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April 17, 2008

Allan Arlow
Administrative Law Judge
Public Utility Commission of Oregon
550 Capitol St NE – Suite 215
PO Box 2148
Salem OR 97308-2148

Re: UM 1345 – Submission from the Oregon Independent Evaluators

Dear Judge Arlow:

Enclosed with this letter is a document that staff is submitting in PUC Docket UM 1345 on behalf of the Oregon Independent Evaluators (Accion Group). The document entitled, “Supplemental Report – Accion Group, Inc., Independent Evaluator – Portland General Electric Company” is a public document that contains no confidential or highly-confidential information.

Please note that I am serving this document on the other UM 1345 parties via electronic mail only.

Sincerely,

Michael T. Weirich
Assistant Attorney General
Regulated Utility & Business Section

MTW:nal/GENX5731
Enclosures
C: All parties w/o enc.

**SUPPLEMENTAL REPORT
ACCION GROUP, INC.
INDEPENDENT EVALUATOR
PORTLAND GENERAL ELECTRIC COMPANY
April 15, 2008**

EXECUTIVE SUMMARY

On December 21, 2007, Portland General Electric (Portland) filed draft RFP documents with the Oregon Public Utility Commission (Commission). The First Draft RFP documents were also posted on the Portlandgeneralrfp.com web site for public review and comment. Accion Group, Inc. serves as Independent Evaluator (IE) for this RFP.

Portland posted revised RFP documents on the web site on January 23, 2008. Subsequently, Portland limited the RFP to renewable resources, and posted RFP documents reflecting the changes on March 21, 2008. Working with the IE, Portland also began refining the evaluation criteria and methodology for the revised RFP. This refinement required revising the criteria to be used when weighting and scoring bids. Product definitions and characteristics were also established for use in bid qualification and scoring. Finalizing these revisions required significant effort by Portland and the IE. This process was complicated by the lack of both an acknowledged Integrated Resource Plan (IRP) and an integration cost study.

On April 9, 2008, Portland submitted a revised RFP, and it was posted on the web site in a sub-folder entitled "April Draft Renewables RFP Documents." Portland filed the final draft RFP documents with the Commission on April 15, 2008. These documents are on the website document page, in the subfolder "April 15 Draft Renewable RFP Documents." The sub-folder includes all of the RFP documents, including a new asset purchase agreement and a revised Renewable Wholesale Energy Purchase and Sale Agreement. In consultation with the Staff and the IE, Portland identified evaluation criteria for the initial short list, and for determining the final short list. This effort produced the need for additional modification of the RFP. In summary, Portland made the following changes to the RFP and to the evaluation process:

- The evaluation process is set forth in sequential order.
- The criteria that will be used to determine the final short list are defined.
- The evaluation protocols, including the opportunities for the Staff and IE to review Portland's determinations at every evaluation stage, are recognized.

- Renewable resources products are defined, and acceptable terms are presented.
- The evaluation protocols include the IE providing “mock bids” that will test the integrity of the evaluation model.
- The mock bids will test the effect on bids of different integration costs.
- Confirmation that Portland will determine the initial short list using an evaluation model that does not include input from the final integration cost study. The IE will release bids for the initial evaluation only after the IE and staff have tested the evaluation model, and the Staff and IE are satisfied that the data included in the evaluation model is appropriate.
- The determination of the final short list will be done only after the results of the integration cost study are revised by the IE and staff, and appropriately incorporated into the evaluation model.

Based on the discussions between the IE and Portland, we believe most of the changes to the RFP recognize procedures and protocols Portland intended to employ. Changing the RFP makes these protocols explicit, rather than inherent, which is appropriate. We believe the revised RFP accurately presents the product Portland is seeking, and how bids will be evaluated. We recognize the Commission may require additional changes to the RFP, but we do not anticipate further refinement of the product description or the terms that are desired by Portland. Accordingly, we believe bidders have the information necessary to prepare bids.

Evaluation Process

Since the release of the initial draft documents by Portland General in December 2007, considerable time and effort has been dedicated to defining the evaluation tools and standards Portland will use to determine which bids are included in the initial short list, and which will be included in the final short list. This review had challenges due to the lack of an acknowledged IRP and the unique nature of incorporating renewable resources into a portfolio. Some of these challenges cannot be addressed prior to receipt of bids. For example, in this RFP, Portland is moving forward with soliciting bids at the same time their integration cost study is underway. Clearly, the results of that study will need to be incorporated in the evaluation of the final short list, but the results of the study are not needed for the receipt of bids, or for the initial short list determination.

To maintain the transparency of the RFP process, Portland will provide the detailed scoring methodologies and the results of the scoring of each of the bids which determined the initial short list and

the final short list to the IE and Staff, before each of those lists are established in their final composition. In light of the high level of cooperation with have experienced with Portland to date, we are confident sufficient time will be allotted for a thorough review of the company's preliminary determinations, so that the IE and Staff can complete their review before Portland proceeds at each phase.

The IE recognizes that a Renewable RFP for resources presents unique challenges in (1) comparing the pros and cons of each technology, and (2) selecting the optimal mix of resources across different technologies. The challenges of point (1) should be primarily addressed in the price and non-price scoring. We believe that the price scoring and non-price scoring, as developed by PGE and refined per our suggestions, adequately values the different benefits, drawbacks, and risks of each technology expected to be bid as a part of this RFP. However, because some components, such as integration costs, transmission availability, and security requirements, cannot be completely quantified as part of an initial screening, a considerably large pool of reasonable bids should be selected to the initial short list.

Mock Bids

As part of validating the scoring methodology and testing the sensitivity of each scoring component, the IE will run mock bids prior to the receipt of bids. The mock bids will also be run along with bids, and at the completion of the evaluation phase. The results of each evaluation of the mock bids will be compared to confirm that the evaluation model is unchanged throughout the evaluation process. The IE will work with the Staff and Portland to fashion mock bids that will realistically represent the sorts of bids the company should receive. The IE and Staff will review the results, looking for anomalies or peculiar results. Once we are satisfied that the evaluation model will perform as expected, the IE will "lock down" the model, and no changes will be made to the model, unless approved by the IE and Staff. The mock bids will attempt to anticipate unique aspects of expected bids, including energy profiles of different technologies, delivery points, supply characteristics, and integration costs.

The mock bids will also be used to test sensitivities. In particular, we will establish a range of integration costs, and determine the effect of the range before the integration study is completed. This will assist in understanding how the pricing of integration may affect the ranking of bids. The IE understands that Portland General will also provide a report on why bids did not make the initial short list and, in turn, why bids were not part of the final short list. The IE and Staff will use those reports when reviewing whether the assigned cost of integration kept a bid from moving to the short list.

The optimal number of bids continuing to the short list is also affected by the second challenge of resource mix. If one technology were to dominate the scoring, a reasonable approach might be to keep the best options of some alternate technologies as part of the short list for risk mitigation. Because the 2007 IRP was not acknowledged, portfolio analysis is not an appropriate method for determining the optimal resource mix. Without having existing portfolios or assumptions from the IRP to test against, and because renewable portfolios will not offer much diversity, portfolio analyses is not feasible, nor would it provide value in risk identification. However, a proper resource mix of the available bids must still be selected, but the determination can only be made when all bids are in hand.

The IE will review all aspects of Portland's evaluation of bids, including the less quantifiable components, to address whether the optimal renewable resource mix has been identified from the available bids. Our review will be shared with the Staff before the evaluation phase is completed. The bids, evaluation ranking, and the identity of bidders will not be released publicly.

Given all these considerations, the IE's recommendation is to include at least three times the requested energy in the initial short list, and approximately two times the requested energy in the final short list subject to sufficient reasonable bids being submitted.

IE Review of RFP Changes

We reviewed all changes made to the RFP since the first draft was posted on December 21, 2007. The IE agrees with the Staff's recommendation to change the RFP to renewable, only because of PGE's need to comply with the Oregon Renewable Energy Standard. Our views on other changes are as follows:

- **Price Scoring** – The price scoring continues to be a simple discount cash flow analysis not greatly impacted by the exclusion of non-renewable bids. The comparison price continues to be developed from forward market prices, which include all resources and thus incorporate CO2 taxes. A review of the development of forward market prices will be completed prior to receipt of the bids. The IE believes the price scoring for a renewables-only RFP is appropriate.
- **Weighting of Non-Price Scoring** – The IE worked with Portland General to develop appropriate non-price scoring for the renewables-only RFP. Additional scrutiny was also placed on the allocations of components such as fuel security, intermittency of resources, and availability guarantees. Although the non-price scoring is not completely finalized, the key issues have been handled and only minor details are remaining to be resolved. The IE is comfortable that the weightings and components are appropriate.

- Fuel Risk – The only type of project that will have fuel price risk in this RFP will be biomass projects. The company decided it is not be willing to accept any fuel price risk in this RFP. The IE believes this is reasonable given the significant fuel price risk inherent in biomass projects, and that this risk is not shared by any other renewable technologies.
- Product characteristics – Obvious significant changes were made to the products requested due to the change to a renewables only RFP, including the requirement that each product meet the requirements of the Oregon’s Renewable Energy Standard, as well as include all environmental attributes (Renewable Energy Credits). In the original RFP, renewable projects were not required to bring these qualifications, but they would not have been treated as renewable in the evaluation without the associated Renewable Energy Credits.
- Final Short List Determination – Although PGE had specified in the RFP and in communications with the IE information regarding how the initial short list would be pared down to the final short list, the IE agrees that it was not clearly consolidated in the RFP document. The company clearly specified in the latest RFP document that transmission, integration, security, and imputed debt would all be looked at in detail after initial short list determination.
 - Transmission – At the time of selecting the initial short list, not enough information will be available to determine transmission impacts of each bid. The company stated in the most recent RFP that the status of the BPA open season for transmission, as well as a review of each bid project’s proven ability to deliver to PGE, will affect the selection of the final short list.
 - Integration – A wide range of estimated costs for integration and shaping have been made available to the company. These estimates will be refined for the final short list evaluation per a detailed study that PGE is currently performing. In addition, the IE will perform sensitivities to understand the impact of integration costs on bids. Also, PGE will provide a report to the Commission on why projects did not reach the short list to ensure that inappropriate integration costs were not the sole factor.
 - Security – In addition to the Credit screening used to determine the initial short list, PGE states in the recent RFP that they “will perform a detailed credit risk evaluation of all shortlist bidders, and will refine performance assurance requirements during this stage.” The IE believes this is satisfactory and does not represent a change from their original intent, but is now stated more clearly in the RFP.

- Imputed Debt – The RFP states: “As defined in the Oregon Competitive Bidding Guidelines, considerations of ratings agency debt imputation (the leverage adjustment) will be reserved for the selection of the final bids from the initial short list of bids.” This is consistent with previous intentions, but is now stated more clearly in the RFP.
- Software – Portfolio analysis will not be performed on bids, but PGE will use a portfolio modeling tool (AURORAxmp®) for estimating hourly market prices for use in the RFP evaluation. It is a market available and tested software product. PGE’s use of the software is consistent with standard practice, and the results seem reasonable. The IE will perform further auditing prior to receipt of bids and during evaluation.

Release of Bids

While we continue to believe Portland will complete the final evaluation model well in advance of bids being received, bidders are entitled to a high degree of confidence in the fairness of the evaluation process. For this reason, Portland agreed that if the initial evaluation modeling criteria are not completely agreed upon before the bid due date, the IE will receive and hold all bids until satisfied that the evaluation model is in its final form. The initial evaluation model will be recognized as complete after the IE has completed performing sensitivity testing by running secessions of mock bids. The IE will consult with the Staff and Portland before releasing bids to Portland.

The IE and Staff will continue to review Portland’s evaluation of bids, even after the IE releases the bids. In particular, the final evaluation model used for determining the final short list will only be used after the IE and Staff are satisfied that integration costs are appropriately adjusted from the initial evaluation model.

Conclusion

Portland General Electric revised the RFP to adequately describe the products and terms acceptable to the company as renewable resource bids. The description of the evaluation process was expanded to provide bidders with a clear understanding of how Portland will rank bids, and how the final short list will be established. Portland also described how the Evaluation Team will continue to work with the Staff and the IE throughout the evaluation process. Specifically, The IE will hold all bids until the IE and the Staff are satisfied that the initial evaluation model is in final form. As described in this report, the IE will use a series of “mock bids” to test the evaluation model, and to confirm that the model, once in final form,

remains unchanged during the evaluation of all bids. Portland confirmed that the final short list will be established only after the integration cost study results are incorporated into the final evaluation model. Also, the final short list will be established only after the IE and the Staff have reviewed the results of Portland's evaluation of bids.

We believe the changes are appropriate and complete. With the information provided by Portland, bidders are informed of what products are acceptable, and how evaluations will be conducted.

1 **CERTIFICATE OF SERVICE**

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3 I certify that on April 17, 2008, I served the foregoing upon all parties of record in this
4 proceeding by delivering a copy by electronic mail and by mailing a copy of the letter by postage
5 prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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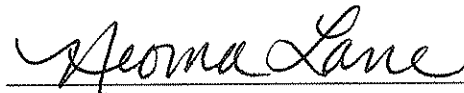
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