

Final Draft 2012 Request for Proposals

**Technical Conference
September 21, 2006**



Pacific Power | Rocky Mountain Power | PacifiCorp Energy

Agenda

- Status of the RFP
- Utah requirements for approval of the Request for Proposal
- Oregon
 - Order No 06-446 (UM 1182)
 - Independent Evaluator selection for Oregon
 - ScheduleOregon requirements for approval of the Request for Proposal
- Load and Resource Balance
- Company Benchmark Resources
- Overview of the Request for Proposal
- Overview of the Evaluation – Initial shortlist and final shortlist
- Summary of the Stakeholder comments
- Summary of the Utah Independent Evaluator comments
- Summary of the changes to the Request for Proposal
- Schedule and next steps

Utah SB26 approval standards

- To obtain the approval of the commission of a solicitation process
 1. Complies with Title 64, Chapter 46a, Utah Administrative Rulemaking Act; and
 2. 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 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,
 - Before approving a solicitation process under this sections the commission :
 - May hold a public hearing;
 - Shall provide an opportunity for public comment.
 - As part of its review of a solicitation process, the commission may provide the affected electrical utility guidance on any additions or changes to its proposed solicitation process
 3. Unless the commission determines that additional time to analyze a solicitation process is warranted and is in the public, within 90 days, the commission shall
 - Approve a proposed solicitation process
 - Suggest modifications to a proposed solicitation process; or
 - Reject a proposed solicitation process.

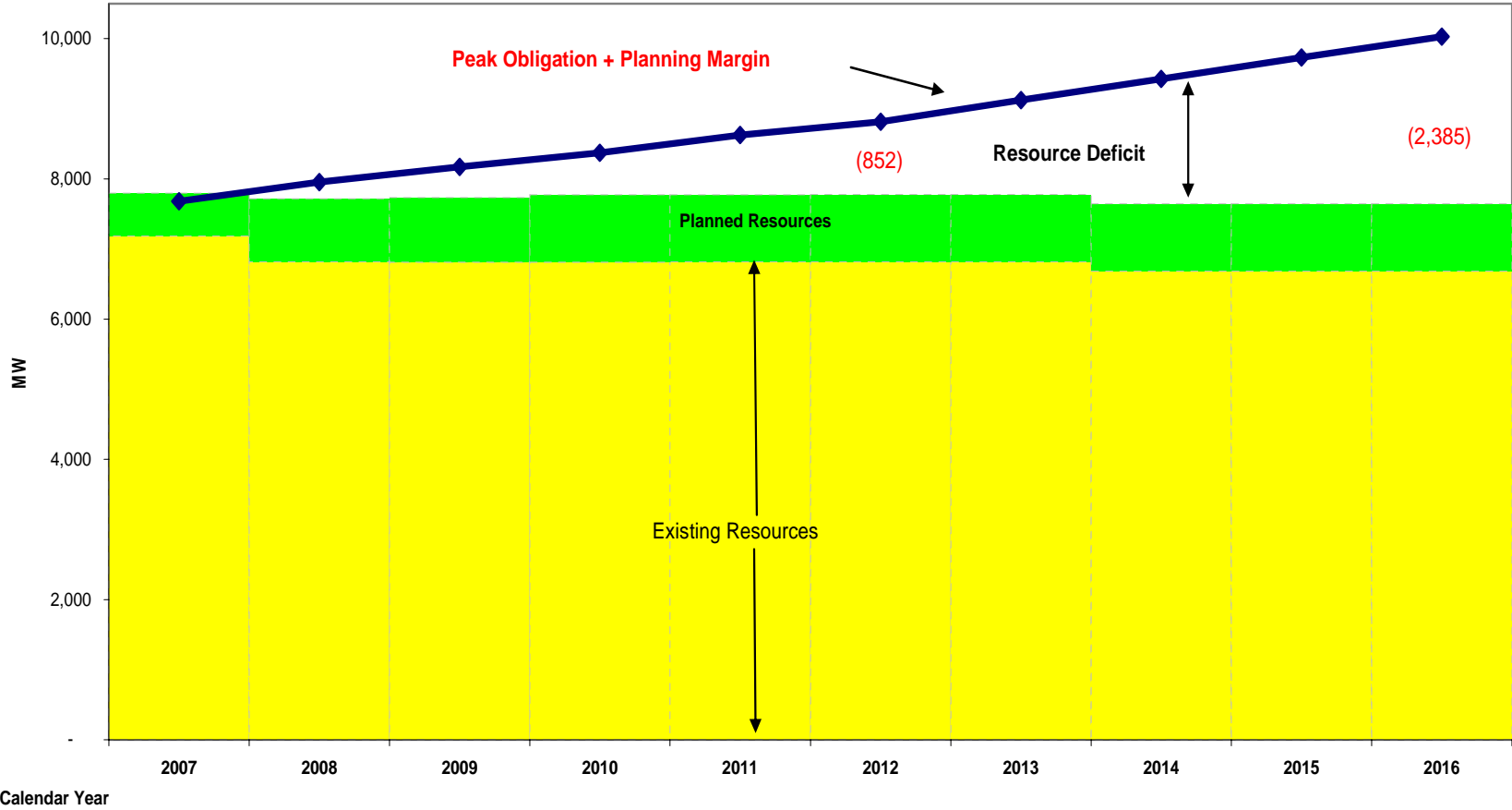
Oregon

- The Oregon Commission issued Order 06-446 on August 10, 2006.
- The company filed an Amendment to the Final Draft 2012 RFP on August 30, 2006.
 - ▶ Evaluation of direct and indirect debt in the final shortlist instead of the initial shortlist.
 - ▶ The addition of an Eligible Resource exception to allow Qualified Facilities greater than 10MW to participate.
 - ▶ Requested waiver of Oregon guidelines to permit bid fees
- On September 19, the Oregon Commission approved staff’s recommendation regarding an independent Evaluator (IE) for the 2012 RFP.
 - ▶ Solicit a separate Oregon Independent Evaluator for the 2012 RFP and
 - ▶ Define a process for the commission to consider a conditional approval of the 2012 RFP pending selection and Oregon IE review of RFP design.
 - The Oregon staff will issue an Request for Proposal for selection of an Oregon IE and PacifiCorp will seek recovery of the costs of the Oregon IE from Oregon customers.
 - The Oregon Commission will make a determination on October 26 whether to grant the company conditional approval.
 - » Issues previously raised that remain unresolved by the Commission
 - » Significant flaws in the RFP design identified by Oregon’s IE
 - » Significant flaws in RFP design that staff or parties identify as a result of the IE assessment.
 - The 2012 RFP would then be issued simultaneously with the RFP for the IE by Oregon staff.
 - Schedule

Oregon approval standard

- Guideline 7 in the Oregon Order outlines a three part approval standard for RFP's
 1. alignment of the utility's RFP with its acknowledged IRP
 2. the RFP's adherence to the Commission competitive bidding guidelines;
 - RFP requirement – 5 year and 100MW (SER)
 - Exception to RFP Requirements
 - Affiliate Bidding
 - Utility ownership options
 - Independent Evaluator
 - RFP Design
 - RFP Approval
 - Benchmark Resource Score
 3. The overall fairness of the bidding process

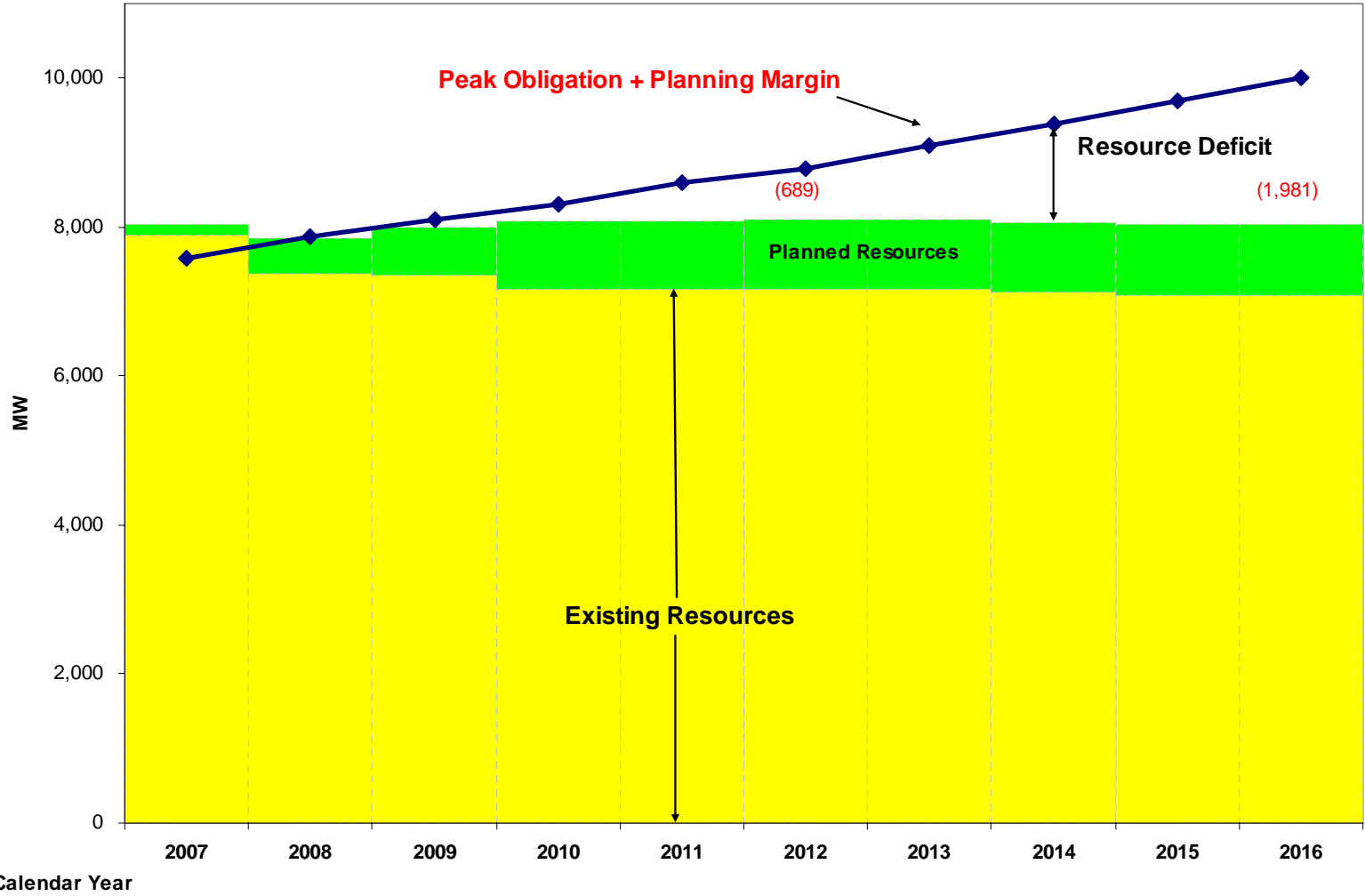
2004 IRP – East Coincident Peak Capacity Chart



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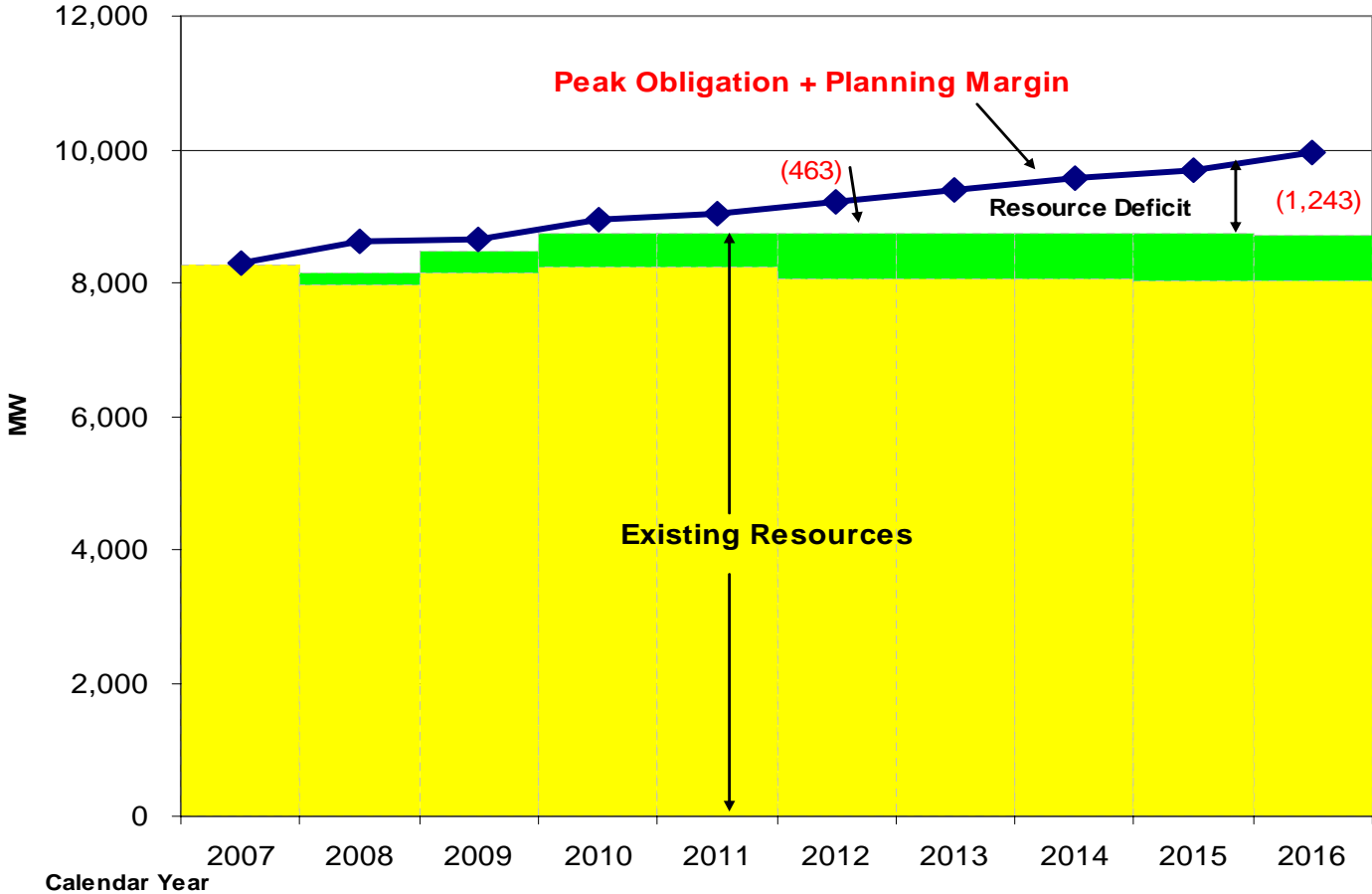
2004 IRP Update – East Coincident Peak Capacity Chart



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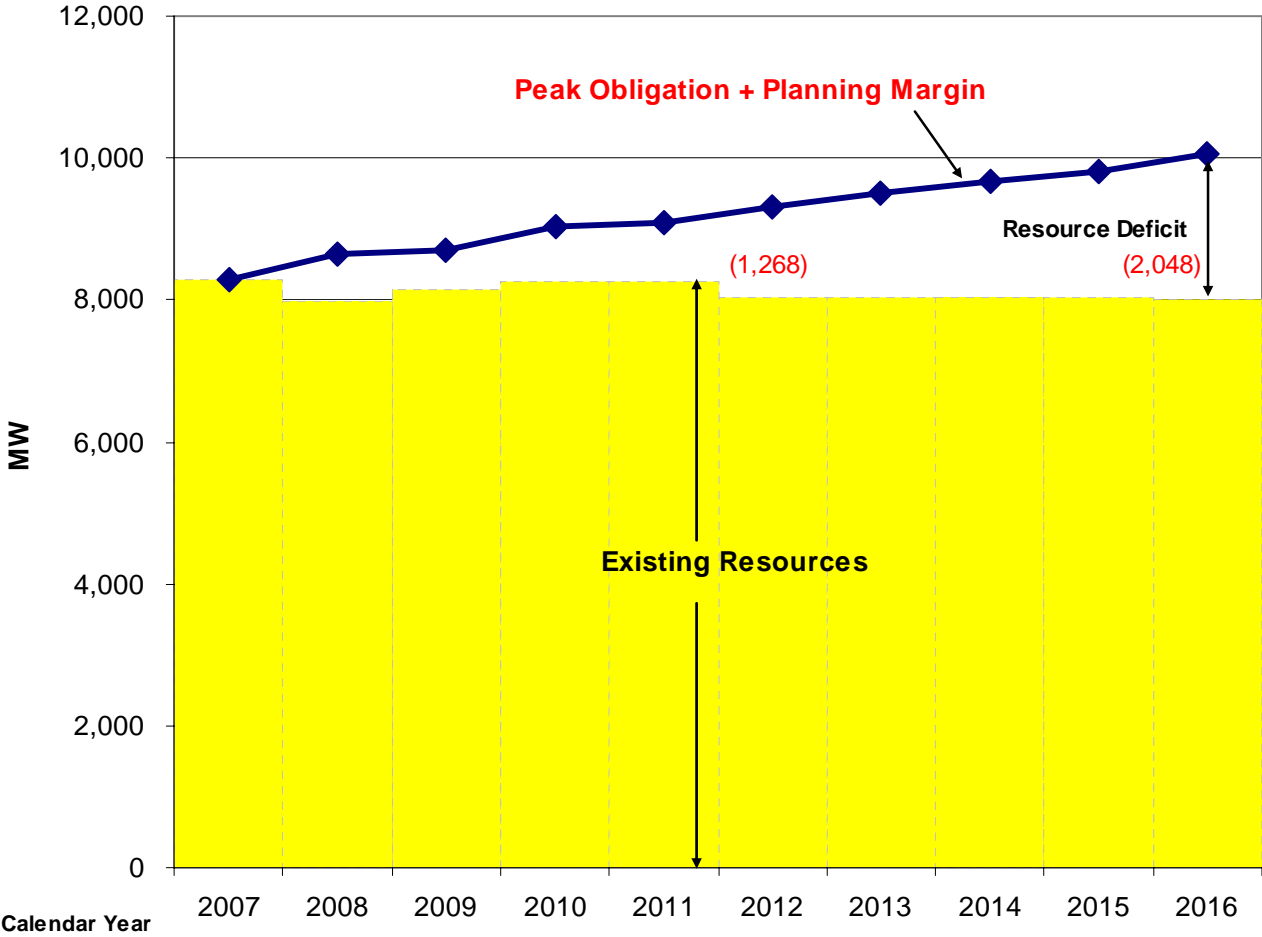
2006 IRP - East Coincident Peak Capacity Chart 1



— Includes 700 MW of Front Office Transactions



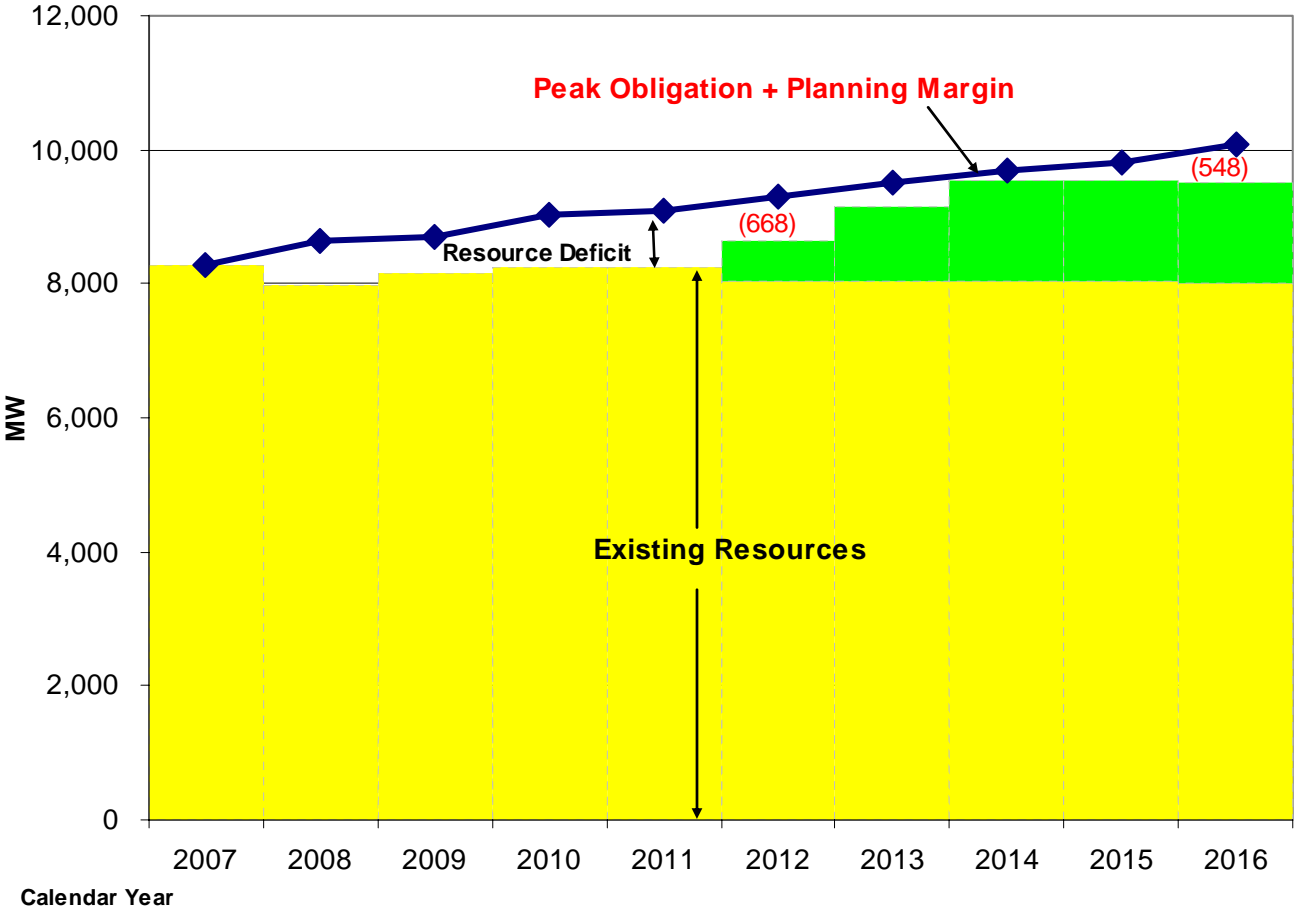
2006 IRP - East Coincident Peak Capacity Chart 2



— Excludes 700 MW of Front Office Transactions



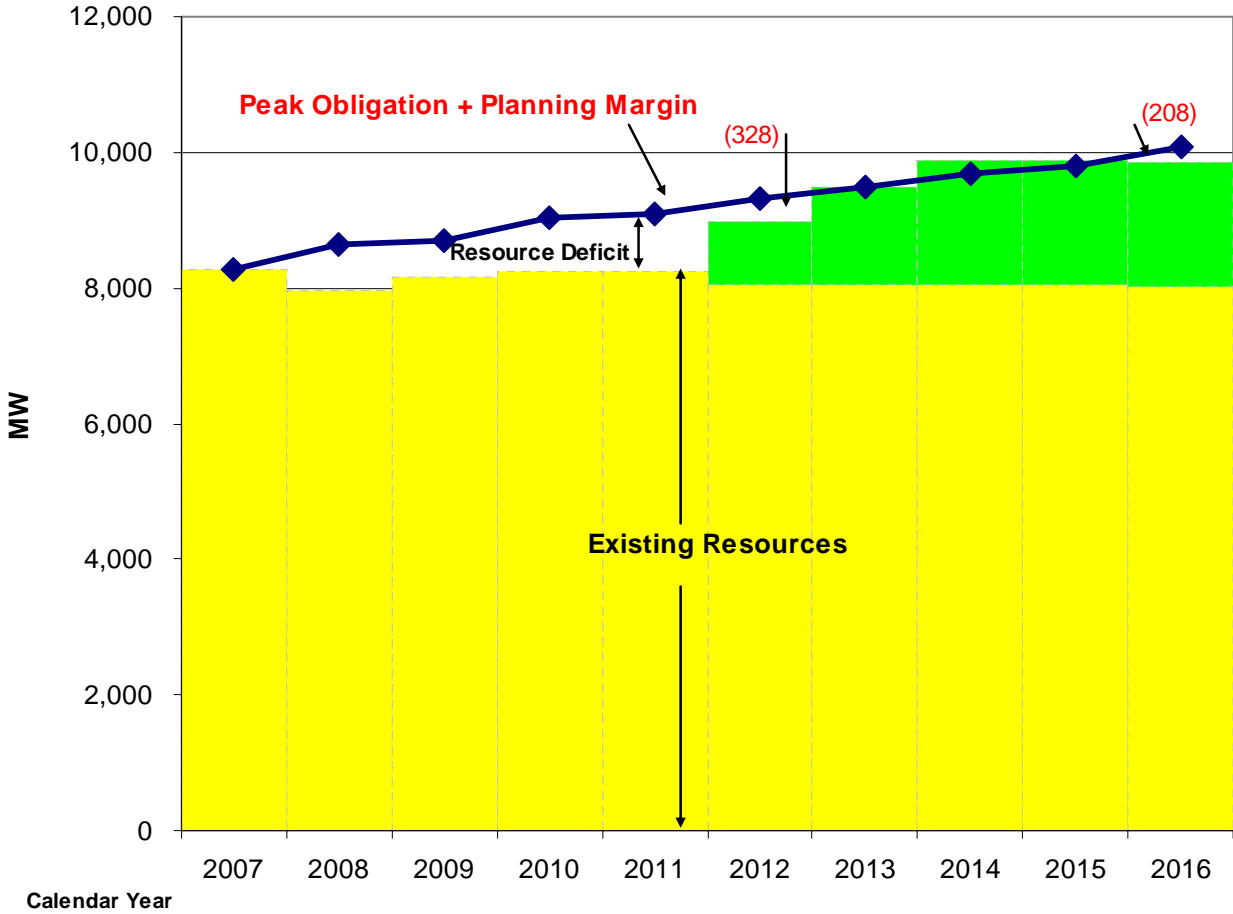
2006 IRP - East Coincident Peak Capacity Chart 3



- Without 700 MW of Front Office Transactions and includes benchmark plants Hunter in 2012, Jim Bridger in 2013 and a 2014 IGCC plant.



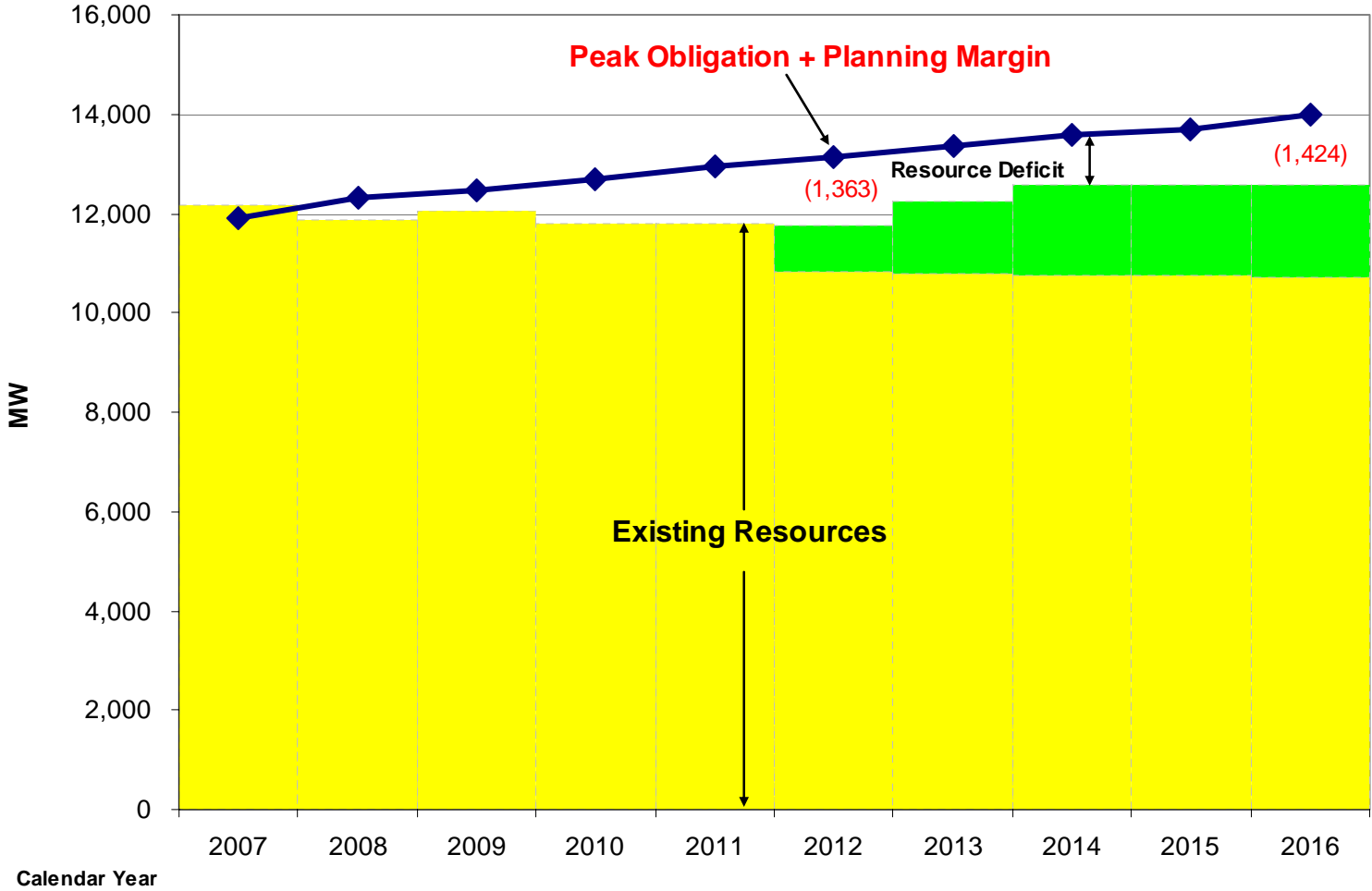
2006 IRP - East Coincident Peak Capacity Chart 4



- Excludes 700 MW of Front Office Transactions and includes benchmark plants Hunter and share of Intermountain Power Project in 2012, Jim Bridger in 2013, and IGCC plant in 2014



2006 IRP – System Coincident Peak Capacity Chart



– Same as Chart 4 (previous slide) but for the System



Summary of the Resource Needs from the IRP

- 2004 IRP east-side resource additions exclusive of renewables and DSM were 2,743 MW by 2014
- 2004 IRP Update east-side resource additions exclusive of renewables and DSM were 1,775 MW by 2014
- 2006 IRP identifies a need on the east-side of the system of 1,640 by 2014 growing to 2,048 by 2016,

Based on the IRP, PacifiCorp has projected a need for new east-side resources ranging from between 1,640 and 2,743 MW by 2014

The 2012 RFP brackets the lower-end of this range by seeking new resources between 1,600 and 2,290 MW by 2014.

Company Benchmarks

– The company benchmarks resources will be:

Category	2012	2013	2014
Benchmark Resource	Hunter 4 - 600MW IPP 3 - 340MW	Bridger 5 - 750MW	IGCC 250MW - 600MW

East-Side Resource Requirements by 2014

Total Resource Requirements (East-Side)	2012	2013	2014
A combination of Supply Side resources and Front Office Transactions in the 2004 IRP and 2004 IRP Update	1686 MW (2004 IRP) <i>(includes prior years)</i> 1275 MW (2004 IRP Update)	560 MW (2004 IRP) 335 MW to 935 MW* (2004 IRP Update)	383 MW (2004 IRP) 500 MW (2004 IRP Update)
RFP 2012 Benchmark Resources	Hunter 4 600 MW IPP 3 340 MW	Bridger 5 750 MW	IGCC 250 MW-600 MW
Annual Benchmark Resources in the RFP 2012	600 MW to 940 MW	750 MW	250 MW to 600 MW
Total Benchmark Resources in the RFP 2012			1600 MW to 2290 MW
Total Resources in the 2004 IRP and 2004 IRP Update			1775 MW – 2,743 MW

- If resource quantities in the amount of the Hunter 4 and IPP 3 benchmark are acquired in 2012, then the 2013 resource quantity requirement is 335 megawatts.
- If resource quantities only in the amount of the IPP 3 benchmark are acquired in 2012, then the 2013 resource requirement is 935 megawatts.

Overview of the Request for Proposal Structure

- 2012 Request for Proposal (RFP)
 - ▶ Request for Qualification (RFQ)
 - ▶ Bid Fees returned to Bidders who did not qualify
 - ▶ IE to provide Bid numbers to Qualified Bidders
 - ▶ Qualified Bidders will submit blinded proposals using Bid numbers
 - ▶ Code of conduct between Bid Team and Benchmark Team
 - IE will participate through the negotiation and selection of the eligible resource (s)
 - Benchmark Team will not communicate or provide technical assistance to the Evaluation Team even with the IE present.

- Bidders will be required to provide the following specific information
 - ▶ The Eligible Resource (s) they propose to bid into the RFP 2012
 - ▶ Whether response is to a specific category or combination of categories with each requiring a separate proposal
 - ▶ One bid number per Category and eligible resource
 - ▶ One bid fee will be required for each Eligible Resource however two additional options may be provided altering the term, start date and size of the resource
 - ▶ The base bid and the options will all require separate bid numbers.

Overview of the Request for Proposal Structure

- IE provides RFQ to Bid Team for evaluation
- Bidders will either pass or fail the initial RFQ screening
 - ▶ IE will be consulted during the evaluation process
 - ▶ Screening will consist of RFQ Requirements will identify the following
 - Identify affiliate relationship if any
 - Specific credit requirements will be met
 - Supply technical expertise
 - Cite technical and financial feasibility
 - Project feasibility
 - » Project schedule
 - » Necessary permits
 - » Site control
 - » Transmission

Resource diversity and Eligible Resources

All Eligible Resources in the 2012 RFP **must** be a minimum of 100 MW and for a term not less than 10 years.

- ▶ Eligible Resources may include the following:
 1. Power Purchase Agreements
 - » Fixed price – capacity and or energy
 - » Base load resource may include geothermal, biomass, hydro based resource.
 2. Tolling Agreement
 - » Index to power – physical and or financial
 - » Index to gas – physical and or financial
 - » Index to coal – financial
 3. Engineering Procurement Contract for Currant Creek site
 4. Asset Purchase and Sales Agreement at the Currant Creek or Lake Side site

Resource diversity and Eligible Resources (Cont)

5. Asset Purchase and Sale Agreement (APSA) at Bidders site
 - APSA for Gas projects – fuel supply, performance requirements and operating and maintenance agreements
 - APSA for Coal projects- fuel supply, performance requirements and operating and maintenance agreements
6. Purchase of an existing facility (subject to due diligence requirements)
7. Purchase of a portion of an existing facility, jointly owned or operated by PacifiCorp (subject to due diligence requirements)
8. Restructure of an existing Power Purchase Agreement (PPA) or an existing Exchange Agreement.
9. Eligible Exceptions to 100 MW minimum are (however term of not less than 10 years still applies):
 - Physical Load Curtailment – 25 MW minimum
 - Qualified Facilities 10MW or greater

Eligible Resource – Point (s) of Delivery (POD)

- Within the Eastern Control Area – the points of interconnection between the resource, or electrical system to which the resource is connected, and PacifiCorp’s Utah network transmission system
- Mona 345 kV
- Nevada/Utah Border on Gonder 230 kV
- Glen Canyon 230 kV
- Four Corners 345 kV
- Nevada Utah Border (NUB) on Red Butte 345kV
- Located in Nevada - PacifiCorp is willing to purchase capacity and associated energy that is sourced from Nevada; provided, the selling entity is able to secure firm transmission and operating reserves from the resource to either Gonder or NUB
- Crystal 500kV – provided PacifiCorp Transmission includes it as a valid network point of delivery
- Wyoming - POD must be electrically south of Naughton-Monument.

Note: all incremental delivery costs, interconnection costs and or integration costs will be considered in economic analysis. Most POD’s will require a system impact study.

Evaluation of Proposals - Overview

- Evaluation will be completed in a three step process:
 - ▶ Step 1: Initial Short List Analysis
 - By Eligible Resource Category, an initial short list will be determined based on Price and Non-Price factors.
- Consistent with IRP
 - ▶ Step 2: Portfolio Development/Optimization
 - Using the initial short list and the company's benchmark resources, Global Energy Decision's Capacity Expansion Module (CEM) will be used to develop optimized portfolios under various assumptions for future emission costs and market prices.
 - » Debt Imputation included in the Portfolio Development phase
 - ▶ Step 3a: Stochastic Analysis
 - Global Energy Decision's Planning and Risk (PaR) model will be used in stochastic mode to develop expected PVRR and PVRR volatility parameters for each optimized portfolio.
 - ▶ Step 3b: Deterministic Scenario Analysis
 - To evaluate scenario risk, CEM will be used to calculate the deterministic results of each optimized portfolio for each of the future scenarios used in Step 2.
- Analysis Conclusion:
 - ▶ The resources in the highest performing (least cost, adjusted for risk) portfolio will advance to contract negotiations.

Evaluation of Proposals – Initial Shortlist (Step 1)

– Initial Shortlist Bid Evaluation - RFP Base Model

▶ **Price - 70% weighting**

- Comparison metric will be the Net Present Value Revenue Requirement per kilowatt-month (Net PVRR/kW-mo).
 - » Real levelization and the equivalent annuity method will be utilized
 - » Bid metric \leq 80% value receives 70% score
 - » Bid metric \geq 120% value receives 0% score
 - » 80% value $>$ bid metric $<$ 120% value receives linearly interpolated score between 0% & 70%.
- Includes transmission costs to integrate the resource and/or third party transmission if applicable.
 - » Transmission and or transportation costs currently available will be disclosed to bidders
- Emission costs will be included in the evaluation.

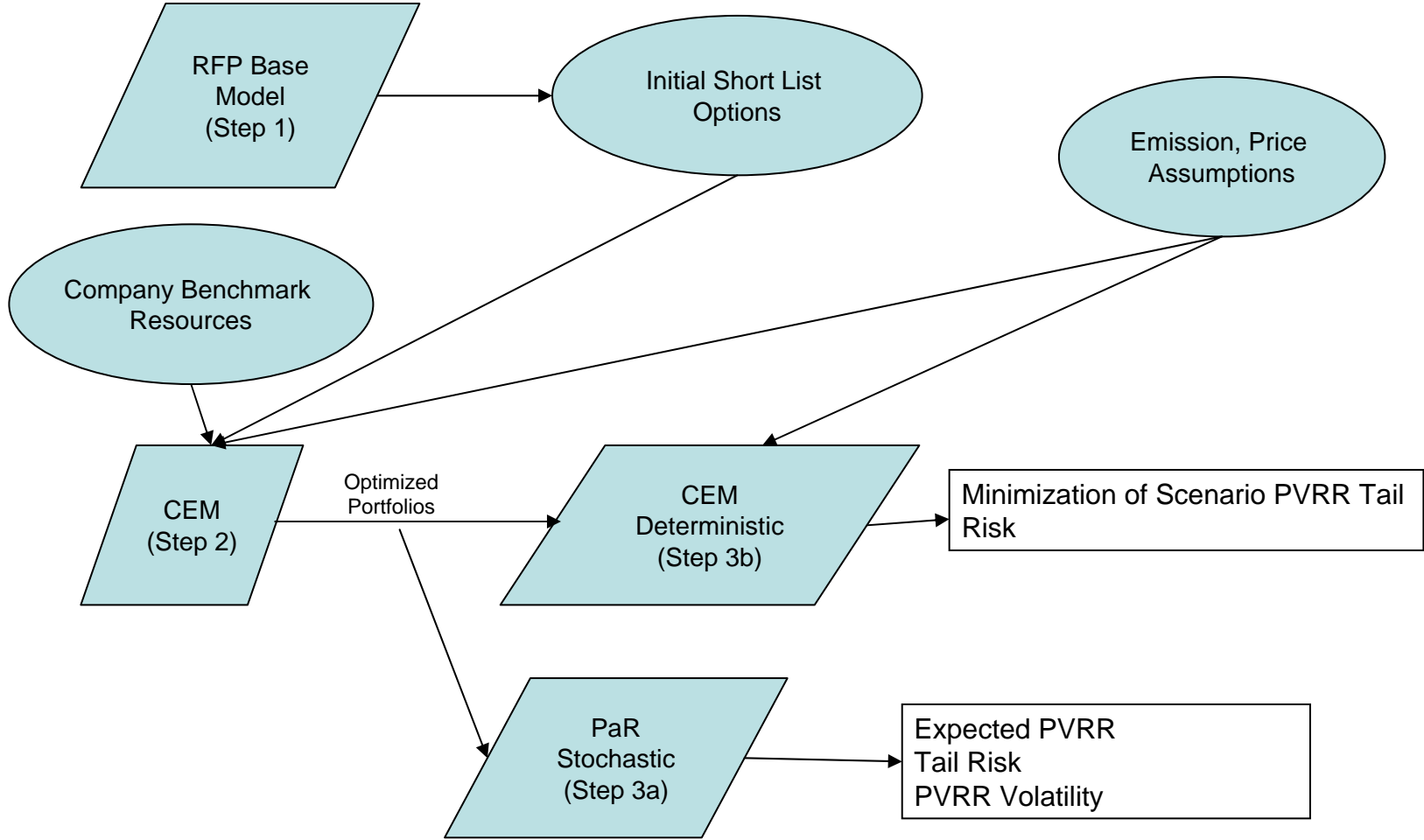
▶ **Non-price - 30% weighting**

- Development, Construction and Operation experience (10%)
- Proforma (10%)
- Site Control and Permitting (10%)

Evaluation of Proposals - Final Shortlist (Step 2 and 3)

- Results of the initial shortlist (Step 1) along with the Company’s Benchmark Resources will be used by CEM to develop optimized portfolios under various future scenarios – emissions and market prices.
- For each of the optimized portfolios, stochastic and deterministic scenario analysis will be performed using PaR and CEM
 - ▶ PaR - Expected PVRR and PVRR volatility parameters
 - ▶ CEM - Deterministic PVRR for each future scenario
- Resources in portfolio with highest performance (least cost adjusted for risk) will be established as the RFP “winners” and advance to contract negotiations.

Evaluation of Proposals – Modeling Methodology Summary



Credit Requirements

- Credit Requirements will be determined by
 - ▶ Credit quality of the Bidder
 - ▶ Type of Eligible Resource
 - Power Purchase Agreement, Tolling Service Agreement, Asset Purchase and Sale Agreement, EPC Contract, etc.
 - Asset backed vs. Non-asset backed
 - ▶ Size of Eligible Resource
 - ▶ Date the resource comes online (June 2012, June 2013 or June 2014)

- The Credit Matrix displays the maximum value of credit assurances required based on the factors above
 - ▶ Credit assurances may include one or more of the following:
 - Parental Guaranty
 - Letter of Credit
 - Other (as determined by PacifiCorp in its reasonable discretion)
 - ▶ Workshop will be held following this session to discuss the Credit Matrix and the methodology.

Stakeholder Comments

– **Division of Public Utilities**

- ▶ Debt Inference and Imputation
- ▶ Credit requirements
- ▶ Apparent Preference for gas resources
- ▶ Concerns regarding IPP3 as a benchmark

– **Western Resource Advocates**

- ▶ Concerns regarding the removal of the front office transactions and the replacement with a pulverized coal plant.
 - Recommends that the RFP state that the company is actively seeking and prefers bridging options that can defer or reduce the need for irrevocable investment in expensive and long term resources.
- ▶ Comments on resource options
 - Two to three pulverized coal units as benchmarks and the removal of the front office transaction.
- ▶ Concerns regarding the integrated resource plan
 - Flexibility around the resource selection and approval process as it relates to IGCC
 - Concerns that the CO2 adder is fixed and not stressed in the RFP consistent with the IRP.
 - The RFP should require that all resource address carbon capture ready and explain if the facilities will have the ability to be carbon capture ready.

Stakeholder Comments (cont)

– Utah Association of Energy Users (UAE)

- ▶ 2004 IRP update has not been acknowledged.
- ▶ Concern about the fully vetted IRP process to determine the load and resource balance.
- ▶ Limiting IGCC option to only 2014 UAE is seeking recommendation from the IE to make this option a more potential outcome.
- ▶ Benchmarks should be identified by year rather than as a pool of possible resources for the Term.
 - Timing of benchmarks are going to be difficult to accomplish and the company should consider bridging as a reasonable solution
 - UAE is concerned with any long term resource meeting the 2012 on line date and would encourage the company to consider shorter term bridge resources to permit reasonable projected resources deficits to be satisfied and a more flexible process with a more diverse portfolio where shorter term assets could drop off and new technologies could be assessed.
 - Level of IE involvement
 - » One or more bid fee should be paid
 - » Whether the bid should be rejected as non responsive.
 - » Whether the bid fee should be refunded
 - » The nature of the cure period for deficient bids
 - » Benchmarks on equal footing.
 - » The IE should carefully evaluate and monitor transmission expansion requirements and evaluation of dispatch so that these cost assumptions cannot be manipulated to benefit the utility and to prejudice bidders.
 - Credit Requirements
 - Debt Imputation
 - Bid revisions
 - CO2 costs
 - Bid Evaluation models
 - Pro Forma Contracts
 - Weighting
 - Comparability of bids and benchmarks

Stakeholder Comments (cont)

– Committee of Consumer Services

- ▶ Supports the benchmark resources identified in the 2012 RFP
 - Supports IPP 3 resources to the extent the unit will be supercritical pulverized coal.
 - Supports inclusion of all four benchmarks.
 - » The committee has previously expressed serious concerns over the risk posed by significant volume of short term market transactions included in PacifiCorp acquisition strategy.
 - » The committee in previously comments has urged the company to firm these requirements with stable price power as soon as possible.

– LS Power Associates, LP

- ▶ Creditworthiness and Experience Standards,
- ▶ Inferred Debt penalty
- ▶ Transmission up grade and cost
- ▶ Extension of Proposal validity

Independent Evaluator's Comments

- Comments by the IE fall into three major categories
 - ▶ Suggested formatting changes
 - Suggested formatting changes and revision/modifications designed to make the documentation clearer to bidders
 - ▶ Proforma Contracts
 - Comments on the attached Proforma contracts
 - » Emphasis on the power purchase agreements and the asset purchase and sales agreement
 - » assessing the risk sharing provisions of a power purchase option versus a utility owned asset as a means of assessing the risk sharing provision of a power purchase option vs. utility ownership
 - ▶ Comments and recommendation
 - Comments and recommendation on major issues identified by multiple parties and recognized by the IE as important to the fairness and equity of the process.

Summary of changes to the Request for Proposal

- Changes to the RFP Structure
 - ▶ An addition of an Oregon Independent Evaluator paid for by Oregon customers
 - ▶ Alignment of the 2012 RFP between coal and gas
 - Pricing sheets
 - Milestone sheets
 - APSA for both coal and gas
 - » Fuel supply, performance requirement and O&M agreements
 - Tolling Agreements can be indexed to gas or coal
 - » Parties will provide the target availability in the Agreement
 - » Parties will provide modifications to the TSA for coal or gas.
 - ▶ Revisions of terms and conditions in the APSA and the Power Purchase Agreements
 - ▶ Added flexibility for bidders to propose changes to pro forma contracts
 - ▶ Code of conduct
 - In addition to Amendment 20 the company will include the IEs in all negotiations until resources are selected.
 - ▶ Underlying Agreements
 - Inclusion of express language allowing bidders to negotiate mutually agreeable final contract terms different from those contained in the standard proforma contracts filed as part of the 2012 RFP, as long as such modification either benefit or are neutral to PacifiCorp and its customers.
 - ▶ Addition of Qualifying Facility over 10MW
 - ▶ Credit
 - Credit Matrix and Credit methodology has been included and a workshop on September 21.
 - ▶ Editing for clarification
 - Several formatting and edits requested by the Independent Evaluator where completed.

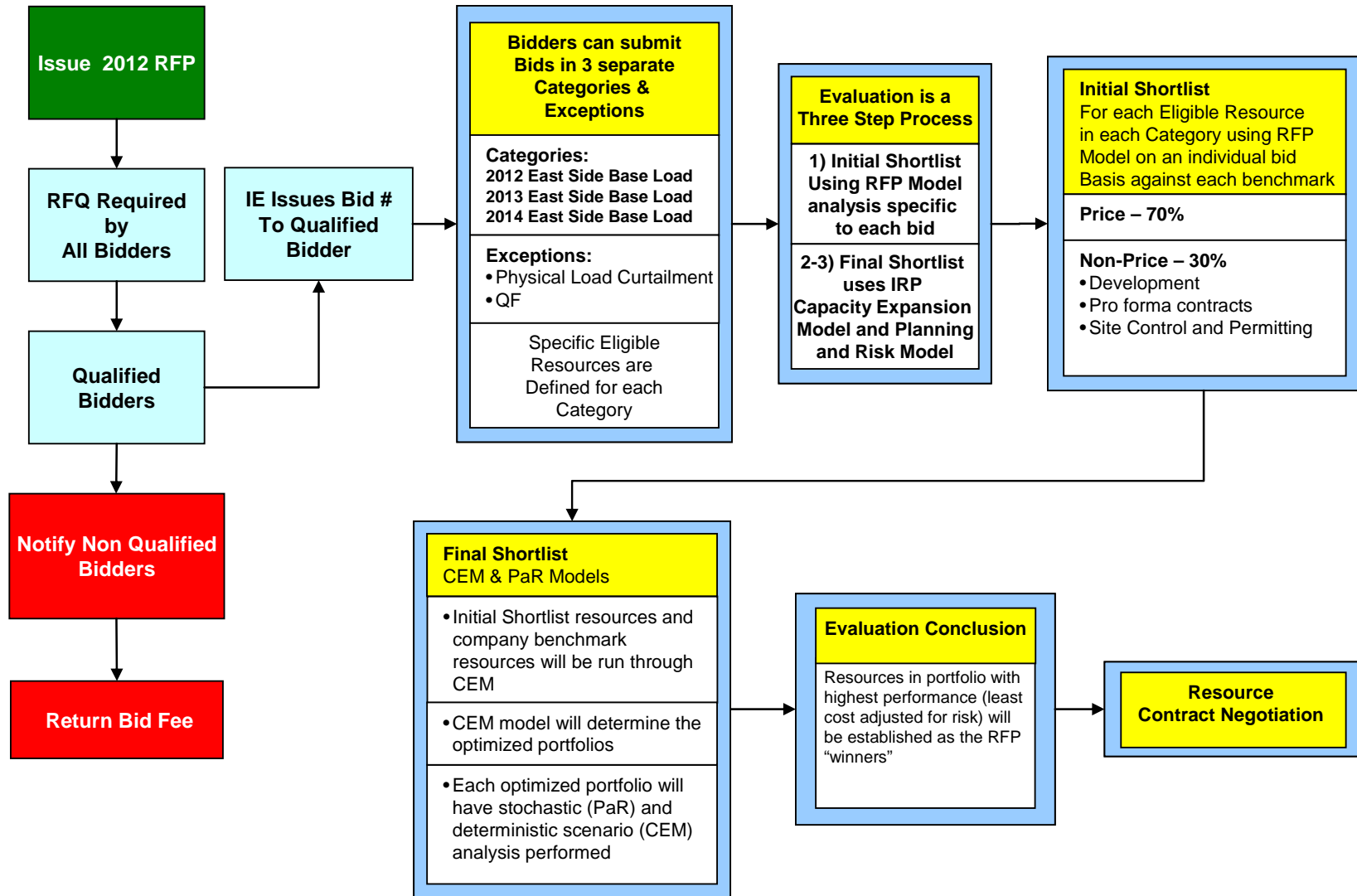
Summary of changes to the Request for Proposal

- ▶ Bid Fees
 - Bidders have the option to offer alternative bids in addition to a base bid under the same bid fee.
- ▶ Flexible Options
 - The company will accept flexible options that either contain an option to delay the development of a specific resource or a break up fees to cancel a contract.
- ▶ Benchmark
 - Intermountain Power Project 3 is a supercritical pulverized unit and not a subcritical unit.
- ▶ Modeling
 - The model will contain the renewable resources from 2008 going forward as fixed assumptions in the CEM model.
 - IE will independently evaluate PacifiCorp benchmark resources and a sample of shortlists to determine if the short list is reasonable.
 - The IE will evaluate the unique risks and advantages associated with the Benchmark resources, including the regulatory treatment of costs or benefits related to actual construction costs and plan operations differing from what was project under the Request for Proposal.
 - Once the competing bids and the Benchmark Resources have been evaluated by the company and the IE the results will be compared.
 - The company must submit a detailed evaluation of its benchmark resource (s).
 - Inferred and direct debt will not be included in the evaluation until the final shortlist.

Next steps and Schedule

- The company would propose that the parties provide a second round of comments on the 2012 RFP
- The company proposes the following schedule.
 - ▶ The company provides the commission, stakeholders and bidders a redline of the 2012 RFP with comments by October 2, 2006
 - ▶ The Bidders, Stakeholders and the IE would respond to the company by October 13, 2006
 - ▶ If the Parties are unable to resolve specific issues in the RFP those issues are presented to the commission by the staff and the Division
 - ▶ Hearing, if required, is scheduled for the week of October 23, 2006.

Overall Process (TBA Change non price)



Questions/Comments & Information Sources

PacifiCorp Web Site

www.pacificorp.com

(go to “News & Info” and select “Resource Supply RFPs”, then choose RFP 2012) for:

2012 RFP,
bidder workshop & conference slides,
Questions and Answers

PacifiCorp Transmission

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