

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 22, 2008**

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: April 16, 2008

TO: Public Utility Commission

FROM: Lori Koho

THROUGH: Lee Sparling, Ed Busch and Bonnie Tatom

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1345) Staff recommendation for Request for Proposals for Renewable Energy Resources.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's (PGE or company) 2008 Request for Proposals (RFP) for Renewable Energy Resources with conditions.

DISCUSSION:

PGE began its RFP process in September 2007 with an application to begin work to acquire an Independent Evaluator and defer associated costs. This was only three months after filing its 2007 Integrated Resource Plan (IRP) with the Commission. PGE discussed with staff the option of issuing an RFP prior to Commission acknowledgment of the IRP. The company conveyed its concern that many regional competitors for resources had already issued RFPs or planned to issue them within months and that delaying the issuance of an RFP would put PGE at a disadvantage in the marketplace.

While a utility may seek approval of an RFP without an acknowledged IRP, PGE preferred to wait until the Commission acknowledged its IRP before issuing an RFP for energy resources. However, neither staff nor interested parties wanted to jeopardize PGE's competitive position in the market should the Commission require many months to reach a decision on PGE's IRP. Staff and the company agreed that it was in the best interest of ratepayers and the company to initiate the RFP process last September.

The company filed a draft RFP for energy resources with the Commission on January 21, 2008. The RFP was for 410 MWa of energy: 192 MWa from power

purchase agreements that included consideration of baseload tolling services, firm physical energy purchases and firm financial energy purchases and 218 MWa from renewable resources. On March 13, 2008, staff notified the company and parties of its intent to recommend the Commission not acknowledge PGE's IRP. On March 20, 2008, the company filed a revised RFP soliciting only renewable resources. In response to input from staff and parties, the company filed an updated version of its renewables RFP on April 15, 2008.

On March 31, 2008, staff presented its recommendation to the Commission on PGE's IRP. Staff recommended the Commission not acknowledge the plan, impose requirements for the next planning cycle and require the company to file a new resource plan in one year. However, staff recommended that the Commission judge the company's proposed actions for acquiring renewable resources to be reasonable based on the company's load projections and the requirements of the Oregon Renewable Energy Act (SB 838, 2007 Session). The Commission approved staff's recommendation with the exception of allowing the company 18 months to file a new plan.

RFP Summary: PGE's 2008 RFP for renewable energy resources seeks to acquire up to 218 MWa of additional mid- to long-term renewable energy supply to come on-line in the 2009 to 2014 timeframe. The minimum bid the company will accept for renewable energy is 2 MW with minimum five-year duration. While PGE did not include a benchmark resource, it will consider ownership options offered by bidders.

The company will consider only resources that comply with SB 838, including but not limited to:

- Biomass
- Wind
- Geothermal
- Solar
- Wave energy

Criteria for RFP Approval

Order No. 06-446 (at 9) states that the Commission will focus its consideration of RFP approval on three criteria:

- (1) The alignment of the utility's RFP with its acknowledged IRP;
- (2) Whether the RFP satisfies the Commission's competitive bidding guidelines; and
- (3) The overall fairness of the utility's proposed bidding process.

Alignment of the Utility's RFP With Its Acknowledged IRP

On July 20, 2004, the Commission acknowledged PGE's previous IRP (see Commission Order No. 04-375). The data, actions and assumptions in that IRP are clearly not appropriate as the basis for comparison for this current RFP. The Commission addressed the requirement for timely load/resource balance analysis in Order No. 07-018 (footnote 4 in part at 3-4). "[A] utility must account for all material changes since acknowledgement and provide, at a minimum, updated load forecasts, revised assumptions and recent resource additions. Further, a utility must justify continued reliance on any IRP assumption we previously declined to acknowledge."

Consequently, to complete the assessment of this RFP, in lieu of an acknowledged IRP, staff requested an updated load forecast and analysis of the company's renewable resources position by year relative to SB 838 requirements. The updated analysis validated the company's proposed amount of renewable energy resources to be solicited in the RFP.

Satisfaction of the Commission's Competitive Bidding Guidelines

Independent Evaluator

Guideline 5 requires an Independent Evaluator (IE) be used in the RFP process to help ensure that all offers are treated fairly. At the November 20, 2007, Public Meeting, the Commission approved the selection of Accion Group to serve as the IE for PGE's RFP. PGE and Accion finalized the contract for these services in December 2007. Prior to signing, staff reviewed and provided input on terms and conditions in the contract.

The IE has actively participated in the design of PGE's RFP as well as bidder and stakeholder workshops. Accion has also worked closely with staff to better understand the Commission's expectations of the IE as stated in Order No. 06-446.

Accion Group submitted a report, which was filed with the Commission, containing its assessment of PGE's initial draft RFP that was for all energy resources. The IE subsequently updated that assessment when the document was redrafted as an RFP for renewable resources only. The IE concluded that the RFP, as filed on April 15, 2008, clearly communicates the company's needs and evaluation criteria and is designed to consider all bids equitably.

Public Review

PGE conducted a bidder workshop on January 3, 2008, and a stakeholder workshop on January 4, 2008. Both workshops were open forums where interested parties were able to ask clarifying questions.

Accion Group offers, and PGE chose to avail itself of, a secure website where bidders and interested parties can view schedules and ask clarifying questions anonymously. Both the anonymously posted questions and the company's answers are visible to everyone with access to the website. The company and IE have instructed bidders and parties to direct all communication with PGE through this website. The intent is to make sure all parties have access to the same information. This helps to assure no one bidder has unique information not available to all bidders. There is also a separate and secure location where bidders may post bids. The company has posted its draft RFP and terms at this website, as well as the materials and minutes from the bidder and stakeholder workshops.

Several changes have been made to the company's RFP since it held bidder workshops in January 2008. The biggest change was to limit the RFP to renewable resources. However, several changes have been made to the wording in the document to clarify how the company will evaluate bids. PGE has scheduled a second bidder's workshop on April 29, 2008, to provide bidders with the opportunity to review these changes with the company and the IE.

RFP Design

The company incorporated suggested modifications from staff, the IE and Renewable Northwest Project (RNP). Additional modifications were made to the RFP based on input from the bidder and stakeholder workshops.

The company's process for evaluating bids is summarized below:

- The company will screen bids to pre-qualification criteria, *i.e.*, minimum quantity and term and quality of credit.
- Bids that meet the pre-qualification standards will be scored on price and non-price factors.
- PGE will use the first-price, sealed-bid format to select the initial and final short-list. Bidders may not update pricing during the scoring and evaluation period.
- In accordance with Guideline 9a, the company will calculate price as the ratio of the bid's projected total cost per megawatt-hour (MWh) to forecast market prices using real-levelized or annuity methods.
- Evaluation criteria are weighted 60% on price factors and 40% on non-price factors. Non-price factors include: (1) project development, 6.5%; (2) project characteristics, 12.5%; (3) product characteristics, 10%; (4) credit factors, 5%; and (5) environmental factors, 6%.
- The company includes sample term sheets in its draft RFP. These are included as a starting point for discussion. The company makes it clear it will consider bids

that differ from the sample terms, provided that the allocation of risks between the bidder and PGE are clearly identified.

- PGE will negotiate both price and non-price factors for proposals that make it to the final short-list.

In the scoring process for the initial short-list, the company intends to use the value of \$10/MWh for integration for wind projects that are submitted without such services.

When the company modeled wind resources in its 2007 IRP, it estimated integration costs at \$5.50/MWh for Tier I resources (Biglow 2 and 3) and \$10/MWh for Tier II resources (all other resources). Both staff and RNP questioned the Tier II value in LC 43 and continue to believe it is inappropriately high. In the likely event the company considers bids for wind resources that may begin operation in the same time frame as Biglow 2 (expected to be on-line in 2009) and 3 (expected to be on-line in 2010), staff questions the assumption that its wind integration costs would be two times higher. Based on the recent BPA settlement and studies by other utilities, staff and RNP believe the company's integration costs will be less than \$10/MWh.

The company's system-specific wind integration study is unlikely to be completed in time for use during selection of bids for the initial short-list and, absent the study, a proxy figure must be assumed. Staff and RNP continue to disagree with the company about their choice of \$10/MWh for that proxy and are concerned that an unnecessarily high cost may eliminate otherwise qualified bids from the initial or final short-list. PGE and the IE have agreed to test the sensitivity of the scoring model to wind integration costs using mock bids that are identical except for that factor. The result of that analysis will provide the impact, in points, of assumed integration costs. To assure consideration of all valid bids, staff recommends that the Commission require the following condition for approval of the RFP:

In the event any bids fail to make the initial short-list or the final short-list because price scoring reflects PGE's assumed 2007 IRP wind integration costs for Tier II projects (\$10 per MWh), rather than Tier I projects (\$5.50 per MWh), the company must report to the Commission within two weeks of selection of each short-list whether any of those bids would have otherwise been included. The Oregon Independent Evaluator should opine on this issue in its status report following initial short-list selection and in its Closing Report following final short-list selection.

Specific details on how points will be awarded under each factor are still being developed in consultation with the IE. Both staff and RNP believe it is critical for PGE and the IE to complete the detailed scoring criteria and submit it to Commission staff

and the IE prior to the deadline for submission of bids. To assure staff has the opportunity to review the final scoring details, staff recommends that the Commission require the following related condition for approval of the RFP:

PGE must file the detailed scoring and weighting criteria with the Commission, for review by staff, no later than the day before RFP responses are due from bidders. Specifically, the company must provide the methodology for translating each bid's initial price score -- percent of forward price curve -- into a score (maximum 60 points out of 100) that can be blended with the non-price score. Further, the detailed scoring must show how the company will award points for the non-price factors within each category.

Guideline 9b of Order No. 06-446 states, "The portfolio modeling and decision criteria used to select the final short-list of bids must be consistent with the modeling and decision criteria used to develop the utility's acknowledged IRP Action Plan." Given the lack of an acknowledged IRP, and specific non-acknowledgment of PGE's IRP portfolio analysis, staff concludes that portfolio analysis, in a manner similar to what was done in the IRP, would be inappropriate. The company states it will refine its evaluation of the bids in the following areas to determine the final short-list: transmission, credit risk, integration costs, and imputed debt. Absent portfolio analysis, staff believes the company should also evaluate the value of maintaining diversity in the resources it selects. For example, biomass and geothermal resources behave more like baseload resources whereas, wind, solar and wave resources are intermittent. Therefore, staff recommends that the Commission impose the following related condition for approval of the RFP:

At least 30 days before selecting the final short-list, the company must provide to staff and non-bidding parties a methodology for revealing, in the final short-list evaluation, the value of biomass and geothermal resources compared to intermittent resources (wind, wave and solar).

The company states it intends to use costs from its not yet completed wind integration study in selecting the final short-list of bids that do not provide integration services. Staff recommends that the Commission impose the following related condition for approval of the RFP:

The company must review and vet the results of its wind integration study with stakeholders, in a public workshop, at least 30 days before selecting the final short-list.

Overall Fairness of the Utility's Proposed Bidding Process

The final form of this RFP is the result of an iterative process between PGE, staff, Accion Group and RNP. Staff concludes that the resultant process and communication protocols are designed to assure a fair and transparent bidding process. Direct communication between bidders and the company is prohibited. Instead, questions from bidders and the company's answers are directed through the company's RFP website for any bidder or stakeholder to review. Consequently, there isn't a risk of any bidder having more information from PGE than another. The conditions set forth in the RFP document appropriately inform bidders of the bid requirements and evaluation criteria. The specific scoring methodology is still in development with the IE. The condition for staff to review the scoring methodology, prior to the company selecting the initial short-list, will ensure bidders will be treated comparably.

PROPOSED COMMISSION MOTION:

PGE's RFP for Renewable Energy Resources be approved with the following conditions:

1. In the event any bids fail to make the initial short-list or the final short-list because price scoring reflects PGE's assumed 2007 IRP wind integration costs for Tier II projects (\$10 per MWh), rather than Tier I projects (\$5.50 per MWh), the company must report to the Commission within two weeks of selection of each short-list whether any of those bids would have otherwise been included. The Oregon Independent Evaluator should opine on this issue in its status report following initial short-list selection and in its Closing Report following final short-list selection.
2. PGE must file the detailed scoring and weighting criteria with the Commission, for review by staff, no later than the day before RFP responses are due from bidders. Specifically, the company must provide the methodology for translating each bid's initial price score -- percent of forward price curve -- into a score (maximum 60 points out of 100) that can be blended with the non-price score. Further, the detailed scoring must show how the company will award points for the non-price factors within each category.
3. At least 30 days before selecting the final short-list, the company must provide to staff and non-bidding parties a methodology for revealing, in the final short-list evaluation, the value of biomass and geothermal resources compared to intermittent resources (wind, wave and solar).

4. The company must review and vet the results of its wind integration study with stakeholders, in a public workshop, at least 30 days before selecting the final short-list.