

PacifiCorp 2012 RFP Stakeholders' Meeting

January 31, 2007



Areas of Review by Accion

- Draft PPAs
- Draft Tolling Agreements
- Bidder Qualifications & Credit Requirements
- Benchmark Requirements
- Facility Requirements
- Fuel Supply Requirements
- Process & Draft RFP
- Code of Conduct



Materials Under Review

- Owner's Development Assumptions
- Owner's Costs under APSA
- S& P Inferred Debt Method

Materials Given Limited Review

Accion Group reviewed the following documents to only confirm they were provided by PacifiCorp to prospective bidders.

The sufficiency and legal significance of the documents must be determined by bidders.

Site Purchase Agreement

Real Property Purchase and Sale Agreement



IE Preliminary Review

- RFP documents are clear and comprehensive.
- The products sought are adequately defined.
- Proposed RFP protocols are reasonable.
- If implemented as designed, PacifiCorp's protocols could provide for a fair and transparent RFP.
- Credit requirements are within the range of other RFPs.
- The benchmark descriptions are sufficient for marketers to understand parameters.

Areas Undergoing Further Review

- Bidder qualifications requirements.
- Code of Conduct:
 - Training materials
 - Affiliate separation
 - Protocols
- Communication Protocols.
- Limits on post-bid negotiation of terms to meet technical and operational requirements:
 - PPAs
 - Tolling Agreements

First Stakeholders Meeting Issues

Subject Area	Comment Summary	Discussion Point
RFP STRUCTURE	6. Should bidders be asked to offer flexibility in their project timelines	6. IE to review whether RFP provides sufficient flexibility.
ENVIRONMENTAL	1 CO ₂ risk Carbon Sequestration Value and timing of carbon reduction strategy for coal.	IE will identify policy choices and issues that will address CO ₂ risk, etc., but are beyond scope of the RFP. E.g., emission policy, Cap & Trade, generation performance standards. I.e., what needs to be addressed by public policy officials. IE will review trigger analysis and scenario planning. Description of evaluation modeling to be included in IE report.

First Stakeholders Meeting Issues

Subject Area	Comment Summary	Discussion Point
<p>COAL GENERATION</p>	<p>CO₂ risk Cost vs. risk not sufficiently developed CO₂ regulatory costs should be included (as per 2004 IRP) in order to establish difference B/T pulverized coal plant & IGCC plant.</p>	<p>These items were addressed in discussion of environmental issues.</p> <p>Items 1 & 2: Least cost vs. least risk is a policy decision that must be proven by PacifiCorp.</p> <p>Quantifying the value of CO₂ adder is reviewed every two years in IRP process..</p>

Competitive Bidding Guidelines Issues

- PacifiCorp's RFP processes & protocols generally comply with all Commission Competitive Bidding Guidelines
- If processes & protocols are implemented as designed, the RFP should be fair and transparent
- With Commission's finding that RFP is not aligned with IRP, we believe it appropriate for PacifiCorp to accept and evaluate bids from non-baseload resources for terms shorter than 5 years, and for seasonal periods.
- A qualified bidder providing adequate security should be permitted to bid an IGCC as a PPA or Tolling Agreement product.
- RFP changes to comply with Utah Commission Order have not been reviewed.
- RFP allows bidder flexibility in structuring bids.
- RFP process does not have obvious bias for any product over others.
- Evaluation process is still under review.
- All assumptions & evaluation data are under review.





PRELIMINARY THOUGHTS ON BID AND
BENCHMARK EVALUATION METHODS IN
PACIFICORP'S 2012 RFP

PREPARED TO AID DISCUSSION
IN THE SECOND STAKEHOLDER MEETING

PREPARED BY:
BOSTON PACIFIC COMPANY, INC.

JANUARY 31, 2007



OUTLINE

- I. TO ASSURE THE BEST DEAL FOR RATEPAYERS, THE METHODS FOR BID AND BENCHMARK EVALUATION MUST BE FAIR AND TRANSPARENT
- II. ALIGNMENT OF THE RFP WITH AN ACKNOWLEDGED IRP
- III. RATEPAYER RISK ACROSS TRANSACTION TYPES
- IV. RATEPAYER RISK ACROSS TECHNOLOGY TYPES



OUTLINE

V. THE RISK OF FUTURE CO₂ REGULATION

VI. IMPUTED DEBT

VII. NETWORK RESOURCE STATUS

VIII. DETAILED ANALYTICAL TECHNIQUES
EMBEDDED IN MODELS

IX. STAKEHOLDER FEEDBACK



I. TO ASSURE THE BEST DEAL FOR RATEPAYERS,
THE METHODS FOR BID AND BENCHMARK
EVALUATION MUST BE FAIR AND
TRANSPARENT

A. Why Fair and Transparent?

1. Attracts bidders
2. Promotes aggressive bidding
3. Provides credible evidence to ratepayers
4. Complies with FERC and Oregon Commission Guidelines



I. TO ASSURE THE BEST DEAL FOR RATEPAYERS,
THE METHODS FOR BID AND BENCHMARK
EVALUATION MUST BE FAIR AND
TRANSPARENT

B. How to Achieve Fairness and Transparency?

1. Precisely define product(s)
2. All parties bid under same non-price terms
3. Price only (or price mostly) evaluation



II. ALIGNMENT OF THE RFP WITH AN ACKNOWLEDGED IRP

A. The Oregon Commission has ruled that the RFP is not aligned with an acknowledged IRP

1. Neither level or nature of need is agreed upon

Year	PacifiCorp*	Oregon Commission**	Utah Commission***
2012	808 MW	157 MW	N.A.
2013	1,109 MW	335 MW	1,700 MW
Nature	Baseload	Peaking	Baseload

* PacifiCorp – November 1, 2006 Draft RFP p. 6.

** UM1208 – Order No. 07-018 "Disposition: Request for Approval of Draft RFP Denied" 1/16/07. p. 5, referring to Staff's Reply Comments on PacifiCorp's revised RFP. 11/19/06. p. 4.

***Utah PSC Docket No. 05-035-47. "PacifiCorp 2012 RFP Suggested Modifications." 12/21/06. This excludes 700 MW of planned Front Office Transactions; uses 15% planning margin.



II. ALIGNMENT OF THE RFP WITH AN ACKNOWLEDGED IRP

- A. Oregon Commission has ruled that the RFP is not aligned with an acknowledged IRP (cont).
 - 1. The Oregon Commission has ruled that basic strategic issues remain unresolved.
 - a. Baseload versus seasonal peak need (e.g., reliance on surplus sales)
 - b. Risks and benefits of delay (i.e., “bridging” strategy to permit IGCC maturation)
 - c. Opportunities for all sources (e.g., more renewables, DSM, distributed generation, short-term purchases)



II. ALIGNMENT OF THE RFP WITH AN ACKNOWLEDGED IRP

B. Observations

1. Neither a well-defined product or a price-mostly evaluation
2. RFP becomes a “shadow IRP”
 - a. Limits on how a RFP can inform an IRP
 - b. Must provide bidders with full IRP analysis supporting benchmarks
3. Evaluation must be designed to address Oregon Commission strategic issues
 - a. Assess or consider more sources
 - b. Define analytic approach
 - c. Re-assign risk



III. RATEPAYER RISK ACROSS TRANSACTION TYPES

A. Risk is pervasive

1. Evaluation must incorporate risk to find the best deal
2. Risk must be assigned explicitly through transaction documents

B. Ratepayer risks (and benefits) vary by transaction type

1. From traditional cost plus regulation to pay-for-performance PPA (see table; ✓ indicates risk shifted to supplier)



III. RATEPAYER RISK ACROSS TRANSACTION TYPES

Empty box indicates ratepayer bears risk, ✓ indicates risk typically shifted to supplier before the fact

Types of Risks	Cost-Plus Ratemaking	EPC Agreement	Asset Purchase (Plus O&M)	Tolling Agreement	Pay-for Performance PPA	Full Requirements Default Service
1. Development Risk						
a. Installed Cost						
i. EPC		✓	✓	✓	✓	✓
ii. Soft Costs			✓	✓	✓	✓
iii. Finance			✓	✓	✓	✓
b. Reliability at Start		✓	✓	✓	✓	✓
c. Environmental Start		✓	✓	✓	✓	✓
2. Operating Risk						
a. Operating Cost						
i. Fuel Price					✓	✓
ii. Heat Rate				✓	✓	✓
iii. O&M				✓	✓	✓
b. Reliability				✓	✓	✓
c. Environmental				✓	✓	✓
3. Regulatory Risk						
a. Disallowance						
b. Environmental						
i. CO ₂						✓
ii. Other				✓	✓	✓
4. Market Risk						
a. Need for Power						✓
b. Price of Power						✓



III. RATEPAYER RISK ACROSS TRANSACTION TYPES

C. Observations

1. Two alternatives
 - a. Quantify risk and benefits by transaction type,
or
 - b. Hold all bids and benchmarks to same risk
assignment standard
2. Diversity by transaction type not necessarily
mitigation of ratepayer risk



IV. RATEPAYER RISK ACROSS TECHNOLOGY TYPES

- A. Risks vary by technology type
 - 1. Capital cost risks for coal
 - 2. Fuel price risks for natural gas
 - 3. Performance risk for some renewables
- B. Non-price factors are a limited risk analysis for Initial Shortlist
- C. PacifiCorp's Stochastic and Scenario risk assessments have merit



IV. RATEPAYER RISK ACROSS TECHNOLOGY TYPES

D. Observations

1. Innovative Technologies (e.g., IGCC) are given adequate opportunity to bid
2. More detail for non-price factors required
3. Expand list of risks considered
 - a. Capital cost risk
 - b. Power sales risk
 - c. Volatility for all fuels
 - d. Performance risk



V. THE RISK OF FUTURE CO₂ REGULATION

- A. Increasingly plentiful and credible evidence
- B. RFP must address level and nature of risk
- C. PacifiCorp approach has merit
 - 1. \$8 per ton base case in line with less strict policies
 - 2. \$25 to \$40 per ton sensitivities in line with more aggressive policies



V. THE RISK OF FUTURE CO₂ REGULATION

D. Observations

1. Close open-ended ratepayer risk with specific standards
2. Scenarios with \$25 to \$40 must be included in PVRR, also find “tipping points”
3. Assess effect of policy other than tax or cap and trade (i.e., emissions standards)



VI. IMPUTED DEBT

A. PacifiCorp approach has merit

1. Not included in Initial or Final Shortlist
2. Actual consequences for cost of capital reflected



VII. NETWORK RESOURCE STATUS

A. Comparability issues

1. Same models and method
2. Comparable results
3. Who pays? (i.e., Duke-Hines precedent)



VIII. DETAILED ANALYTICAL TECHNIQUES EMBEDDED IN MODELS

A. Unequal lives

1. Nominal annuity method is best
2. “Filling in” with market purchases can be a bias toward Benchmarks



IX. STAKEHOLDER FEEDBACK

- A. Questions
- B. Additional concerns
- C. Next steps