

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1345**

In the Matter of
PORTLAND GENERAL ELECTRIC
Request for Proposals for Energy Resources

STAFF'S INITIAL COMMENTS AND
RECOMMENDATIONS

Following are staff's initial comments and recommendations on Portland General Electric's (PGE or company) Request for Proposals (RFP) for energy resources. These comments are preliminary and focus on the alignment of the RFP with the company's 2007 Integrated Resource Plan (IRP) and the Commission's guidelines for competitive bidding.¹

PGE filed its 2007 IRP on June 29, 2007. Staff is scheduled to present their recommendation regarding the IRP to the Commission on March 31, 2008. Staff anticipates that the Commission will not act at this meeting but will issue an order at a later date.

Staff will be recommending that the Commission not acknowledge the company's IRP due to a number of deficiencies in its resource analysis. However, staff believes that the actions the company proposes to take in the next 12 – 18 months regarding renewable energy resources appear reasonable in light of the requirements of the newly implemented Renewable Energy Standard.

PGE discussed the option of issuing an RFP prior to Commission acknowledgement of the IRP with Staff. 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. Staff commented that the company is not required to have an acknowledged IRP in order to issue or seek acknowledgment from the Commission on an RFP.

PGE filed its draft RFP on January 21, 2008. Prior to filing the draft RFP, the company worked with the IE on the content of the document. PGE also held bidder and stakeholder workshops prior to filing and incorporated suggestions from parties to make the conditions and expectations in the RFP clearer.

It was in the process of completing the review of the company's IRP that staff concluded that the company had not met the requirements outlined in Order No. 07-002. This was after the company had filed its draft RFP. Staff notified the company of this conclusion and in response, PGE chose to modify the scope of its RFP. On March 20, 2008, the company distributed by email, a modified RFP for only renewable energy resources. This draft RFP was subsequently filed with the

¹ Commission Order No. 06-446

Commission on March 26, 2008. Staff's comments are in response to the modified draft RFP.

These comments are preliminary. The recently submitted draft RFP has not been reviewed by all members of staff who may have material input to staff's recommendation to the Commission. Before issuing final comments, recommendations and a proposed order, staff will further review the company's draft RFP, responses to any data requests and parties' comments.

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 be available in the 2009 – 2014 timeframe. The minimum bid the company will accept for renewable energy is 2 MW with minimum 5-year duration. While PGE did not include a benchmark resource, it will consider other ownership options.

The energy products the company will consider include but are not limited to:

- Biomass
- Wind
- Geothermal
- Solar
- Wave energy

In all cases, the company's preferred Point of Delivery (POD) is its service territory.

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 this possibility in Order No. 07-018 (footnote 4 at 3-4). "We also clarify that deviation from an acknowledged IRP does not, as ICNU suggests, preclude RFP approval. To obtain approval, however, a utility must substantiate the deviations. Further, 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. We agree with staff that simply providing an explanation of significant deviations and having a least-cost, least-risk goal for IRP analysis and a cost-effectiveness goal for bid evaluation is not sufficient.”

Consequently, to complete the assessment of this RFP, in lieu of an acknowledged IRP, staff requires updated load forecasts, planning assumptions, and analysis of the company’s RPS position by year (*see* Table 6-3, IRP at 100).

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. In December 2007, PGE and Accion finalized the contract for Accion to serve as the IE for this RFP. Prior to signing, staff reviewed and provided input on terms and conditions in the contract. The IE has reviewed and provided input to the company’s RFP. The IE has also participated in bidder and stakeholder workshops that PGE held in January 2008.

Accion Group provided their comments on PGE’s draft RFP and concluded the RFP terms and evaluation criteria were fair and appropriate.

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.

RFP Design

The company requested input in generating this RFP and incorporated suggestions from both staff and the IE. Additional modifications were made to the RFP based on input from the bidder and stakeholder workshops. The guidelines require that

the RFP includes (1) RFP bidding and scoring requirements (discussed further below) (2) minimum bidder capability and credit requirements and (3) allowance for bidders to negotiate mutually agreeable contract terms that differ from any examples that are provided.

PGE provides example term sheets in the RFP but makes clear that alternative bid structures will be considered and are welcomed to bid.

Bid Scoring and Evaluation Criteria

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 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 MWh to forecast market prices using real-levelized or annuity methods.
- Evaluation criteria (draft) are weighted 60% on price factors and 40% on non-price factors. Non-price factors include (1) project development, 5%; (2) project characteristics, 14%; (3) product characteristics, 6%; (4) credit factors; (5) environmental factors, 10%.
- The company includes sample terms in its draft RFP. These are included as a starting point for discussion. The company 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.

PGE highlights in this draft document that the scoring criteria are still under review with the IE.

Staff previously identified areas of concern in the evaluation criteria. The following questions were sent to the company in the form of a data request and were also posted on the company's RFP website. The answers the company provided are included.

- Will PGE allow a bidder to include a Mechanical Availability Guarantee (MAG) for a wind PPA instead of minimum monthly or annual energy guarantees?
Answer: Yes
- Will PGE score a PPA bid lower if the bidder includes a MAG instead of minimum monthly or annual energy guarantees?

Answer: Yes. When scoring for this performance factor, no points will be awarded a bid that has neither a MAG nor a Guaranteed Availability Factor (GAF). Projects with both a GAF and a MAG will receive a maximum score. Projects with a MAG only will receive an intermediate score.

- What requirements will the RFP impose on wind projects regarding providing firm energy?

Answer: All RFP proposals must either provide firm energy within the hour or be from a source that can be firmed within the hour through the provision of requisite ancillary services. For intermittent and non-dispatchable resources, such as wind, bidders are not required to provide integration or inter-hour firming services. However, a bidder must identify what services are included in its bid. If such services are not provided as part of the bid, PGE will impute integration costs in order to evaluate the energy value of bids from intermittent sources on a comparable basis to more predictable and dispatchable resources. The integration costs from PGE's 2007 IRP will be used for this purpose.

Overall fairness of the utility's proposed bidding process

Both staff and the IE have concluded that the process the company has outlined is intended to be transparent, fair and non discriminatory. However, until staff and parties can review the revised scoring criteria (the company is working with the IE to finalize this), it is difficult to judge if the process is completely objective.


Additional Comments

- It's not clear if the company has a preference for bids that come with firming/shaping, compared with bids that require PGE to provide such services, all else being equal.
- Because the company is allowing turnkey options to bid, staff requested and the company has agreed to provide a pro forma build-own-transfer agreement for review by the IE, staff and parties.
- PGE has indicated to staff its intentions of having a completed wind integration study to use in evaluation of bids. Staff and RNP believe PGE system specific numbers are necessary to fairly evaluate bids.
- On page 24 of the draft document, the role of the Energy Trust of Oregon (ETO) in this RFP is described. The reader is directed to Appendix F for more detail about ETO incentive options and it is in Appendix F that the size limitation for projects that can receive incentives is stated. Staff believes the 20 MW project size limitation is important enough that it should be included in the discussion about "Price to PGE" on page 24.
- SB 838 specifies limits to the cost of compliance with the legislation. Implementation of this aspect of SB 838 is being considered in Docket

AR 518. This rulemaking may or may not be completed by the time the company is scoring bids and the company will have to act appropriately.

- Guideline 9b calls for the company to evaluate bids using the same portfolio analysis and modeling that was used in the IRP. Because the goal of this RFP is to meet the requirements of SB 838, portfolio analysis isn't appropriate.
- Staff discussed above, and will reiterate here, the need for an updated analysis of load, existing renewable resources, banked Renewable Energy Credits and energy efficiency actions, at a minimum, for the time period targeted for renewable resource acquisition in this RFP.

Dated at Salem, Oregon this 28th day of March, 2008



Lori Koho
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CERTIFICATE OF SERVICE

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I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 28th day of March, 2008.



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