits by market hub. The following resources were removed from the preferred IRP portfolio:

- East PPA (natural gas resource: 200 MW in 2012)
- Natural gas-fired combined cycle unit: 607 MW in 2015

- Front office transactions (FOTs): 604 MW in 2012, 932 MW in 2013, 1,233 MW in 2014, 794 MW in 2015, 923 MW in 2016. For FOTs, the model was allowed to select the quantity and timing on an annual basis, subject to a maximum of 564 MW in the east and 850 MW in the west.

To reduce the impact of out-year resource optimization on bid/benchmark resource selection, resource additions beyond 2016 were fixed for all scenarios to match the base scenario portfolio selections except for front office transactions, which are needed for capacity balancing.

Results of the Step 2 Portfolio Evaluation

The results of the Step 2 evaluation are included in [redacted] of the Short List Report. The evaluation results illustrated that the CH2MHill APSA option at Lake Side II was selected as part of the optimal portfolio in all scenarios evaluated. The [redacted] option was selected as a second resource in four portfolios: (1) Medium gas and \$100 CO₂; (2) Low gas and \$70 CO₂; (3) Low gas and \$100 CO₂; and (4) High gas and \$100 CO₂.

The results of this analysis are not surprising based on the bid prices and project operational characteristics. It appeared based on the best and final offers that the Benchmark option at Lake Side and the CH2MHill option at Lake Side were the lowest cost and most efficient resource options.

On August 30, 2010, Merrimack Energy submitted a status report to the Utah Commission and Division on the Step 2 evaluation process (Portfolio Development/Optimization) associated with the bids submitted into the All Source RFP. As indicated in the Step 2 report, PacifiCorp had developed optimum portfolios of resources based on 13 cases which included a combination of three natural gas price cases (high, low, and medium) and four CO₂ price assumptions (\$19/ton, \$45/ton, \$70/ton and \$100/ton). PacifiCorp also evaluated a case which included base case gas prices (medium price case) and \$0/ton CO₂ case. The simulation period included in the evaluation is 2011 through 2030. PacifiCorp noted that the model reduces the output of coal plants and utilizes the [redacted] plant and other gas plants to lower CO₂ costs in the later years of the simulation.

Results of Step 3 – Risk Analysis

PacifiCorp then proceeded with Step 3 of the evaluation. The purpose of this step is to formulate stochastic cost and risk profiles for each of the unique portfolios developed from Step 2, and then identify the bid and benchmark resources that appear consistently in the top-performing portfolios based on both the cost and risk measures. The Step 3 Risk Analysis included both a stochastic analysis as well as a deterministic scenario analysis. The stochastic analysis gauges how a portfolio performs when outages, electricity and natural gas prices, loads and hydro generation are randomly drawn from probability distributions. The simulation is conducted for 100 model iterations using the sampled variable values and the base natural gas forward price curves. The capital and

fixed costs resulting from the System Optimizer portfolio is added to the net variable cost from the PaR simulation to derive a real-levelized PVRR. This stage in the process (Step 3a) provides information on the key risk parameters including:

1. Mean PVRR – mean of the PVRR for the 100 simulation iterations
2. 95th Percentile PVRR – 95th percentile for the 100 simulation iterations
3. Customer rate impact – levelized NPV of the year-to-year changes in the customer dollar-per-MWh price for 2011-2020
4. Risk-adjusted PVRR (preferred metric)
5. Variable cost standard deviation
6. CO2 emissions
7. Average energy not served

PacifiCorp has proposed that the main stochastic performance measure used to assess each resource portfolio is risk-adjusted PVRR. Risk-adjusted PVRR is calculated as the mean PVRR plus the expected value (EV) of the 95th percentile PVRR, where $EV = Probability(PVRR)95 \times 5\%$. Resource portfolios are ranked according to the average risk-adjusted PVRR across four CO2 cost levels: \$0/ton, \$19/ton, \$45/ton and \$100/ton.

On September 10, 2010, PacifiCorp submitted a draft report on the Step 2 and Step 3 process to the IEs. The results of this analysis indicated that portfolio 2 performed well relative to portfolio 1 under various CO2 price cases. In particular, on a Risk-adjusted PVRR basis, portfolio 2 outperformed portfolio 1 in all four CO2 scenarios evaluated (\$0/ton, \$19/ton, \$45/ton, and \$100/ton), with the difference ranging from million on a risk-adjusted PVRR basis based on a \$0/ton CO2 case to million based on a \$100/ton CO2 case. The average difference between the cases is million favoring portfolio 2.

In its September 10, 2010 draft report, PacifiCorp stated that given the small difference in risk-adjusted PVRR for the two portfolios, PacifiCorp next used the customer rate impact measure (based on the \$19/ton CO2 cost scenario and a 10 year net present value period) as a potential tie breaker for portfolio ranking purposes. However, the rate impacts for Portfolios 1 and 2 were virtually the same, which does not serve to differentiate portfolios.

PacifiCorp also presented the results to Step 3b, deterministic scenario analysis. The results illustrated that Portfolio 1 had a lower PVRR than Portfolio 2 in 8 of the 13 scenario runs, with an average difference of million. PacifiCorp concluded the results indicate that under deterministic forecasting assumptions, the benefit of including the plant in the portfolio comes mainly from its emission cost reduction value under aggressive greenhouse gas control policies that are assumed to commence in 2015.

However, despite the evaluation results, PacifiCorp originally selected the CH2MHill project and the benchmark resource for the final short list, since both options at the Lake Side site were very close from an overall cost and risk assessment standpoint. The project was not originally selected for the final short list. In the draft report, PacifiCorp stated that the plant was excluded from the final short list because of the

deterministic scenario results, which served as a portfolio performance tiebreaker. On or around September 16, 2010, PacifiCorp sent emails to bidders not selected for the final short list, including the _____ project.

During discussions about the resource evaluation and selection with PacifiCorp, Merrimack Energy, as Utah IE raised several issues about the selection of the shortlisted resources. First, Merrimack Energy questioned why the _____ project was also not included on the short list since the project performed very well in portfolios that included the CH2MHill project as well as _____ from the perspective of the Risk-adjusted PVRR metric, PacifiCorp's preferred metric for risk assessment. Second, PacifiCorp had also provided a demand/supply balance for its system which illustrated a shortage of generating capacity, with Front-Office Transactions (FOT) essentially meeting all or most of the incremental power requirements in the near term.

PacifiCorp asked the IEs for agreement to the selection of the CH2MHill project and the benchmark resource at Lake Side as the preferred resource options. Merrimack Energy suggested that PacifiCorp conduct additional due diligence on the _____ project to assess its transmission access and other risk parameters. While Merrimack Energy felt that additional due diligence should be undertaken on the _____ project given that PacifiCorp felt it conducted a conservative analysis of the project, it was obvious that portfolios 1 and 2 were close in terms of cost and risk measures based on the stochastic scenarios and deterministic scenarios under different CO2 cases. In addition, the IEs requested that PacifiCorp evaluate the cost of the benchmark relative to the CH2MHill project to determine the relative cost comparison (on a PVRR basis) for both projects. Finally, the IEs requested that PacifiCorp develop more detailed documentation supporting its decision to select portfolio 1 in the final report on the Step 2 and Step 3 process.

PacifiCorp provided an updated Final Short List Development Report and a Resource Needs Assessment Update to the IEs on September 14, 2010. One of the conclusions reached in the Report was that with no new resources added, PacifiCorp expects to experience a 1,300 MW capacity deficit in 2012, reaching just over 2,400 MW by 2016.¹⁹

PacifiCorp initiated a call with the IEs suggesting that based on the new offers and the results of their due diligence, they would like to reevaluate portfolio 2 with the lower acquisition cost and include the _____ project on the final short list. The IEs agreed with this suggestion given the potential benefits to consumers from the unsolicited price reductions.

On October 7, 2010 PacifiCorp provided its Final Short List Development Report to the IEs supporting the selection of three proposals for the final short list: (1) CH2MHill/Summit bid; (2) the PacifiCorp benchmark²⁰ and (3) _____. The report

¹⁹ This deficit does not include any resources that would be selected through this RFP or Front-Office Transactions.

²⁰ Although the Step 2 process did not allow for two projects to be selected from the same site, the Benchmark was included in the final short list because the 20 year PVRR difference between the Benchmark and the CH2MHill project was only \$23 million.

provides a step-by-step process, the decision criteria used to screen bids and benchmarks for final short-list selection, and the supporting information. In addition, PacifiCorp provided the backup information for each case. This report and the report of the Oregon IEs were filed in Oregon as the basis of acknowledgement of the short list.

Due to the lower capital cost for the _____ project, the Risk-Adjusted PVRR comparison between Portfolio 1 (CH2MHill only) and Portfolio 2 (CH2MHill and _____) illustrates a larger benefit associated with Portfolio 2 than the September 10, 2010 analysis illustrated. As the analysis illustrates, based on PacifiCorp's preferred methodology for assessing risk (Risk-Adjusted PVRR), the value of portfolio 2 relative to portfolio 1 has increased.

In the report, PacifiCorp indicated that it performed supplemental analysis to further evaluate the PVRR implications of including both the _____ and CH2MHill bids in the resource portfolio; specifically focusing on whether the _____ bid would displace or defer the 597 MW 2016 Currant Creek 2 combined cycle resource.²¹ This supplemental analysis showed that the 2016 Currant Creek 2 resource is displaced by the _____ bid. The PVRR benefit of the displacement is _____ million in the \$19/ton CO2 and base gas case scenario.²²

Finally, as presented in Table 7 of the October 7, 2010 report, the Step 3b Deterministic analysis illustrates that Portfolio 2 has a lower PVRR than Portfolio 1 in five of the 13 scenario runs. When average CO2 prices exceed \$45/ton, Portfolio 2 is favorable to Portfolio 1.

In conclusion, based on the bid evaluation modeling and consideration of resource acquisition risks, PacifiCorp chose two 2014 resources to include in the final short list and a _____ resource acquisition bid:

- 639 MW combined cycle plant at the Company's Lake Side, Utah site by CH2MHill in 2014;
- 631 MW combined cycle plant Company benchmark also on the Company's Lake Side, Utah site in 2014;
- .

PacifiCorp concluded that including each of these proposals in the final short list provides continuation of a competitive process that will help ensure acquisition of the lowest cost resource for customers.

Subsequent to short list selection, most of the activities performed by the IE in October and November 2010 focused on monitoring of contract negotiations between PacifiCorp

²¹ The Currant Creek 2 resource is not classified as an approved Benchmark resource for this analysis and represents only a "hypothetical" next resource option. The Utah and Oregon IEs have not had the opportunity to fully evaluate the resource costs since this resource has not been proposed as a benchmark resource.

²² The Currant Creek site has option value from the perspective that it will be available for future generation options.

and CH2MHill for the Lake Side II project and . At the same time, PacifiCorp staff was in the process of conducting detailed due diligence on the project to further assess the risks, costs, and reliability of the resource.

The Division staff and Merrimack Energy participated in a conference call with PacifiCorp on November 9, 2010 to discuss the status of the RFP process.

Also during November 2010, PacifiCorp continued negotiations with . PacifiCorp used the contract as a model. The IE monitored some of the discussions between the parties during November and the Division monitored at least one call. Also, during this period, PacifiCorp developed a project team, which conducted detailed due diligence on the project.

On December 8, 2010 PacifiCorp requested a conference call with the IE's to discuss the status of due diligence, contract negotiations, and the economic analysis of the short listed resource options. PacifiCorp prepared separate analysis for the Lake Side II options (i.e. CH2MHill and Benchmark resource) and the project. A conference call was held with PacifiCorp on Friday, December 10, 2010 to discuss the analysis memo and provide an update..

Lake Side II

In its analysis memo, PacifiCorp recommended executing the EPC contract with CH2MHill for million for the 637 MW combined cycle project. PacifiCorp estimated a total transfer to in-service cost of million which includes the EPC costs plus million for sales tax, million for owners' contingency costs, million for AFUDC, and for property taxes during construction. The recommendation is supported by the analysis which indicates that the CH2MHill project enjoys a \$27 million net present value revenue requirements benefit over the EPC contract with supporting the benchmark resource.

The analysis illustrates that although the benchmark has a slight capital cost advantage over the CH2MHill option, CH2MHill's proposal has a slightly better heat rate which provides benefits which are greater than the capital cost difference. In total, the million cost savings from the CH2MHill bid is driven by a million reduction in system variable cost that are partially offset by a million increase in fixed costs.

In addition to economic analysis, PacifiCorp also compared and contrasted the terms and conditions of the EPC contracts and concluded they are substantially similar.

Merrimack Energy was in agreement with PacifiCorp's decision to select the CH2MHill proposal at Lake Side as a preferred resource.

VII. Description of the Contract Negotiation Process

As previously noted, PacifiCorp completed its initial Step 2 and Step 3 evaluation in early September 2010 and sent a draft report to the IEs on September 10, 2010. Originally, PacifiCorp selected the CH2MHill Lake Side 2 project and the benchmark resource also at Lake Side as the final short list. As described in Section VI, PacifiCorp added the _____ project to the final short list in late September after notifying the bidder that it had not be chosen for the short list. The description of the contract negotiation process will therefore focus on two options: (1) discussion of the contract negotiation process with CH2MHill and PacifiCorp Generation for the benchmark option at the same site; and (2) discussion of contract negotiations with _____ for the _____ project. Since the negotiations were on separate paths it makes sense to separate the discussion.

CH2MHill and the Benchmark Resource

The economic results from early on the evaluation process pointed to a very competitive process between CH2MHill and the benchmark resource at the same Lake Side 2 site. As a result, only one of the options could be successful. CH2MHill would serve as the EPC contractor for their project while the benchmark team chose Zachry as the EPC for the benchmark resource.

As a first step, PacifiCorp's focus after receipt and evaluation of the best and final offers was to ensure that both EPC bids included the same cost information based on specific cost categories. The IE participated in calls with both the benchmark team and CH2MHill in which the PacifiCorp project manager requested that each option provide consistent cost information. PacifiCorp also asked clarifying questions about each resource to ensure all information was accurately accounted for in the bid evaluation process.

In mid-July, the benchmark team informed the PacifiCorp project lead that the Engineering, Procurement and Construction contingent contract for the Lake Side 2 project had been executed by _____ and PacifiCorp. The benchmark team noted that the EPC contract contained contingencies associated with the ongoing All Source RFP. PacifiCorp had the right under the contract to terminate the contract at any time in the event that the Notice to Proceed is not delivered to the Contractor prior to and including May 17, 2011, for any reason whatsoever. No fee or compensation would be owed to the Contractor by the Company under that scenario.

With regard to the CH2MHill offer, one of PacifiCorp's initial interests was to clarify the payment structure for the lump sum and progress payment options offered by CH2MHill. CH2MHill also provided a red-lined Asset Purchase and Sale Agreement to PacifiCorp along with a Term Sheet. PacifiCorp identified as an initial preference a lump sum payment structure for the project rather than a progress payment structure. The parties conducted several meetings during September and October to address the project structure.

On December 9, 2010 PacifiCorp sent the IEs an analysis supporting the recommendation to execute the EPC contract with CH2MHill. PacifiCorp indicated the recommendation is supported by a \$27 million favorable net present value revenue requirement (PVRR) benefit for the CH2MHill project relative to the benchmark resource alternative and the terms and conditions in the CH2MHill EPC contract for guaranteed performance and associated liquidated damage payments as compared to the EPC contract with supporting the benchmark resource alternative. In the analysis, PacifiCorp provides a detailed assessment of each option including the difference in commercial and legal terms of each offer.

The EPC contract with CH2MHill was executed on December 14, 2010.

VIII. Assessment of the Contract

This section of the Report provides a summary and assessment of the Engineering, Procurement, and Construction Contract (“EPC Contract”) for Lake Side 2 Power Project executed between PacifiCorp and CH2MHill Engineers, Inc. on December 14, 2010. Our review is focused on the balance of risk in the contract between customer interests, Company interests, and developer/EPC contractor interests. Merrimack Energy feels it is important in such a solicitation process to undertake an assessment of the contract to ensure there is an appropriate balance of risk and that the utility customers are not required to absorb undue risk.

In addition to the main contract, there are also 31 Exhibits. One Exhibit, Exhibit A, Statement of Work and Technical Specification includes 29 Appendices. Merrimack has organized the following discussion around the key issues and provisions in the EPC contract.

In the view of the IE, the EPC contract provides a significant amount of protection to PacifiCorp and its customers. Under the contract, PacifiCorp has a very active role in all facets of project design, engineering, and construction which provides PacifiCorp the opportunity to closely monitor project activities.

In summary, the Act, as codified at Utah Code §§ 54-17-101 et seq., creates a public interest standard for Commission review and approval of significant energy resource decisions. Our assessment of the terms and conditions of the Engineering, Procurement and Construction Contract for Lake Side 2 Power Plant between PacifiCorp and CH2MHill shows a well managed balancing of risk among customer interests, Company interests, and EPC contractor interests. Consistent with industry practices skillfully applied, the agreement is soundly structured. Within that structure, the risk is well managed in ways which are in the public interest. In particular, the Company has taken full advantage of the notice to proceed process by maintaining flexibility with limited exposure.

IX. Assessment of the Solicitation Process

This section of the Report provides our overall assessment of PacifiCorp’s solicitation process with respect to (1) the consistency of the process to the solicitation requirements included in Section R746-420-3 and Chapter 54 of the Utah Code; (2) consistency of the process to the overall objectives for an effective competitive procurement process; and (3) approach of PacifiCorp in dealing with key issues. In particular, issues associated with the fairness and transparency of the solicitation process are addressed in this section.

A. Consistency of the Process With Regard to Utah Statutes

Exhibit 3 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. 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 followed its processes and procedures up through the contract negotiation phase of the process for both the CH2MHill Lake Side 2 project and the _____ project. However, PacifiCorp’s decision to terminate due diligence and negotiations with the _____ project in light of fluctuating economic results for the project was surprising and in our view premature given the changing economic results and what appeared to be incomplete due diligence assessment. In addition, there are questions whether PacifiCorp followed its bid evaluation procedures and methodology in total.

Exhibit 3: Adherence of the Solicitation Process with Section R746-420

Solicitation Requirements included in Section R746-420-3	Adherence to Solicitation Requirements
<i>1. General Requirements</i>	
<ul style="list-style-type: none"> The solicitation process must be fair, reasonable and in the public interest 	<p>In our view, the solicitation process overall was generally fair, reasonable and in the public interest. All bidders and benchmarks were treated the same, had access to the same information at the same time, and had an equal opportunity to compete. PacifiCorp was very diligent in maintaining confidentiality of information throughout. Furthermore, the process was a very transparent process with active involvement and oversight by the IEs. As noted, the one area of concern was the final selection decision to prematurely terminate due diligence and terminate negotiations with the project.</p>
<ul style="list-style-type: none"> The solicitation process must be designed 	<p>In our view, the solicitation documents were</p>

<p>to lead to the acquisition of electricity at the lowest reasonable cost</p>	<p>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 state-of-the-art portfolio evaluation methodology proposed, the steps taken to achieve comparability between utility cost of service resources and third-party firm priced bids, the flexibility afforded bidders via a range of eligible resource alternatives, and the contract negotiation process and schedule implemented. The implementation of the solicitation was structured to maintain competition at every step of the process. PacifiCorp followed these principles very effectively with regard to the evaluation and negotiations with the CH2MHill Lake Side 2 option and the benchmark resource at Lake Side.</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 competitive pricing opportunities.</p>
<ul style="list-style-type: none"> The solicitation process should consider long and short term impacts, risk, reliability, financial impacts and other relevant factors 	<p>The All Source solicitation process met these requirements in both the bid evaluation and contract negotiation stage for the projects at the Company's Lake Side site. 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. The contract negotiation stage also addressed risk factors, financial impacts to the utility and its customers and reliability issues. As noted in this report, factors such as lack of transmission access to deliver the power to the PacifiCorp system in the near term were also considered in the decision to terminate negotiations with the project. However, PacifiCorp did not effectively demonstrate whether procurement of front office transactions or of was more consistent with these factors.</p>
<ul style="list-style-type: none"> Be designed to solicit a robust set of bids 	<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. In addition, PacifiCorp allowed</p>

	original bidders who submitted proposals in response to the 2008 RFP to keep their proposals open. Many of the bidders who originally participated in the 2008 RFP submitted bids or revised their original bids in the reinstated All Source RFP.
<ul style="list-style-type: none"> • Be sufficiently flexible 	This RFP was much more flexible than the previous 2012 RFP that maintained fairly rigid credit requirements. The timing for providing a commitment letter was changed until after short list selection. Also, 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.
<ul style="list-style-type: none"> • Be timely in the sense of ensuring adequate time is allotted to undertake the analysis and secure the resource 	PacifiCorp maintained its schedule very closely. For example, the schedule states that final evaluation of bids will be completed by September 10, 2010 and PacifiCorp provided its initial detailed analysis to the IEs on that date. PacifiCorp actually “beat” the scheduled completion of negotiation date for at least one of the resources – CH2MHill Lake Side 2 project. The ability of the Company to develop a reasonable schedule and follow the schedule was a positive step in the process.
<i>2. Screening Criteria – Screening in a Solicitation Process</i>	
<ul style="list-style-type: none"> • 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. 	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 transparency of the criteria allowed bidders to reflect the specific criteria in their proposals. The evaluation and selection methodology has been vetted through the Commission and with interested parties through the Economic Modeling workshop, hearings on the RFP, and involvement with the IRP. The IE and Division conducted several conference calls with the Company to review the criteria and were in general agreement with the criteria and evaluation methodologies used.

<ul style="list-style-type: none"> In developing the screening and evaluation criteria, the utility shall consider the assumptions in the utility's most recent IRP. 	<p>The Company used a consistent set of assumptions based on the assumptions used in the most recent IRP as well as forward price curves and updated load forecasts. The assumptions were consistent (e.g. fuel and CO2 costs), were of recent vintage, and were locked down prior to receipt of bids. PacifiCorp provided the assumptions and inputs with back-up support to the IEs prior to receipt of the bids. PacifiCorp provided the list of assumptions to the IEs in early February in preparation for receipt of initial bids on March 1, 2010 and updated some of the assumptions prior to receipt of best and final offers. In both cases, the IEs and PacifiCorp held conference calls to discuss the assumptions.</p>
<ul style="list-style-type: none"> The utility may consider non-conforming bids 	<p>Non-conforming bids were considered in the evaluation process, based on the failure of a few bidders to meet RFP requirements. For example, one bidder offered several options that did not deliver the power to PacifiCorp's system. Another bidder offered a project that did not meet the dispatch or operational requirements of the RFP. Instead of eliminating these bids at the outset, PacifiCorp offered the bidders the opportunity to conform their bids to RFP requirements. Only when the bidders informed PacifiCorp that they could not meet RFP requirements were the bids eliminated. PacifiCorp provided the opportunity to these bidders to conform their proposals to RFP requirements rather than eliminating the bid from consideration.</p>
<p><i>3. Screening Criteria – Request for Qualification and Request for Proposals</i></p>	
<ul style="list-style-type: none"> The soliciting utility may use a Request for Qualification (RFQ) process 	<p>PacifiCorp used an Intent to Bid Form process rather than a Request for Qualification process for the All Source RFP. While bidders were required to provide generally the same information as was requested in the 2012 Base Load RFP, the information presented by bidders was not used to formally pre-qualify bidders but served as a initial stage in requiring bidders to demonstrate their qualification 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</p>

	stage in the process.
<ul style="list-style-type: none"> 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. 	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. Since there was no requirement to blind bids, the IEs did not provide each eligible bidder a number in this process. See Section III of this report for a summary of the Commission Order.
<ul style="list-style-type: none"> Reasonable factors for the RFQ could include such factors as credit requirements, non-performance risk, technical experience, and financial feasibility. 	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, particularly in light of the change in credit requirements from the 2012 All Source RFP. As noted above, bidders were still required to submit Appendices A and B.
4. Disclosures – Benchmark Options	
<ul style="list-style-type: none"> Identify whether the Benchmark is an owned option or a purchase option 	PacifiCorp provided one benchmark option, a utility owned gas-fired combined cycle option at the Lake Side site.
<ul style="list-style-type: none"> If the option is an owned option, provide a detailed description of the facility, including operating and dispatch characteristics. 	The Company provided a reasonable description of the facility in Attachment 1 of the Appendix to the RFP document. PacifiCorp Energy provided all the same information as other bidders and submitted the proposal to the IE two weeks in advance of other bids as required. PacifiCorp Energy held conference calls with the IEs to review the bids and answer any questions.
<ul style="list-style-type: none"> Assurance from the utility that the Benchmark option will be validated by the IE and that no changes will be permitted 	It was clear to the IE that this was a requirement. The Benchmark team (i.e. PacifiCorp Energy) went out of their way to ensure that the IE had all pertinent information required. The Benchmark team provided very detailed line-by-line information on the resource, held conference calls with the IEs and Division to address any questions and provided all information requested. The IE submitted a report to the Commission validating the cost and operating information for the benchmark option.
<ul style="list-style-type: none"> Assurances that non-blinded personnel will not share any non-blinded information about the bidders 	The requirements of team members and the communication protocols were clearly described and explained to all members of the project teams. The IE worked very closely with the PacifiCorp project teams and is not aware of any cases where information about bidders was shared. PacifiCorp was exemplary in

	ensuring that the Code of Conduct, confidentiality requirements and communication requirements were adhered to. Any communications with PacifiCorp Energy was directly between the IE and PacifiCorp Energy and did not involve any members of the Bid Evaluation team. Questions for PacifiCorp Energy from the Bid Evaluation Team were transmitted by the IEs. We were not aware of any violations.
5. Disclosures – Evaluation Methodology	
<ul style="list-style-type: none"> 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. 	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 presentation, the Technical conference on the Economic Methodology, and the Transmission Technical Conference. The IRP was another source of information about the methodology.
6. Disclosures – Independent Evaluator	
<ul style="list-style-type: none"> 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. 	The RFP (e.g. Attachment 4) contains a description of the Role of the Independent Evaluator. In addition, the contact information for the Independent Evaluators is provided in the RFP and presentation materials. Bidders were also encouraged to contact the IEs either via Merrimack Energy’s website or directly.
7. General Requirements	
<ul style="list-style-type: none"> The solicitation must clearly describe the nature and relevant attributes of the requested resources 	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 specific resource, and in some cases specifications for resource options. In the case of the _____ project, where no comparable model contract was readily available on the website, PacifiCorp provided a model Asset Purchase agreement based on the _____ plant agreement.
<ul style="list-style-type: none"> 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. 	As noted above, the RFP documents were very transparent and detailed and met all the requirements listed in the Rules. The Transmission Technical conference also provided supporting information underlying

<ul style="list-style-type: none"> 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. 	<p>information about transmission constraints.</p> <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. For Step 2 and Step 3 results, the Company provided the detailed outputs for each case.</p>
<ul style="list-style-type: none"> Impose credit requirements that are and other bidding requirements that are non-discriminatory, fair, reasonable and in the public interest. 	<p>Overall, the IE was of the opinion that the level, type and schedule for posting security were reasonable and consistent with industry standards. In fact, the posting schedule was more flexible in favor of the bidder. With regard to the level and type of security one prospective bidder complimented PacifiCorp's security requirements in comments in another jurisdiction.</p> <p>The issue that was problematic in the 2012 RFP was the requirement that bidders had to provide a commitment letter from their credit support provider as a pre-qualification requirement. This was inconsistent with industry standards and was contrary to the way bidders approach project development. The timing required to provide the commitment letter was revised for the All Source RFP to be fairer to all bidders and more consistent with industry practices. To the best of our knowledge, there were no issues raised regarding credit requirements by bidders.</p>

<ul style="list-style-type: none"> • Permit a range of commercially reasonable alternatives to satisfy credit and security requirements 	<p>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.</p>
<ul style="list-style-type: none"> • Permit and encourage negotiations with short-listed bidders to balance increased value and risk. 	<p>The RFP document indicates that the Company will further negotiate both price and non-price factors during post-bid negotiations. The Company adhered to this position in its contract negotiation process. We found that the Company was very effective in negotiating terms and conditions as well as prices with the selected bidder that provided an excellent balance of value and risk that protects the interests of the Company and the customer. The contract structure negotiated provides many advantages to the Company and the customers.</p>
<ul style="list-style-type: none"> • Provide reasonable protection for confidential information. 	<p>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.</p>
<p>8. Process Requirements for a Benchmark Option</p>	
<ul style="list-style-type: none"> • Evaluation team may not be members of the Bid team or communicate with the Bid team about the solicitation process. 	<p>The RFP and Code of Conduct clearly described the teams and requirements for each team. Each team member was instructed in writing on the separation of functions and the Code of Conduct requirements. It is our understanding that team members also went through an in-house training process. These requirements were maintained throughout the process. To the best of our knowledge, there were no violations by any team members. Furthermore, the company identified the protocols clearly to bidders in its Bidders conference presentation. Communications with bidders involved the IE in all cases. We did not observe any violations associated with team members violating Code of Conduct</p>

	requirements. In fact, we observed the Company and team personnel observing the Code of Conduct and team separation requirements very seriously. The process was facilitated by the fact that many of PacifiCorp's same team members from previous RFPs were also part of the team for this RFP.
<ul style="list-style-type: none"> The names and titles of each member of the Bid team, non-blinded personnel, and evaluation team shall be provided to the IE. 	The names of individual team members were provided to the IEs as required along with the team to which they were assigned.
<ul style="list-style-type: none"> 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. 	All communications with bidders was conducted in conjunction with the IEs as required. The IEs were copied on all email traffic between PacifiCorp and the bidders. IEs were present on most calls with bidders and in some cases initiated the contact with the bidder.
<ul style="list-style-type: none"> Each team member must agree to all restrictions and conditions contained in the Commission rules. 	PacifiCorp was diligent in informing all team members of the confidentiality requirements of the solicitation process and requirements of each team member. It was also our recollection that team members were required to sign a confidentiality agreement. PacifiCorp conducted training sessions for team members and provided the information used for training to the IEs. In our view, PacifiCorp was very diligent about meeting these requirements and we were not aware of any violations.
<ul style="list-style-type: none"> All relevant costs and characteristics of the Benchmark options must be audited and validated by the IE prior to receiving any of the bids. 	The IE audited the Benchmark resource, conducted several meetings with the Benchmark team, and prepared a report on the findings. The report was submitted to the Commission and Division prior to receipt of bids. For this All Source RFP, the Utah IE prepared two benchmark reports; the first report corresponding to the initial bid in February 2010 and the second based on the Best and Final Offer in July 2010. Both reports are discussed in Section VI of this report.
<ul style="list-style-type: none"> All bids must be considered and evaluated against the Benchmark option on a fair and comparable basis. 	All bids were compared along with the Benchmark in Steps 1, 2 and 3 of the bid evaluation and selection process. The IE also noted that PacifiCorp effectively used the presence of the benchmark as a competitive resource to improve the contract with the selected resources.
<ul style="list-style-type: none"> Environmental risk and weight factors must be applied consistently and comparably to all bid responses and the benchmark option. 	Merrimack Energy undertook an independent evaluation of the non-price scores for the intermediate bids given the significant competition among these options. As

	previously noted, since all base load bids were selected for the short list, Merrimack Energy did not undertake a similar non-price evaluation on the base load bids and did not suggest that PacifiCorp undertake an assessment of the benchmark at this stage. Also, CO2 cost scenarios were evaluated in the portfolio evaluation.
9. Issuance of a Solicitation	
<ul style="list-style-type: none"> The utility shall issue the solicitation promptly after Commission approval. 	On October 26, 2009 the Commission approved the Company's request to resume the All Source and the RFP was issued on December 2, 2009.
<ul style="list-style-type: none"> Bids shall be submitted directly to the IE 	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"> The utility shall hold a pre-bid conference 	PacifiCorp held an RFP Bid Conference on December 15, 2009 as well as a Transmission Technical Conference on January 19, 2010.
10. Evaluation of Bids	
<ul style="list-style-type: none"> The IE shall blind all bids and supply blinded bids to the Utility and Division. 	As previously noted, the requirement to blind bids was waived by the Commission for this RFP.
<ul style="list-style-type: none"> 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. 	PacifiCorp provided the input assumptions, input files for gas supply and transportation costs, 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 and Step 3 processes. In addition, PacifiCorp Energy provided complete information on the benchmark option and responded in a timely manner to all questions or information requests. All necessary and required information was provided to the IEs as required.
<ul style="list-style-type: none"> The IE shall pursue a reasonable combination of auditing the utility's evaluation and conducting its own independent evaluation in consultation with the Division. 	The IE primarily audited the Company's pricing analysis rather than undertaking its own independent evaluation. The IE did undertake an independent non-price evaluation. In other bidding processes, the IE usually undertakes an independent non-price and at times an initial price evaluation process to verify short list selection. The IE did ask PacifiCorp to provide information to assist our review of the evaluation results including the inputs for the gas supply and transportation options for each of the bids.
<ul style="list-style-type: none"> Communications with Bidders should occur through the IE on a confidential or 	The IEs was involved in all communications with Bidders and maintained confidentiality

blinded basis.	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.
<ul style="list-style-type: none"> 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. 	PacifiCorp provided all documentation to the IEs associated with analysis results and inputs. For the Step 1, Step 2 and Step 3 evaluations, PacifiCorp provided all the 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.
<ul style="list-style-type: none"> The IE shall monitor any negotiations with short listed bidders. 	PacifiCorp informed the IEs of all contract negotiation sessions and provided the opportunity to participate; At the IEs request, PacifiCorp also prepared Issues lists and contract mark-ups during the contract negotiation process to allow the IEs and Division to keep up to date on the status of key contract negotiation issues. There were also negotiation status calls with the Company to discuss the negotiations. Merrimack Energy participated in many but not all the negotiation sessions.
<ul style="list-style-type: none"> The Division and IE may ask the PacifiCorp Transmission Group to conduct reasonable and necessary transmission analyses concerning bids received. 	Based on previous RFP experiences, the Utah requested that PacifiCorp Transmission conduct a Technical Workshop for bidders to explain Attachment 13, describe future transmission system upgrades, and also discuss the interconnection process. The Workshop was held on January 19, 2010.

B. Consistency of the Process With Regard to an Effective Competitive Solicitation Process

Merrimack Energy has developed a set of criteria that we generally use to evaluate the performance of the soliciting utility in implementing a competitive solicitation process. These criteria were identified on pages 22 and 23 of this Report. In this section, the performance of PacifiCorp is assessed in more detail.²³

This All Source Request for Proposals process was a detailed process, encompassing the development of the RFP through contract negotiations. Based on Merrimack Energy's experience with competitive bidding processes and observations regarding such processes, the key areas of inquiry and the underlying principles used by Merrimack Energy to evaluate the bid evaluation and selection process include the following:

²³ It should be noted that there is overlap with the criteria and assessment of PacifiCorp relative to the criteria since some of the criteria are consistent with the requirements identified in the Utah Statutes.

1. Were the solicitation targets, principles and objectives clearly defined?
2. Did the solicitation process result in competitive benefits from the process?
3. Was the solicitation process designed to encourage broad participation from potential bidders?
4. Did PacifiCorp implement adequate outreach initiatives to encourage a significant response from bidders?
5. Was the solicitation process consistent, fair and equitable, comprehensive and unbiased to all bidders?
6. Were the bid evaluation and selection process and criteria reasonably transparent such that bidders would have a reasonable indication as to how they would be evaluated and selected?
7. Did the evaluation methodology reasonably identify how quantitative and qualitative measures would be considered and applied?
8. Did the RFP documents (i.e. RFP, Attachments, Appendices, Pricing Form and Model Contracts) describe the bidding guidelines, the bidding requirements to guide bidders in preparing and submitting their proposals, and the bid evaluation and selection criteria.
9. Did the utility adequately document the results of the evaluation and selection process?
10. Did the solicitation process include thorough, consistent and accurate information on which to evaluate bids, a consistent and equitable evaluation process, documentation of decisions, and guidelines for undertaking the solicitation process.
11. Did the solicitation process ensure that the Power Contract was designed to minimize risk to the utility customers while ensuring that projects selected can be reasonably financed.
12. Did the solicitation process incorporate the unique aspects of the utility system and the preferences and requirements of the utility and its customers.

The implementation of the 2012 All Source Solicitation process relative to the characteristics identified previously is described below. Merrimack Energy has been involved in all aspects of the solicitation process.

1. Solicitation Targets

The RFP document clearly defined the amount of capacity requested, the timing for providing the capacity, the type of products and product characteristics required, the duration of the contract, and bidder eligibility.

2. Competitive Benefits

Competitive benefits can result from a process that encourages a large number of suppliers in combination with reasonable bidding standards and requirements and a balance of risk in the associated contracts such that the process leads to robust competition, lower prices for consumers, limited risk and reliability.

PacifiCorp's solicitation process encouraged a robust response from the market, with many large and significant project development firms participating in the process. The RFP documents are transparent and allow bidders to effectively reflect the contractual provisions in their pricing, since the model contracts for each of the primary product options included in the RFP. Importantly, PacifiCorp's approach to the process was designed to maintain competitive options throughout the process, from submission of bids through negotiation of the final contract. Furthermore, the process has been designed to incorporate market changes into the final pricing even of the selected project through the use of fixed and variable pricing components for capital costs and capacity charges. The application of the two-stage bidding process – initial bid/best and final offer – led to a more competitive and effective process since bidders could reflect market changes in their final bids and the time for completion of contract negotiations was reduced. As we have also noted, we feel PacifiCorp has expertly negotiated the contract with CH2MHill for the Lake Side II project and effectively utilized the presence of the benchmark option to extract value from the supplier to the benefit of customers.

3. Broad Participation from Potential Bidders

As noted above, the process encouraged a significant number of proposals as well as different technologies (e.g. gas-fired combined cycle units, several combustion turbine technologies, and reciprocating engines). Contrary to the 2012 RFP in which a number of prospective bidders submitted responses to the Pre-Qualification process but declined to submit a proposal, in this solicitation most bidders who submitted pre-qualification responses did submit a proposal. As noted in this report, the overall amount of capacity bid in the base load and intermediate categories significantly exceeded solicitation requirements.

4. Outreach Initiatives

PacifiCorp has done an effective job of maintaining communications with bidders and providing information to prospective bidders in their competitive solicitation processes. PacifiCorp has a large database of potential bidders and marketed the RFP to those prospective bidders. PacifiCorp also maintains a section on their website devoted to open RFPs which bidders could easily access. Also, through the solicitation process,

PacifiCorp initiated a Bidders conference and Transmission workshop. Finally, PacifiCorp allowed bidders to keep their projects open during suspension of the RFP and effectively allowed bidders to update their proposals. Finally, the hearing process in Utah allowed prospective bidder to have input into the RFP approval process.

5. The solicitation process should be consistent, fair and equitable, unbiased, and comprehensive

The principal areas of focus for our assessment of PacifiCorp's All Source RFP are on the RFP document and on the Company's performance in carrying out the process, from issuance of the RFP document to completion of contract negotiations. The key criteria (fair, equitable, consistent and unbiased) are applied to PacifiCorp's implementation of the evaluation and selection process as well as the Company's ability to adhere to the requirements outlined in the RFP document. Therefore, the critique will focus on the implementation of the process rather than specific issues regarding the process.

In our view, PacifiCorp's solicitation process was an open, fair and consistent process in which all bidders had access to the same information at the same time. This was ensured through use of a third party website (i.e. Merrimack Energy's website) and the role of the IEs. There were also a number of lessons through previous RFPs that were incorporated in this RFP. For example, the onerous credit requirements that created problems for bidders in the 2012 Base Load RFP were effectively revised for the All Source RFP to be more consistent with industry standards. As a result, it is our view that the final RFP document generally provided clear and comprehensive information about the requirements of bidders, product definition, schedule of the process, requirements for submitting a proposal, and the opportunities for competing. Bidders should have been able to understand how best to compete in such a process.

While it was our view that the bidding documents and materials were clear and comprehensive, several bidders still did not meet the requirements of the RFP.

The price evaluation methodologies were designed to evaluate bids using the same or consistent set of input parameters, assumptions, and modeling methodologies. This served to ensure a consistent evaluation of bids.

With regard to bias, the most obvious consideration is whether the process favors one type of resource option or bidder over another. While Merrimack Energy expressed some concern about the evaluation of ownership options with a 40 year project life versus a Tolling Service agreement with a contract term of 20-25 years, based on our review of the outputs and discussions with the Company and other IEs there did not appear to be undue bias in the evaluation.

With the exception of PacifiCorp's decision to prematurely terminate due diligence and contract negotiations with the _____ project, overall, PacifiCorp conducted the pre-qualification process, the bid evaluation and selection process, and contract negotiation process consistent with the bidding guidelines and requirements outlined in the RFP.

Finally, we do not believe the benchmark resource had any inherent advantage in the process. In our view, the benchmark was treated the same as any other bid. In sum, all bids provided the same information on which to conduct the evaluation. PacifiCorp was also diligent in ensuring that the offers at Lake Side II all provided the same cost information and there was no possibility that an “apples and oranges” comparison would take place.

Through contact with Bidders (in the presence of the IE) PacifiCorp made all reasonable efforts to provide consistent information to all bidders and to prevent disclosure of confidential bidder related information. PacifiCorp was inherently focused on ensuring that all bidders competed on an equal footing and had access to the same information and maintaining all communication protocols and Code of Conduct requirements. We are not aware of any violation of the Code of Conduct or communication protocols throughout the process.

PacifiCorp also established Project Teams and developed protocols which identified the relationships between the teams, including how access to blinded and non-blinded information will occur. In our view, PacifiCorp diligently followed its policies and procedures and were not aware of any violations of the Code of Conduct or protocols. Furthermore, all communications with Bidders was initiated in conjunction with the IE and the IEs and Division staff participated in all calls with Bidders.

Finally, the solicitation process was well structured to ensure that the information required in the RFP document was linked to the evaluation criteria.

6. Transparency of the Process

The RFP documents, workshops for bidders, interactive questions and answer process with bidders, and posting of key documents by the Company and IE all led to a process where bidders would have significant information about the process and be aware how to effectively compete. The information required of bidders was clear and concise as witnessed by the generally complete and consistent proposals submitted by bidders. In conclusion, it is our view that the solicitation process was a transparent process and in that regard was consistent with or exceeded industry standards.

7. Application of Quantitative and Qualitative Measures

The RFP document clearly articulated the quantitative and qualitative techniques and requirements associated with the evaluation process. The methodologies and models were clearly described in the RFP (which exceeds industry standards) and were also consistent with the Company’s Integrated Resource Plan. Also, the Pricing Input Sheets and Term Sheet process served to ensure bids would be evaluated on a consistent and unbiased manner. These processes took the “guess work” or interpretation out of the process. PacifiCorp also provided bidders the opportunity to utilize indices for their capital or capacity charges that could allow bidders the opportunity to match their costs with the

indexed pricing in their bids. Such indexing opportunities provided bidders with the ability to minimize market risk in their pricing proposals and served to put utility cost of service and third-party PPA or TSA's on a more level playing field.

PacifiCorp also consistently applied the non-price or qualitative evaluation criteria in the evaluation of the bids. Merrimack Energy conducted an independent review of the non-price evaluation of the intermediate bids and generally agreed with the non-price ranking and scoring completed by PacifiCorp. While we had a few differences in scores of select bids, the differences were not significant enough to influence the short list selection and ranking.²⁴

8. The RFP Documents should describe the process clearly and provide adequate information on which bidders could complete their proposals

This objective deals with the quality of the documents contained in the RFP package (i.e. RFP, Contracts, Bid Forms required of all bidders, and other Attachments and pertinent information) and the integration among the documents. PacifiCorp's RFP provided considerable detail regarding the information required of bidders, the basis for evaluation and selection, and the criteria of importance. The RFP process clearly provides a direct link between the RFP document, bid form and contracts. In our experience, the All Source RFP is a very detailed and complete document which provides a significant base of information to guide bidders in developing their proposals.

9. Documentation of Results

The price evaluation process (Steps 1, 2 and 3) was well documented and supported. The Company provided all necessary supporting information to the IEs, including details on the input assumptions, model outputs, and detailed summaries of results. Also, the Term Sheet process led to complete and thorough information on all bids. PacifiCorp also provided the IEs with Issues Lists and other information about the proposals during the contract negotiation process. The only shortcoming of this process was that the benchmark resource was not subject to the same price and non-price evaluation in Step 1 of the process as the other bids.

10. The solicitation process should include thorough, consistent, and accurate information on which to evaluate bids

The bid forms (Appendices A, B, C, D and G) require a significant amount of information that bidders must include in their proposals. The requirements for different Eligible Resource Alternatives vary and are clearly outlined in Chart 4 in the RFP. Based on PacifiCorp's evaluation process, the vast majority of this information is used in the analysis and is consistent with the evaluation criteria developed. The level of information provided ensured that PacifiCorp could undertake a consistent and comprehensive analysis of each proposal and reflect the individual attributes of each proposal in the

²⁴ Merrimack Energy substituted its non-price scores for PacifiCorp's scores and calculated a total price/non-price score. The results did not change materially.

evaluation. We did not find any biases in the evaluation criteria or process that could benefit the benchmark resources or other types of resource alternatives.

11. Contracts

Merrimack Energy reviewed the model contracts in the RFP to ensure the provisions were consistent with industry standards and provided a reasonable balance of risk. In addition, Merrimack Energy conducted a detailed review of the final Engineering, Procurement and Construction (EPC) Contract between the Company and CH2MHill for the Lake Side II project. Based on our review of this contract, we found that the contract was consistent with industry standards and provided a fair balance between the needs of the Company and its customers, as well as the bidder. In fact, in our view the contracts were expertly negotiated by PacifiCorp and provided enhanced value to customers while providing reasonable protection from risk of cost overruns or failure to perform by the EPC contractor.

12. Preferences and Requirements of the Utility

PacifiCorp clearly identified several important requirements that bidders must meet, including the requirement that power be delivered by the seller to the PacifiCorp control area, PacifiCorp will not be subject to Variable Interest Entity (VIE) treatment, along with other eligibility requirements. In particular, transmission requirements and VIE requirements are consistent with industry practices in a number of other RFP processes. These requirements were clearly described in the RFP.

C. Watch List Issues

At the beginning of the competitive bidding process, Merrimack Energy identified several issues which we felt could have a significant impact on the outcome of the process. In particular, we raised a number of issues in our original April 2008 Report on the Draft 2008 All Source RFP. These issues were referred to as “watch list” issues, meaning they merited special attention. Our scope of work requires that we address the watch list issues. A description of the watch list issues and a brief discussion regarding how these issues were addressed and resolved are included in this section.

Credit Requirements

Credit is a major issue in virtually competitive bidding processes. In addition, the approach to credit and security varies by utility with no set industry standard. Merrimack Energy was very critical of the credit assurance requirements in the 2012 RFP in which PacifiCorp required bidders to provide a commitment letter or Guaranty at the time of bid submission. PacifiCorp, with input from the IEs, decided to require a guaranty commitment letter from the entity providing guaranty credit assurances on behalf of the bidder only after a bidder is selected for the final short list. This revision was not subject to criticism by bidders as being inconsistent with industry standards and ensures that only bidders who are in negotiations for a contract will be required to provide such a commitment letter.

2. Comparability of resource evaluation related to assessment of third-party bids and benchmarks

In our April 2008 report, Merrimack Energy raised the issue of comparability between utility-owned resources and third-party PPAs or TSAs in the evaluation process. Comparability raises issues of fairness, equity and bias in the evaluation process.

Comparability is basically the treatment and evaluation of benchmarks and third-party firm price bids has been a major issue in competitive bidding processes, in cases where a utility cost of service option is competing against a firm price third-party PPA or TSA. Third-party bidders generally argue that utility cost of service bids have a distinct advantage because the bid price is based only on an estimate. The utility is usually able to recover actual costs incurred as long as the costs are deemed prudent. Therefore, the utility does not take price risk. Instead, the price risk is shifted to customers who incur the costs of a plant based on the actual costs to build and operate. The third-party firm price bidder, on the other hand, bids a firm price and takes the price risk if costs are higher or lower than estimated. The implications of evaluating a cost of service option versus a firm price PPA or TSA has raised issues about the best method to place the two bids on a more level playing field for bid evaluation purposes.

PacifiCorp has addressed comparability in its RFPs in several areas. First, PacifiCorp allows all bidders to submit index a portion of their bid price by pre-established indices. This serves to place third-party bids and cost of service options on a more level playing field. Second, bidders have the option of offering different alternative bids with multiple pricing options or structures. In fact, in the All Source RFP, several bidders offered both TSA and Asset Purchase and Sale options. Third, for this RFP PacifiCorp initiated a two-part pricing mechanism (initial bid and best and final offer). This mechanism allowed all bidders who made the short list to effectively provide firmer pricing closer to the time for contract negotiation.

3. Equality of Contract Provisions

An issue related to comparability is the different risk profiles associated with each contract structure and the possible benefit afforded to one type contract structure over another. For the 2012 RFP, Merrimack Energy undertook a detailed review of the different contracts (notably an Asset Purchase and Sale agreement where a utility would eventually assume ownership over the project on a cost of service basis and a TSA or PPA which allocates much of the risk to the third-party bidder) to ensure they included a reasonable balance of the risk or identify areas where there the risk was skewed to favor one contract structure over another. Merrimack Energy undertook a review of the contract with these issues in mind to ensure there is a reasonable balance in risk allocation. Since the contract provisions in the model contracts have not materially changes, we did not repeat that assessment for the All Source RFP.

4. Assessment of the modeling methodologies and applications of the models to be used

The modeling methodologies, input assumptions, and selection process always come under scrutiny in a bid evaluation process. One focus was whether the methodologies effectively address bids of different types, terms and in-service dates and therefore contained no inherent bias. In addition, it is important to assess whether the methodology accurately accounts for all costs and benefits. This initial issue was identified because such an issue is a typical watch list issue given the importance of the evaluation methods and models for producing consistent and detailed results. The modeling methodologies employed by PacifiCorp have also been vetted by the parties and the Commission as part of the Bid Evaluation Methodology Conference as established by the Commission and subsequent Commission Order.

After review, 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. 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.

5. Imputed Debt (Direct or Inferred Debt)

A constant source of controversy in competitive bidding processes is the treatment of imputed debt for third-party power projects. Some utilities include the fixed cost associated with power purchase or tolling service agreements as debt on the balance sheet and add these costs into the evaluation of bids. Third-party developers contend that imputing such costs provides a distinct competitive advantage for utility self-build options. However, utilities contend that debt characteristics of power purchase agreements impose real costs on utilities and must be accounted for in the bid evaluation process. PacifiCorp has proposed a creative approach to imputed debt that defers consideration until after completing the final short list and before the final resource selections are submitted for approval by the Utah Commission or acknowledgement by the Oregon Commission. The Company agreed not to take into account potential costs to the Company associated with imputed debt as part of its economic analysis in the initial or final short list evaluation. The IE supports this approach as allaying concerns of bidders or discouraging bidding if imputed debt is included as part of the initial bid evaluation process. We feel this approach will encourage bidders to participate in the process and is a positive step.

X. Conclusions and Recommendations

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 and selection process. The acquisition of the CH2MHill project at Lake Side is in the public interest and should lead to 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, risks, reliability and financial impacts on PacifiCorp. In that regard, the resource selected through this process represents a resource that was subject to detailed scrutiny and evaluation, was vetted through a fair and equitable process, is subject to a contractual arrangement that ensures an effective balance of risk with benefits to customers.

There were also a number of lessons learned, both positive and negative, from previous solicitations that can have positive impacts in designing and implementing the All Source procurement process.

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

Conclusions and Recommendations

- The solicitation process was undertaken in a fair, equitable and unbiased manner by the Company with the oversight of the IE up through the contract negotiation process. (reference: 2c – page 13) While the IE feels that PacifiCorp followed its procedures and processes in selecting and negotiating a contract with the CH2MHill Lake Side 2 project, the IE feels that PacifiCorp may have deviated from its stated procedures and evaluation methodology in its decision to suddenly and prematurely terminate due diligence and negotiations with the project, after previously selecting the project for the final short list based on its bid evaluation and selection process. While PacifiCorp did follow the process for evaluation and selection of resources, the IE is of the view that PacifiCorp prematurely terminated negotiations and due diligence on the project.
- The CH2MHill Lake Side 2 project was the lowest reasonable cost option for customers taking into account all costs and risks. This project was selected in all portfolios in both Steps 2 and 3 of the evaluation. In addition, PacifiCorp was able to effectively negotiate a contract with the project that balances risk to the developers and customers. (2b – page 13).
- PacifiCorp's analysis illustrates that Portfolio 2, which included both the CH2MHill project and the project, is the least cost portfolio on a Risk Adjusted PVRR basis under a range of CO2 cost scenarios ranging from \$0/ton to \$100/ton. PacifiCorp states that the reason that Portfolio 2 does better than Portfolio 1 on a stochastic cost basis is the opportunity for the plant to sell into the market. PacifiCorp also concludes that its due diligence demonstrates that

transmission access is not adequate to deliver the power from the facility to its load until 2016.

- PacifiCorp treated the benchmark option fairly and consistently relative to all other bids. The benchmark resource was required to provide the same information as all other bidders and was evaluated consistently. Furthermore, PacifiCorp took care in the evaluation to ensure all cost information provided by the bids at the Lake Side site was consistent and complete. PacifiCorp utilized the benchmark resource option expertly in this process to negotiate more favorable pricing and contract terms from competitive options. (reference: 2d – page 13)
- PacifiCorp undertook detailed due diligence in assessing the potential acquisition of the project as should be expected of such a resource acquisition process. PacifiCorp organized a due diligence team with expertise in a range of disciplines associated with power generation project ownership and operations.
- PacifiCorp has identified several reasons for terminating negotiations with the project including the resource is not used and useful and there are a number of uncertainties associated with transmission availability and access to the markets to sell the power from the project in the near term. (reference: 1d – page 13) As noted above, the IE is of the opinion that PacifiCorp terminated due diligence and negotiations prematurely with the project. (reference: 1f – page 13)
- The RFP process was a highly transparent process, providing detailed information about the requirements for bidding, the products requested, the evaluation methods and methodology, the evaluation process, bid evaluation criteria (both price and non-price), the weights for the criteria, information required of the bidder, requirements of the bidder for submitting its proposal, the schedule for undertaking the process, and risk parameters of the Company as identified in the RFP and related contracts. In conjunction with the role of the IEs throughout the process, in our view the transparency of the process significantly exceeds industry standards for other competitive bidding processes.
- The initial or indicative bid/best and final offer process 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. It is interesting to note that while most short listed base load options reduced their price from initial bid to best and final offer, intermediate bids generally resulted in an increase in the bid price. (reference: 1b – page 13)
- 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 120 questions and answers posted to Merrimack Energy's website prior to suspension of the All Source RFP in February 2009 and another 22 questions and answers after resumption of the All Source RFP.

- There was a robust response from the market for base load and intermediate resources with a wide range of project structures, project locations, and technologies proposed. The level of response to the RFP significantly exceeded bidding requirements and was sufficient to provide a competitive process throughout. The selected resource was a lowest cost option and should not possess the specific risks to development that other resources faced.
- The solicitation process led to the ultimate selection of only one resource for 2014 capacity in the amount substantially less than that requested in the RFP.
- 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.
- All bidders were treated the same and provided access to the same information, including both third-party bidders and the benchmark team. The PacifiCorp management team was very effective in providing consistent information to all bidders throughout the process, even during conference calls with bidders. (reference: 2f – page 13)
- The Code of Conduct and communication protocols were well developed and clearly identified in the RFP and were taken very seriously by PacifiCorp. Members of the bid teams were subject to training on the protocols prior to receipt of bids and were informed of the importance in following the protocols. We were not aware of any violations of PacifiCorp's Code of Conduct and communication protocols. The Company appeared to diligently follow the Code of Conduct and did not deviate from the requirements.
- The IE can document that the confidentiality requirements associated with the exchange of information between PacifiCorp, the IE and the bidders were maintained. The IEs were copied on all communication between PacifiCorp and the bidders and were invited to participate in all negotiations or discussions between PacifiCorp and any of the bidders. (reference: 2i – page 13)
- 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. Our only issue with

the bid summaries is that the process is fairly lengthy and could be shortened by informing bidders of a specified schedule for completing the bid summaries.

- 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. In some cases, bidders offered a short term tolling agreement followed by an Asset Purchase option in a specific year.
- While bidders offered several creative alternatives, PacifiCorp's models and methodologies were capable of effectively model such alternatives.
- PacifiCorp offered one of its own sites to Bidders, which provided several options for bidders to consider in structuring their proposals. This is not a common practice in competitive bidding processes.
- The Benchmark resources provided the same information required of all bidders. Furthermore, the Benchmark team provided detailed back-up information to the IE on the cost and operating characteristics of the benchmark resources and responded to all questions about the resources. The IE audited and validated the information and concluded that the cost and operation information was conservative and complete and was not intended to provide a "low ball" cost estimate. (reference: 2d – page 13)
- PacifiCorp evaluated the benchmark resources consistently with other bids in the Step 1, Step 2 and Step 3 phases of the price evaluation.
- 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 are state of the art and provide very comprehensive and complete evaluation results. (reference: 1e – page 13)
- 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 the base load options and intermediate options that allowed the IEs to easily review the results. Conference calls were also held with the IEs to discuss the results. PacifiCorp provided similar documentation for the Step 2 and Step 3 evaluations, including providing the IEs with detailed model runs. 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. (reference 2h – page 13)

- 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. (reference: 1e – page 13)
- The level of documentation supporting the resource evaluation and selection process was very detailed and significant. The Company provided the detailed back-up documentation to the IEs during the Step 2 and Step 3 evaluations.
- All bids were required to provide consistent information, including the benchmark resource. The Term Sheet process proved to be an excellent step to ensure that all bids provided consistent information and were fairly and consistently evaluated.
- The IE confirms that the negotiations between PacifiCorp and CH2MHill and PacifiCorp and _____ were conducted in a fair and consistent manner, with no undue biases toward any bidder. PacifiCorp negotiated fairly but aggressively throughout the negotiation process. There were no attempts on the part of PacifiCorp or the counterparty to affect the timing of the negotiations process attempt to inhibit good faith negotiations. In particular, we felt that PacifiCorp was able to leverage the presence of the benchmark resource to negotiate favorable price and commercial terms with CH2MHill for the Lake Side II project. In addition, PacifiCorp has secured a reduced price from the best and final offer. (reference: 2j – page 13)
- 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 120 questions were submitted and responses provided prior to suspension of the RFP and another 22 questions and answers were submitted after resumption of the RFP.

- 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.
- The RFP took several important steps in the right direction in moving toward comparability for third-party power purchase agreements and cost of service options. This included the allowance for indexing of capacity or capital costs, contract provisions designed to balance risk, the implementation of the two-stage pricing process (initial bid/best and final offer) and the recognition that contract negotiations would address both price and non-price factors. (reference: 1e – page 13)
- PacifiCorp made significant strides in developing a credit methodology, credit support amounts and a security posting schedule that leads to credit requirements that are consistent with industry standards and offer some flexibility to bidders. (reference 1e – page 13)
- PacifiCorp's decision to address imputed debt impacts at the bid selection phase of the process rather than in the initial evaluation phase is a positive step for encouraging third-party bidder participation and putting projects from third-party bidders on a more equal footing with utility cost of service options since the application of imputed debt is not included in the bid evaluation and selection process. (reference 1e – page 13)
- The information provided by the Benchmark resource options was totally consistent with the information required of third-party bids.
- The credit requirement issues that plagued the 2012 RFP were not an issue in the All Source RFP. PacifiCorp did make adjustments in the requirement for bidders to provide a guaranty commitment letter from the entity providing guaranty credit assurances on behalf of the bidder and/or necessary letter of credit commitment letter from the financial institution providing letter of credit assurances. The All Source RFP required that Bidders provide the guaranty commitment letter within 20 days after the Bidder is notified by the Company that the Bidder has been selected for the final short list rather than at the time of submission of pre-qualification information. None of the bidders raised credit as an issue in this solicitation.
- The evaluation criteria, weights, and scoring factors were generally applied consistently among all bids and the benchmark. The Step 1 evaluation was generally completed as outlined in the RFP. The price and non-price evaluation and scores were completed by PacifiCorp and provided to the IEs. PacifiCorp initially completed the evaluation of the base load bids and followed up with the evaluation of the intermediate bids. In both cases, Pacificorp provided detailed

documentation of the results to the IEs. Merrimack Energy conducted an independent assessment of the non-price scores for each of the intermediate bids and was able to verify PacifiCorp's rankings. Since all base load bids were selected for the short list (in agreement with the IEs), Merrimack Energy did not complete a non-price assessment for the base load bids. (reference: 2e – page 13)

- 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 required to vary the range for the intermediate bids to maintain the price/non-price balance.
- As noted by the IE in comments on the 2012 RFP, the blinding of bids by the IEs proved to be time consuming without much value to the process. The Commission granted a waiver from blinding of bids in this solicitation. The IE does not believe blinding the bids in this process would have added value. It is difficult to maintain anonymity and any attempt is a time consuming process. The ability of PacifiCorp to produce detailed output reports and the ability of the IE to review the reports and ask questions during the evaluation process is more than adequate to address any bias concerns. If blinding is to occur in future solicitations, the IE recommends that it be limited to questions and answers from bidders only.
- While a few bidders mentioned that indexing of capacity and capital costs has some value, the limited application of the indices does not meet the specific cost components that are of most concern to bidders. Bidders expect project costs, including equipment and EPC costs to continue to change, with EPC contractors unlikely to offer a fixed price proposal in the early stages of the bidding process. However, the opportunity for bidders on the short list to submit a best and final offer allowed the bidders to firm up the costs of their projects closer to time of contract negotiations. (reference: 1e – page 13)
- The Transmission workshop provided by PacifiCorp with the assistance of PacifiCorp Transmission is a valuable component of the process and provides the opportunity for bidders to get a better perspective on transmission projects, costs of interconnection, transmission constraints, and interconnection requirements. In most solicitation processes, transmission and interconnection are among the most complex and uncertain issues and PacifiCorp has taken a positive step in providing information to bidders with regard to these issues.
- In our view, timeframe for completing the solicitation process was reasonable and was certainly shorter than the 2012 process. While the indicative bid/best and final offer process added a few months to the evaluation process, the quality of the offers and the initiative taken by PacifiCorp to encourage bidders to review model contracts prior to negotiations was a positive. As a result, the contract negotiation process was quicker and more efficient.

- Our assessment of the terms and conditions of the Engineering, Procurement and Construction contract between PacifiCorp and CH2MHill for the Lake Side II project shows a well managed balancing of risk among customer interests, Company interests, and EPC contractor interests. Consistent with industry practices skillfully applied, the agreement is soundly structured. Within that structure, the risk is well managed in ways which benefit the customers of the Company. PacifiCorp has maintained an active role in monitoring and effectively overseeing project development and construction activities. (reference: 2g – page 13)