



PRELIMINARY THOUGHTS ON
EVALUATION METHODS IN
PACIFICORP'S 2008 RFP

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OUTLINE

- I. KEY COMPONENTS OF BID EVALUATION
- II. POSITIVE ASPECTS OF PACIFICORP'S 2008 RFP
- III. AREAS IN NEED OF DISCUSSION & CLARIFICATION



I. KEY COMPONENTS OF BID EVALUATION

- A. To assure the best deal for ratepayers, the methods for bid evaluation must :
 - 1. Be fair and transparent
 - 2. Address uncertainty and assign risk
 - 3. Lead to a positive result



I. KEY COMPONENTS OF BID EVALUATION

B. 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. KEY COMPONENTS OF BID EVALUATION

C. How to Achieve Fairness and Transparency?


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



I. KEY COMPONENTS OF BID EVALUATION

D. Why Address Uncertainty and Assign Risk?

1. Uncertainty is the only thing that is certain
2. Calculate the risk-adjusted cost of each bid
3. Assign risk and give credit to bidders who shield ratepayers from risk
4. Encourage innovative risk management



I. KEY COMPONENTS OF BID EVALUATION

E. How To Measure Risk?

1. Two alternatives

- a. Quantify risk and benefits
- b. Hold all bids to same risk assignment standard

2. Scenario analysis and Stochastic analysis/“stress tests” to test bid cost vs. key variables

3. Goal is to

- a. Determine what “bet” each bid is making
- b. Credit bidders who take risk away from ratepayers
- c. Compare different risk profiles



II. POSITIVE ASPECTS OF PACIFICORP'S 2008 RFP

A. Fairness

1. Company bids under same rules as a third party
2. Flexibility on in-service dates

B. Transparency

1. Transparent evaluation methods based on 2007 IRP
2. Three defined product categories
3. Seven main defined transaction types
4. Narrow range of fuel types



II. POSITIVE ASPECTS OF PACIFICORP'S 2008 RFP

C. Address Uncertainty and Assign Risk:

1. Evaluation of Multiple Risks with Stochastic and Scenario Analyses
 - a. Gas prices
 - b. CO2 emissions costs
 - c. Hydro generation
 - d. Wholesale electric prices
 - e. Thermal outages
 - f. Load
2. Use of risk-adjusted cost leading to selection of “robust” bids that perform under many different scenarios



III. AREAS IN NEED OF DISCUSSION & CLARIFICATION

A. Role of PacifiCorp's Self-Build Options

1. Self Build Options: “subject to the same requirements as a third-party bidder”
2. But, not intended “to be treated like third-party bids for the purposes of subsequent ratemaking treatment”
3. Would like confirmation that “same requirements” means
 - a. Same Technological Requirements
 - b. Same Credit Standards
 - c. Same Pricing Standards (indexing, binding bids)



III. AREAS IN NEED OF DISCUSSION & CLARIFICATION

B. Indexing of Capacity Costs and Pricing of Bids

1. Bidders relying on new resources may index up to 25% of the capital/capacity price to the CPI and up to 15% to the PPI-metals
2. Given the current cost environment, can bidders submit binding proposals under the established escalation regimes?
 - a. Bidder feedback is crucial
 - b. What other options would bidders suggest?
 1. Not-to-exceed price
 2. Price “bands” (e.g. +/- 5%)



III. AREAS IN NEED OF DISCUSSION & CLARIFICATION

C. Other Issues

1. Transmission Costs
 - a. No Western integration prices
 - b. Will be updated before final RFP
 - c. May want to vary to find “tipping point”
2. Calculation of other Risks
 - a. Capital cost risks
 - b. Power sales risks
 - c. Bidder assumption of CO₂ emissions costs



III. AREAS IN NEED OF DISCUSSION & CLARIFICATION

C. Other Issues (cont.)

3. What is the definition of a “Top Performer”? How many bids will be selected to the Initial Shortlist?
4. Will each year have a “winner” or will products be compared across years via “fill-ins”?
5. Non-asset-backed bids