PACIFIC POWER
A DIVISION OF PACIFICORP

825 NE Multnomah, Suite 2000
Portland, Oregon 97232

February 6, 2019

VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-3398

Attn: Filing Center

RE: PacifiCorp's Notice of Exception under OAR 860-089-0100

In accordance with OAR 860-089-0100(3) and (4), PacifiCorp d/b/a Pacific Power provides the enclosed report detailing the circumstances related to a time-limited opportunity to acquire a resource of unique value to PacifiCorp's customers.

The enclosed report contains commercially sensitive information and is provided as confidential under OAR 860-001-0070. Confidential information will be provided upon request to those that execute a non-disclosure agreement; please contact PacifiCorp's legal counsel listed below for additional information.

PacifiCorp respectfully requests that all communications related to this filing be addressed to:

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Please direct informal inquiries regarding this filing to Natasha Siores at (503) 813-6583.

Sincerely,

Etta Lockey
Vice President, Regulation

cc: service lists of dockets UE 263, UM 1845 and LC 70

CERTIFICATE OF SERVICE

I certify that I filed a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail and/or overnight delivery in compliance with OAR 860-001-0180.

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Dated February 6, 2019.

Katie Savarin

Katie Savarin
Coordinator, Regulatory Operations

CERTIFICATE OF SERVICE

I certify that I electronically filed a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail and/or overnight delivery in compliance with OAR 860-001-0180.

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Dated February 6, 2019.

Katie Savarin

Katie Savarin
Coordinator, Regulatory Operations

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of PacifiCorp's **Notice of Exception under OAR 860-089-0100** on the parties listed below via electronic mail and/or overnight delivery in compliance with OAR 860-001-0180.

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Dated February 6, 2019.

Katie Savarin

Katie Savarin
Coordinator, Regulatory Operations

Report

Cedar Springs III Wind

Power-Purchase Agreement

February 6, 2019

Introduction

Consistent with the requirements of OAR 860-089-0100(3) and OAR 860-089-0100(4), PacifiCorp, d/b/a Pacific Power, is filing this report explaining the circumstances related to a time-limited opportunity to acquire a resource of unique value to PacifiCorp's customers.

Under the competitive-bidding rules, an electric company must comply with the competitive-bidding requirements for the acquisition of a resource or contract for 80 megawatts (MW) or more and longer than five years, subject to certain exceptions.[1] One of these exceptions is when "there is a time-limited opportunity to acquire a resource of unique value to the electric company's customers."[2] When this language was originally adopted as part of the competitive-bidding guidelines, the Public Utility Commission of Oregon (Commission) explained that sometimes specific time-limited opportunities occur, and utility action is required without an RFP process.[3] However, "[w]hen those events occur…we want to be notified, in some detail, as to why the utility did not use an RFP process for acquiring a major resource."[4] The Commission's preference for notification is contained in OAR 860-089-0100(4), which requires an electric company that acquires a resource under an exception to the competitive-bidding rules contained in OAR 860-089-0100(3) to file a report with the Commission within 30 days of seeking to acquire the resource; the required report must explain the circumstances surrounding the acquisition. Although PacifiCorp is acquiring this resource consistent with an exception to the competitive bidding rules, this acquisition does not alter the Commission's role in performing a prudence review of the acquisition.

Background

On January 24, 2019, PacifiCorp received a final offer from Cedar Springs III, LLC, a subsidiary of NextEra Energy Resource, LLC (NextEra) for a power-purchase agreement (PPA). The PPA outlines pricing, terms, and conditions for delivery of the output from a 120 MW wind facility in Converse County, Wyoming (Cedar Springs III). Cedar Springs III has an estimated capacity factor of [redacted] percent.

The PPA has a [redacted] beginning December 31, 2020. To qualify for federal production tax credits (PTCs), Cedar Springs III must be in service by December 31, 2020. To achieve this in-service date, construction activities must begin no later than May 2019, which requires a PPA to be executed at this time. Executing the PPA will enable NextEra to finalize certain contractual arrangements (*i.e.*, turbine-supply agreements and engineer, procurement and construction agreements) that are required to achieve a commercial-operations date of no later than December 31, 2020. Failure to execute the Cedar Springs III PPA within this time frame risks forgoing the opportunity to secure a low-cost wind resource that will provide a unique value for customers.

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[1] OAR 860-089-0100(1)(A), adopted August 31, 2018.
[2] OAR 860-089-0100(3)(b).
[3] *In Re Investigation Regarding Competitive Bidding*, Docket UM 1182, Order No. 06-446 (Aug. 10, 2006).
[4] *Id.*

Cedar Springs III is an expansion of the 200 MW Cedars Springs I wind facility and the 200 MW Cedar Springs II wind facility (collectively, Cedar Springs I, II, and III are referred to as the Cedar Springs Wind Facility). Cedar Springs I and II were procured through the 2017R Request for Proposals (RFP) that was issued in September 2017. NextEra bid 400 MW of the Cedar Springs Wind Facility into the 2017R RFP—200 MW as a PPA (Cedar Springs I) and 200 MW as a build-transfer agreement (Cedar Springs II). PacifiCorp provided further details of this transaction in docket UM 1845.

The Cedar Springs Wind Facility has an interconnection study that enables an interconnection for 520 MW by 2020,[5] but NextEra chose to only bid 400 MW into the 2017R RFP. In early November 2018, NextEra approached PacifiCorp with an offer to engage in PPA discussions, with similar terms and conditions as contained in the Cedar Springs I PPA, for the incremental 120 MW Cedar Springs III opportunity.

The price for the Cedar Springs III PPA [redacted] is approximately [redacted] than the price of the Cedar Springs I PPA due to differences in development, permitting and construction costs. However, because the interconnection study for the Cedar Springs Wind Facility enables interconnection of 520 MW, and the full cost of the interconnection for 520-MW interconnection was accounted for in the economic analysis of the Cedar Springs I PPA and the Cedar Springs II build-and-transfer agreement in the 2017R RFP, the economic analysis for Cedar Springs III is not encumbered with any incremental interconnection network upgrade costs. Consequently, the levelized delivered cost of the Cedar Springs III PPA is approximately [redacted] than the Cedar Springs I PPA. With low delivered costs, the Cedar Springs III PPA will provide a unique value to PacifiCorp's customers, who will experience significant net benefits from this resource procurement.

The Cedar Springs Opportunity and Benefits

Cedar Springs III Project is a "Time-Limited Opportunity"

The opportunity to enter into the Cedar Springs III PPA evolved over a very compressed timeline, beginning in early November 2018 and concluding with negotiation of final terms in late January 2019. The entire process from initial discussions to the negotiation of final terms for the PPA occurred within three months. Additionally, for NextEra to achieve a construction schedule that

[5] In accordance with PacifiCorp's Open Access Transmission Tariff (OATT) requirements, PacifiCorp's transmission function studied and identified the requirements necessary to grant the interconnecting generator's (in this case, NextEra's) 2015 interconnection request for 520 MW of interconnection service—a study performed independently from and irrespective of the generator's later 2017 bid of only 400 MW in PacifiCorp's competitive solicitation process. The OATT interconnection study of the 520 MW request, which is publicly available on OASIS, determined that the entire 520 MW project could interconnect by 2020 with the acceleration of Energy Gateway Segment D.2's construction to 2020. While PacifiCorp's transmission function cannot grant any additional interconnection requests in this constrained area of its eastern Wyoming system without transmission expansion beyond just Segment D.2, this particular interconnection customer's request does not need to wait until those additional transmission facilities are complete because the OATT required PacifiCorp's transmission function to hold NextEra's full request for 520 MW of interconnection capability on Segment D.2. More specifically, in accordance with OATT study assumption requirements, PacifiCorp's transmission function assumed as a baseline in all of its eastern Wyoming interconnection request studies that higher-queued projects, including NextEra's 520 MW project, were in-service.

will qualify for 100 percent of the federal PTCs, a PPA must be executed at this time. As noted earlier, NextEra requires immediate execution of a PPA to be positioned to complete certain contractual arrangements that are required to achieve a commercial-operations date of no later than December 31, 2020.

To meet the December 31, 2020 commercial-operations date, PacifiCorp determined that issuing an RFP under Oregon's competitive bidding rules would not allow for the prompt contracting required to ensure 100 percent PTC eligibility. An RFP process would have taken many months to complete and would have exceeded the timeline necessary to capture the unique value of this opportunity.

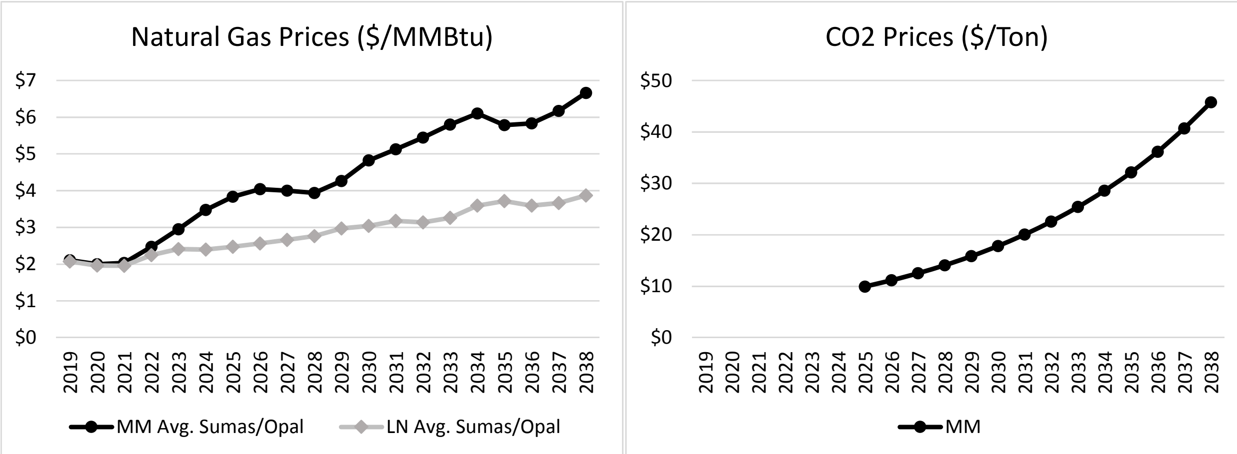
Cedar Springs III Project Represents a "Unique Value to Customer"

The Cedar Springs III PPA will provide significant customer benefits over the term of the contract. The methodology used to perform the economic analysis of the Cedar Springs III PPA is consistent with the methodology used to perform the economic analysis of bids submitted into the 2017R RFP in docket UM 1845. In that proceeding, PacifiCorp performed its economic analysis under a range of price-policy scenarios to quantify how net benefits or net costs change with changes in natural-gas price and carbon dioxide (CO_2) price assumptions. These studies showed that net benefits for new renewable projects are lowest when low natural gas-price assumptions are paired with no CO_2 price and that net benefits are greatest when high natural gas-price assumptions are paired with high CO_2 price assumptions.

The economic analysis of the Cedar Springs III PPA relies on an assessment of system value based on two Planning and Risk model (PaR) runs with a simulation period covering the 2019-2038 time frame. This is the same modeling tool used to perform cost and risk analysis in PacifiCorp's integrated resource plan and used to develop the economic analysis that informed the selection of a final shortlist of bids in docket UM 1845. System benefits from the Cedar Springs III PPA are based on two PaR simulations—one with incremental wind generation from the project and one without incremental wind generation from the project.

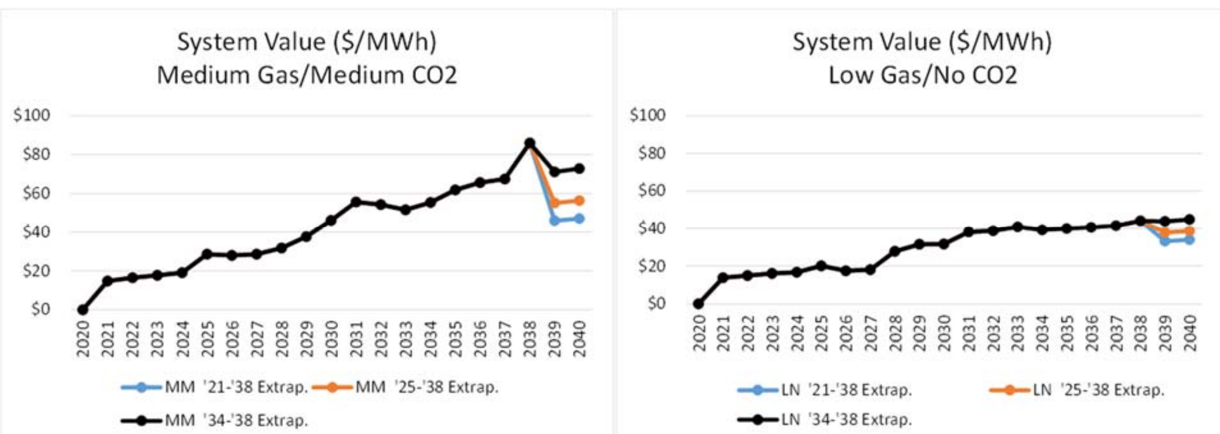
These simulations were performed using two different price-policy scenarios—one assuming medium natural-gas price and medium CO_2 price assumptions (the "MM" price-policy scenario) and one assuming low natural-gas price and no CO_2 price assumptions (the "LN" price-policy scenario). These assumptions are summarized in Figure 1.

Figure 1. Price-Policy Assumptions in the Economic Analysis of Cedar Springs III



The system value of incremental wind energy is converted to a dollar-per-megawatt-hour value by dividing the reduction in annual system costs associated with Cedar Springs III by the change in incremental wind energy from Cedar Springs III. This analysis was performed for the MM and LN price-policy scenarios through 2038. The value of wind energy is extended out through 2040 by extrapolating the system values calculated from modeled data over three different time frames—2021-2038, 2025-2038, and 2034-2038. The assumed system value, expressed in dollars-per-megawatt-hour, is applied to the incremental energy output from Cedar Springs III. The system value of Cedar Springs III is summarized for both price-policy scenarios in Figure 2.

Figure 2. System Value Used in the Economic Analysis of Cedar Springs III



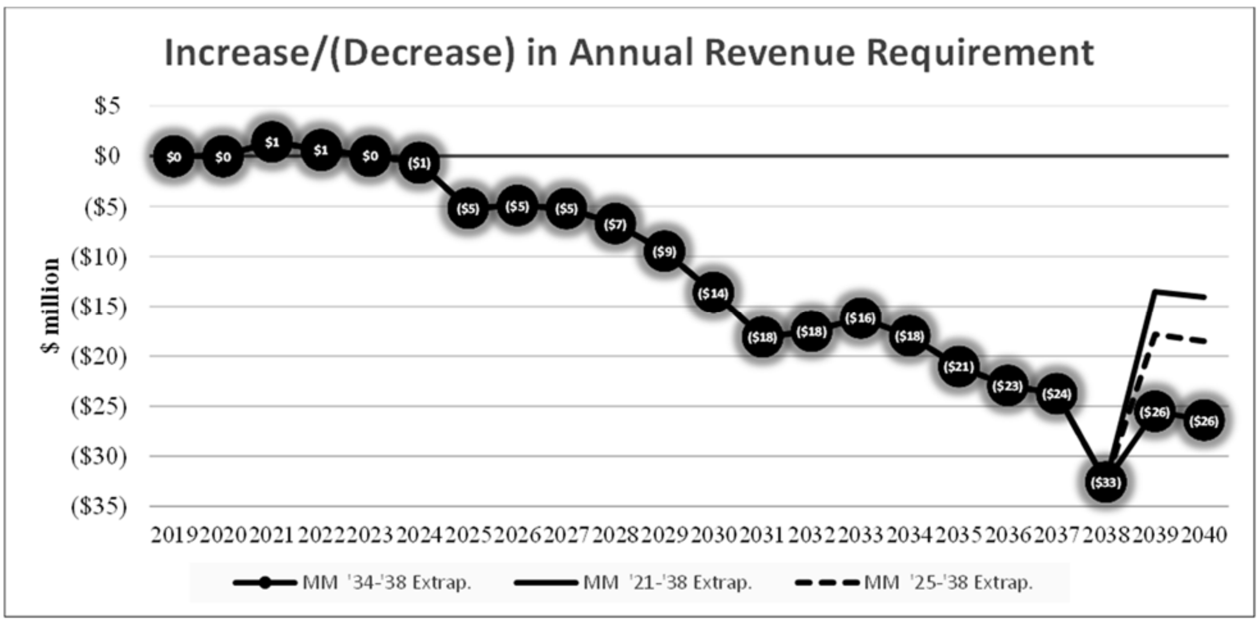
The Cedar Springs III PPA is expected to provide significant net benefits for customers under both price-policy scenarios and all system-value extrapolation cases. Table 1 summarizes present-value revenue-requirement differential (PVRR(d)) benefits calculated from changes in system costs through 2040. This table also presents the same information on a levelized dollar-per-megawatt-hour basis. Under the MM price-policy scenario, net benefits range between $84m and $90m. Under the LN price-policy scenario, net benefits range between $38m and $41m. These results do not consider the value of renewable-energy credits, which can be used to meet state renewable-portfolio standards or be sold to provide additional revenue to offset costs for customers. Further, while not explicitly analyzed, customer benefits would increase significantly with high natural-gas price and/or high CO_2 price assumptions.

Table 1. Net Benefits from the Cedar Springs III Project

Price Policy Scenario	PVRR(d) Net (Benefit)/Cost ($ million)	Nom. Lev. Net Benefit ($/MWh of Incremental Energy)
MM ('21-'38 Extrapolation)	($84)	[redacted]
MM ('25-'38 Extrapolation)	($86)	[redacted]
MM ('34-'38 Extrapolation)	($90)	[redacted]
LN ('21-'38 Extrapolation)	($38)	[redacted]
LN ('25-'38 Extrapolation)	($39)	[redacted]
LN ('34-'38 Extrapolation)	($41)	[redacted]

Figure 3 shows the estimated change in nominal annual revenue requirement due to the Cedar Springs III Project for the MM price-policy scenario. This figure reflects the change in nominal revenue requirement associated with the PPA cost netted against system benefits as described above. The Cedar Springs III PPA substantially reduces nominal revenue requirement in all but the first three years of its depreciable life, where incremental costs are extremely low.

Figure 3. (Reduction)/Increase in Total-System Annual Revenue Requirement from Cedar Springs III



Conclusion

As negotiations were being finalized for the Cedar Springs I PPA and the Cedar Springs II build-and-transfer agreement, PacifiCorp was presented with a unique time-limited opportunity to provide significant value to customers by incorporating additional renewable energy at an attractive price that will generate significant customer benefits when applying conservative price-policy assumptions. PacifiCorp has prudently and appropriately pursued this opportunity, which requires executing a PPA in a time frame that cannot be achieved through an RFP process. The Cedar Springs III PPA will deliver significant net benefits and is a unique value for customers.