State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

GARY R. HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

MICHELE BECK
Director

To: Utah Public Service Commission

From: Office of Consumer Services
Michele Beck, Director
Béla Vastag, Utility Analyst

Date: May 22, 2020

Re: Application of Rocky Mountain Power for Approval of Solicitation Process for 2020 All Source Request for Proposals - Docket No. 20-035-05

Background

On April 9, 2020, Rocky Mountain Power filed an application with the Public Service Commission of Utah (PSC) for approval of an all-source solicitation process (2020AS RFP) for new resources that were identified as part of PacifiCorp's 2019 Integrated Resource Plan (IRP) preferred portfolio. On May 4, 2020, the Commission issued a Scheduling Order which set deadlines of May 22, 2020 and June 15, 2020 for parties to file initial and reply comments, respectively, in this proceeding. The Order also set a deadline of June 3, 2020 for the Independent Evaluator (IE) to file its report on the draft 2020AS RFP. Accordingly, the Utah Office of Consumer Services (OCS) submits these initial comments on PacifiCorp's draft 2020AS RFP.

Utah Standards for PSC Approval of a Request For Proposals (RFP) Solicitation Process

The Utah Energy Resource Procurement Act requires that when ruling on PacifiCorp's request for approval of a solicitation process, the PSC must determine whether the solicitation process:[1]

(ii) is in the public interest taking into consideration:
(A) whether [issuance of the RFP] will most likely result in the acquisition, production, and delivery of electricity at the lowest reasonable cost to the retail [Utah] customers of [PacifiCorp];
(B) long-term and short-term impacts;
(C) risk;
(D) reliability;

[1] Utah Code Ann. § 54-17-201(2)(c)(ii)(A)-(F).

(E) financial impacts on [PacifiCorp]; and
(F) other factors determined by the commission to be relevant.

Considering the above statutory standards for evaluating a utility's RFP for resources, the OCS provides the comments below identifying needed improvements to the draft 2020AS RFP to ensure that the final RFP is in the public interest.

Summary of Office of Consumer Services Comments
The OCS provides comments on the draft 2020AS RFP that address the following topics:

- Economic modeling of bids should include scenarios without the Gateway South transmission line;
- Certain risks are not fully addressed in the solicitation process;
- Existing resources should be allowed to bid;
- Solicitation documents should explain the differences in the way that BTA and PPA bids will be evaluated;
- System value curves and price scoring of bids should be clarified further; and,
- Load forecasts and price (electricity and gas) forecasts should be updated.

Modeling of Wyoming Transmission Resources to Determine Lowest Reasonable Cost
The PSC, in its Order on PacifiCorp's 2019 IRP, declined to acknowledge or approve Action Plan items concerning the Gateway South (GWS) transmission project. The PSC clearly stated in Section F of its May 13, 2020 IRP Order that PacifiCorp did not perform adequate modeling analyses, specifically not presenting any modeling results without the GWS project. The PSC's Order quoted the OCS' February 4, 2020 IRP Comments, which stated, "No analysis was provided in the late stages of the IRP process that explored cases without the [Gateway South] line – to verify that the new method of endogenous selection of transmission resources produced the most cost effective result."[2] Furthermore, the Commission noted that PacifiCorp "excluded from its modeling a potential alternative transmission expansion case evaluated by NTTG in its 2018-2019 Regional Transmission Plan that demonstrated sufficient merit to warrant PacifiCorp's further study."[3]

The PSC's IRP Order in the Synopsis section stated that it declined to order any additional process in the IRP docket because it expected that "the implications of this order on other proceedings will be determined in other dockets."[4] The OCS believes that this 2020AS RFP docket is such a proceeding in which PacifiCorp should perform economic evaluations to determine if constructing the GWS project will "result in the acquisition, production, and delivery of electricity at the lowest reasonable cost to the retail customers". However, based on our review of the RFP documents, the OCS finds no discussion of PacifiCorp's plans to address the PSC's concerns articulated in its 2019 IRP Order.

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[2] Utah PSC May 13, 2020 Order on PacifiCorp's 2019 IRP in Docket 19-035-02. At pg. 22 the PSC references the OCS' comments in footnote 22.
[3] Id. at pg. 22.
[4] Id. at Cover Page.

Given the almost $2 billion cost of the GWS project, the OCS agrees with the PSC that PacifiCorp should fully consider all transmission alternatives including performing "meaningful evaluation of scenarios that do not include Gateway South."[5] To that end, the OCS recommends the PSC should further direct PacifiCorp to incorporate plans within its RFP documents explaining how it will evaluate scenarios without the GWS project, and how it will consider other alternatives including the referenced NTTG alternative transmission expansion case. In response to discovery request OCS 1.14a[6], PacifiCorp explained that if GWS is denied, it would not move forward with agreements impacted by that transmission project. However, this raises questions about whether PacifiCorp would need to conduct further economic evaluations of all of the bids submitted in response to this RFP or whether it might have to issue a new RFP solicitation.

The OCS asserts that PacifiCorp should be as transparent as possible to ensure that all costs are properly reflected in the modeling analyses it performs, and finally, the OCS recommends that the Utah Independent Evaluator ("IE") be directed to pay particular attention to this issue in its oversight role of the RFP.

Risks that are Not Addressed in the Draft 2020AS RFP

PacifiCorp has not fully addressed various risks in its RFP documents, particularly in light of the PSC's recent 2019 IRP Order. As noted above, the PSC must determine that the solicitation process is in the public interest after considering factors such as whether risk factors have appropriately been addressed. In order to demonstrate that PacifiCorp has fully evaluated important risks and that the RFP-acquired resources will be part of the least-cost, least-risk plan, PacifiCorp should be required to address the following:

1. PacifiCorp should discuss its expected GWS construction schedule and explain how it plans to ensure it will complete construction by December 2024. PacifiCorp should also explain what will happen to bidders counting on qualifying for production tax credits (PTCs) that require their projects to be online by December 2024 if the GWS project is delayed. PacifiCorp did note in its response to discovery request OCS 1.14b that it will include off-ramp provisions or corrective measures negotiated into agreements that would address delays or cancellations. However, the OCS recommends that PacifiCorp provide additional information in its RFP documents describing the nature of these measures so that the PSC, potential bidders, and other interested parties will be aware of the contingencies that could occur in the event of a delay of the GWS project.

2. Since the preferred portfolio in the 2019 IRP was justified as being least cost on the basis of acquiring 1,900 MW of Eastern Wyoming wind, PacifiCorp should explain how it will mitigate the risk of the GWS project becoming uneconomic because either the RFP selects less than 1,900 MW of wind or less than 1,900 of wind is ultimately constructed in that region.

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[5] Id. at pg. 23.

[6] Data Request OCS 1.14 and all other discovery responses referenced in these comments, including OCS 1.07, 1.09, 1.17 and 1.19, are provided in a separate document and attached to these comments.

3. The OCS is concerned about another risk that the PSC discussed in its 2019 IRP Order, which relates to the fact that in the short time since the PSC's acknowledgement of the 2017 IRP, PacifiCorp has now proposed a "dramatic shift" to 40% renewables by the beginning of 2024. The PSC quoted the Division of Public Utilities (DPU) concern that the 2019 IRP may have pursued a low greenhouse gas (GHG) resource plan instead of finding the least-cost, least-risk preferred portfolio. As the PSC noted in its 2019 IRP Order at page 25, "…that premise [that the low GHG plan is least-cost, least-risk] has not been established, given our reservations about the limited scope of transmission alternatives examined in the 2019 IRP and the lack of analytical continuity with the last-acknowledged preferred portfolio." Given this concern, and in light of the changing economic conditions due to the COVID-19 pandemic and its potential impact on energy usage and demand forecasts, the OCS recommends that the PSC require PacifiCorp to explain how it will evaluate the risks of depending on the 2019 IRP preferred portfolio for the RFP bid evaluation, when the portfolio may not in fact be PacifiCorp's least cost, least risk plan.

Allowing Existing Resources to Bid

PacifiCorp's RFP documentation attached to its April 9, 2020 application for approval of its 2020AS RFP indicated that PacifiCorp would not accept bids from existing operating facilities,[7] and provided no explanation for this decision. Several bidders submitted questions on the RFP website asking PacifiCorp to explain the basis for its decision, and PacifiCorp responded to one of the bidder's questions "The all-source RFP is seeking incremental new resources consistent with PacifiCorp's 2019 IRP."[8]

The OCS believes there is no compelling reason to exclude existing operating facilities from being permitted to bid, especially if those facilities could possibly offer lower cost bids with less risk than bidders having to construct new facilities.

In response to discovery request OCS 1.17, which asked PacifiCorp to provide additional justification for its decision, PacifiCorp indicated that it believes new resources would be more technologically advanced and would be competitively priced. While that may be true, it still does not justify restricting existing resources from participating in the RFP, given it is possible that existing resources could also provide attractive bids that are technologically advanced. Furthermore, excluding existing resources from being allowed to participate is inconsistent with the fact that PacifiCorp considers this to be an all source RFP process.

The OCS is pleased that in the same data request response, PacifiCorp expressed a willingness to allow existing projects to bid in the 2020AS RFP, under the following conditions:

- Bidders could not terminate an existing contract in order to bid into the RFP.

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[7] 2020AS RFP at pg. 2.

[8] See RFP question 48 at: https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/suppliers/rfps/2020-all-source-request-for-proposals/documents/2020_All-Source_RFP_Questions_through_05-06-2020.pdf

- If any bidder has an existing contract with PacifiCorp, the contract will have to expire before the required on-line date of the new contract under the 2020AS RFP.
- Bids would have to meet all other requirements in the 2020AS RFP.

The OCS believes these conditions are reasonable and recommends that PacifiCorp be required to change its 2020AS RFP to allow existing facilities to bid based on these conditions.

2020AS RFP Documents Should Clearly Explain the Differences in the Way that BTA and PPA Bids are Evaluated

PacifiCorp's RFP process will be open to bids offering power purchase agreements (PPA), build-transfer agreements (BTA), stand-alone battery storage agreements (BSA), and bidder proposed alternative ownership structure agreements. While the different types of bid structures are discussed in the RFP documents, there are some potential variations in the way the different bid structures will be evaluated that may not be readily apparent to the bidders. The OCS has identified at least two potential differences and recommends the PSC require PacifiCorp to clearly explain all differences and discuss these differences in the final 2020AS RFP documents.

The first item the OCS has identified is the terminal value benefit that PacifiCorp intends to include in the evaluation of non-PPA resources. This benefit does not appear to be discussed in any of the RFP bid documents but was mentioned briefly in PacifiCorp's April 27, 2020 Oregon Stakeholder Workshop presentation.[9] Some additional information was provided in response to discovery request OCS 1.7, which stated that these benefits account for: "(1) development rights; (2) transmission assets (i.e., network upgrades); and (3) non-transmission infrastructure (i.e., roads). For each month starting from the commercial operation date (COD) of an asset, the remaining life of each component, after depreciation, is revalued at inflation. The terminal value of the project is the sum of the three components, after deprecation and revaluation, at the retirement date of the generation asset."

The OCS is concerned that PacifiCorp has not adequately justified the reasonableness of these terminal value benefits and is not convinced that they should be included exclusively in the evaluation of non-PPA resources. For example, PacifiCorp has not explained how these benefits will be derived, how significant these benefits are in determining the resource selection decision, or whether any offsets to the benefits will be included in the evaluation, such as accounting for site remediation costs. In addition, the OCS has a greater concern with regard to the GWS transmission project and is even more unconvinced of whether it should be included in the derivation of terminal value benefits

The second item the OCS has identified relates to the calculation of revenue requirements for BTA resources compared to PPA resources. The OCS is concerned that certain BTA

[9] The April 27, 2020 Oregon PUC 2020AS RFP presentation can be found here: https://edocs.puc.state.or.us/efdocs/HAH/um2059hah182226.pdf

capital revenue requirements may potentially be excluded from the cost evaluation process. This could occur because PacifiCorp essentially pays the capital costs of BTA resources in the same way it would pay for owned resources that it would build. In the economic evaluation, capital revenue requirements are derived for those resources using a regulatory revenue requirement calculation and the costs are recovered over the operating life of the resource, which for some wind resources may be 30 years. The OCS recommends that PacifiCorp clarify whether any of the revenue requirements will fall outside of the planning period and therefore be excluded from the economic evaluation. The OCS does not believe any costs would be excluded in the case of PPA resources as it believes all of the costs supplied by the bidder will in fact be used in the economic evaluation. The OCS recommends that PacifiCorp be required to clarify if some of the BTA costs will truly be excluded from the bid evaluation process, and if so, identify this difference in the final 2020AS RFP documents.

System Value Curves used for Price Scoring of RFP Bids

The price score comprises 75 of the total 100 points used to rank the initial RFP bids. Because of the importance of price scoring, the OCS believes PacifiCorp should expand on its discussion in the RFP document of system value curves in the calculation of price factors, and how it will use them to score initial bids as part of its evaluation to establish the Initial Short List (ISL). This is discussed in the draft RFP Section 6A, at pg. 27, which states:

> "*The cost of each bid will be netted against system-value curves, which will be developed and locked down with the IE in advance of receiving bids. The system-value curves will be developed from Planning and Risk (PaR) model simulations that will calculate the hourly marginal system energy value of a flat energy profile and the hourly marginal operating reserve value of a flat operating reserve profile, by location.*
>
> *Bid costs net of the applicable system-value will be used to assign a price score to each bid. This will be achieved by calculating an inflation-adjusted real-levelized net cost of capacity expressed in "$/kW" based on the capacity contribution of each bid. This value will be force ranked, with a maximum of 75 points to the evaluated bid with the highest calculated net benefit by location and resource type, a minimum of zero (0) points to the evaluated bid with the lowest calculated net benefit; and the remaining bids scored on the 0 to 75 point scale according to the relationship of their respective calculated net benefits to those of the highest and lowest bids*"

It does not appear that system value curves were used in the 2017R RFP, and while PacifiCorp supplied some additional details in response to discovery request OCS 1.9, the OCS believes that transparency would be increased and that bidders and other interested parties would benefit greatly by PacifiCorp including a step-by-step explanation of how the price score for each bid will be determined. This should include more details about how system value curves (both energy and operating reserve) will be derived, how the avoided cost calculations will be performed, how the curves will be derived on a locational basis, why 50 megawatts (MW) is appropriate as the size of the flat energy profile when bids may actually be much larger than that, and why avoided operating reserve benefits are being included as a separate benefit value.[10]

In addition, in response to discovery request OCS 1.9c, PacifiCorp stated that "the size of preferred portfolio resources in the location being evaluated will be reduced by half to better represent the average energy value of resources in that location, rather than adding an additional 50 MW on top of all of the preferred portfolio resources in that location, absent this adjustment." PacifiCorp should make clear the purpose of this step, when it will be performed, and why it is necessary.

Updates to Forecasts – Loads and Prices

In response to a discovery question about the use of updated forecasts in PacifiCorp's bid evaluation process (discovery request OCS 1.19), PacifiCorp stated that it will use system loads "updated to the latest load forecast", and that electric and natural gas prices will be updated for the initial RFP bid evaluation (for the ISL) to the June 2020 forecast. The OCS requests more specificity about the date that the newest load forecast will be developed for each stage of the RFP evaluation, especially to understand whether any impacts due to the COVID-19 virus would be reflected in the forecast. In addition, PacifiCorp stated in OCS 1.19 that "for the final RFP screening, the electric and natural gas prices are anticipated to be updated to the March 2021 price forecast." The OCS also recommends that PacifiCorp be required to update its load forecast, and its electric and natural gas price forecasts at the time it performs its final RFP screening since there will be much greater clarity about the COVID-19 virus impacts at that time.

Recommendations

For the final version of the 2020AS RFP, the OCS recommends that the PSC require PacifiCorp to:

1. Explain how it will perform meaningful evaluations of scenarios without GWS, and how it will consider other alternatives such as in the NTTG 2018-2019 Plan.
2. Address the risks that the OCS has identified:
    a. GWS construction is delayed;
    b. Too few WY wind bids are selected to make GWS economical; and,
    c. Whether the 2019 IRP preferred portfolio which targets a low GHG resource plan is actually PacifiCorp's least cost, least risk plan.
3. Allow existing resources to bid under the conditions suggested by the Company in its response to discovery request OCS 1.17.
4. Update the RFP document to clearly explain all the ways in which BTA and PPA bids are evaluated differently.
5. Update the RFP document to better explain how system value curves are derived and used in price scoring and bid ranking and specifically explain the purpose of the step in which the size of the resources is reduced to half.
6. Identify the exact vintage of the load forecast that will be used for each stage of RFP bid evaluation and commit to using recently updated load and price forecasts for each evaluation stage.

[10] For clarification, PacifiCorp should explain why the operating reserve benefit is not already captured in the derivation of the avoided energy benefit.

CC: Chris Parker, Division of Public Utilities
Jana Saba, Rocky Mountain Power
Electronic Distribution List