

Resource Decision Making

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Joint Meeting
Committee on Energy Resources and the Environment
And
Committee on Electricity

Perspective

Pacificorp:

- Six jurisdictions
- Vertically integrated
- Little deregulation
- No RTO
- Two control areas

- » PacifiCorp – six states, vertically integrated, little deregulation, no RTO, two control areas.
- » Failed diversification strategy
- » Acquired by Scottish Power
- » Energy Crisis

By 2002, fast growth and inadequate resource plan

Revived Integrated Resource Planning

Major Innovations:

- Looking at risk and and at possible future issues.
- \$8 per ton carbon adder
- Gas volatility expressly valued in risk analysis.

- » Formed team in late 2001
- » Call went out: “Who used to do this stuff?”
- » First IRP issued January 2003
- » In between, collaborative public process:
 - Models and methodology
 - Assumptions
 - Check-ins on preliminary results

Result = Superior Product

IRP Overview

The IRP

- » The IRP is both a business plan and a regulatory requirement.

- » Our Goal = safe, reliable, low-cost power.
- » The IRP serves as a roadmap for future resource requirements over a 20 year time frame.
- » The IRP includes:
 - Timing, type, and magnitude of new resource decisions.
 - Timing and magnitude of new transmission investment.
 - Estimates of new resource options and costs.
 - The least-cost, lowest risk portfolio of new resource options to serve the customer and balance the system.
- » PacifiCorp's IRP reveals a substantial need for new resources.

The IRP Process

Overview of the IRP Process:

- » This picture provides an overview of the process, showing what the inputs are, where they come from, and how PacifiCorp gets to a plan that incorporates the needs of customers, states, the region, and the Company.
- » The IRP solution needs to remain adaptable to changing course, as uncertainties evolve and are resolved

Regulators & Intervenor



Strategy & Planning



Hydro



Renewables



Financial Products



Forecasts



Transmission



Thermal



DSM

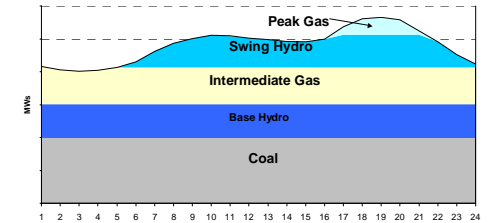


Environmental



IRP Process

Fulfill Customer Obligation



Deliver Economic Solution to Customer & Shareholder



Reduce Commodity Risk



Earn Allowed Rate of Return

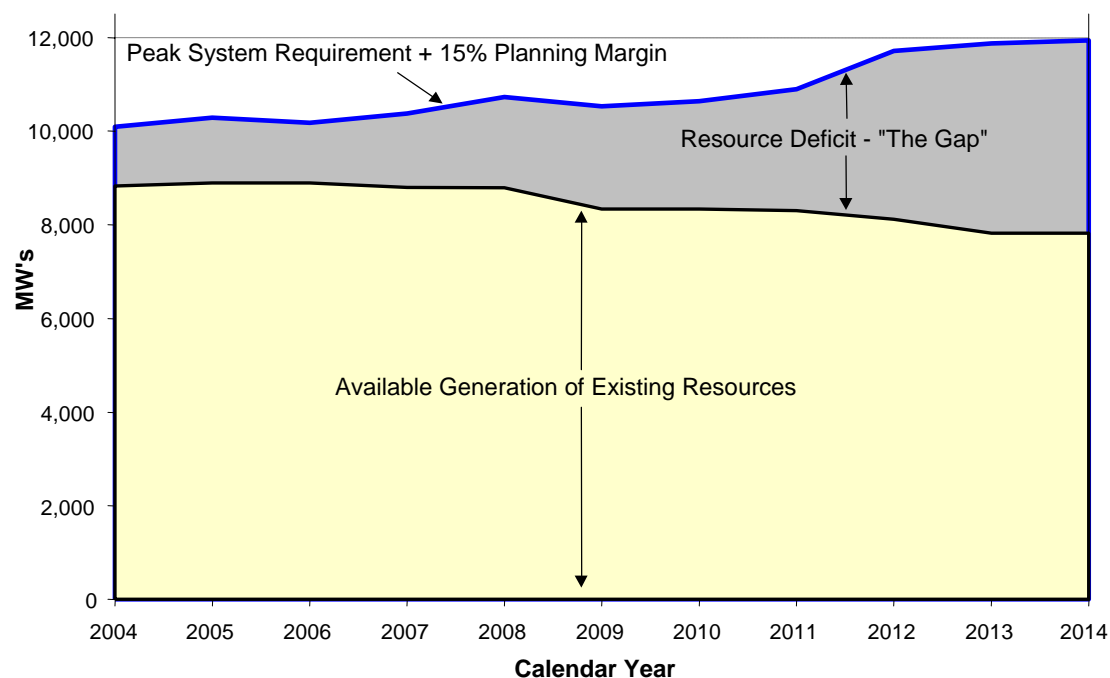


Results of the 2003 IRP

Results of Analysis

- » Over the next ten years, net contract expirations equate to a loss of ~ 1,300 MW, and there is ~ 1,000 MW of plant retirements scheduled
- » Load growth equates to ~ 1,000 MW

- » PacifiCorp's IRP revealed a substantial need for new resources
- » Anticipated the need for ~ 4,000 additional megawatts of capacity when planning margin is also considered.

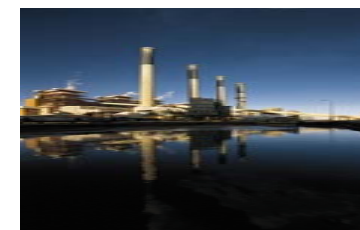


Long-term Resource Requirements

Resource Requirements

- » A diversified approach fits the need to achieve a low cost, low risk and highly reliable source of energy for our customers while balancing social and environmental concerns
- » No one energy source is adequate from a cost/risk standpoint to meet the needs of our customers.
- » Procurement process to acquire generation resources moving forward

- » Renewables - 1,400 MW
 - Wind won a large place in the Portfolio
- » Demand Side Management (DSM) - 450 MWa
 - DSM plays an increasing important role in the sustainability of the business
- » Base load – 2,100 MW
 - Capacity consists of large, efficient coal or gas generation
- » Peaking resource – 1,200 MW
 - Necessary component of every portfolio
- » Shaped resource – 700 MW
 - Contracts or resources that fill specific needs



Overview of Long-Term Procurement Process

Objective:

- » Administer a solicitation process that is reasonable, fair and unbiased,
- » Solicit a wide number of responses,
- » Ensure prudent credit assurances,
- » Maintain confidentiality as appropriate,
- » Develop a flexible process that helps us obtain the best cost/risk balance for new resources,
- » Minimize the solicitation cycle time,
- » Continually review and improve the process

- » PacifiCorp's long-term procurement process:
 - looks to the IRP planning process to determine need, then executes this.
 - is predicated on;
 - ⇒ the current paradigm of cost recovery being decided via rate cases, not by virtue of following a specific procurement process, and
 - ⇒ on resources going into rates at cost.
 - ⇒ Not favoring one type of transaction structure over another e.g. "Build v Buy".
 - recognizes that there are times when a procurement process should be used and that there are times where it is not appropriate,
 - recognizes that a formal procurement process has a long cycle time (6 to 8 months), and
 - that an informal RFP process takes place in all aspects of PacifiCorp's commodity procurement activities.

Use of Consultant in the Procurement Process

Use a Consultant if:

- » Affiliates are allowed to bid, or
- » PacifiCorp has a cost-based construction alternative

- » When a consultant is used, their primary role is to assure that the process is done in a “Fair Manner”:
 - “Fair Manner” = evaluate bids in a manner that is reasonable, fair, unbiased and comparable to the extent practicable.
- » Other Key Roles of the Consultant:
 - Validate update of IRP build cost information,
 - Issue bid numbers,
 - Receive bids,
 - Assist in transferring bid information to evaluation sheets,
 - Maintain confidentiality and blinding for evaluation,
 - Information source to Legal and Credit for non-blinded information,
 - Document consultant activities for future rate recovery proceedings.

Impact of New Accounting Rules

Accounting Rules:

- » A new consideration.
- » As of July 1, 2003, EITF 01-08 requires review under lease accounting for certain PPAs,
- » Effective March 31, 2004, FIN 46 must be considered; guidelines recently revised and being evaluated by internal accounting and our advisors.

- » Impact:
 - Consolidation or PPA as a capital lease adds debt directly to balance sheet and interest to the income statement,
 - PPA as operating lease adds debt and interest* to financial statements.
- » Result:
 - Increased leverage to the balance sheet could impact cost of financing,
 - Infusion of equity to maintain credit rating, compliance with financing agreements, and regulatory commitments (re-balance debt/equity),
 - Need for utility to earn a full return on infused equity (i.e., in rate-based projects).
- » RFP Impact:
 - Increases evaluated PVRR of all PPA alternatives
 - Need to take into account costs of each alternative to get best result for customer.

* **Note:** Rating agency inferred debt takes place regardless of accounting. Balance sheet mitigation may be required depending on agency view of transaction.

RFP Timeline

RFP Status

- » First resource from RFP 2003-A under construction. Second resource subject of a CCN Hearing in Utah.
- » Anticipate having a short list for RFP 2003-B towards the end of July.
- » View planning and resource acquisition as a dynamic process, which requires ongoing analysis.

» RFP Timeline:

IRP Supply-Side Action Items

Solicitation	Resource	Issuance
RFP 2003-A	East flexible resource	June 2003
RFP 2003-B	East and West Renewables	February 2004
RFP 2003-C	West resource	IRP update will drive issue date
RFP 2004-A	East resource	Pending 2003A outcome

In Summary

- » Planning Process takes into account future issues and risks.
- » Is developed in conjunction with all major stakeholders.
- » Recognizes that no single resource type produces the lowest risk portfolio.
- » Is a dynamic process that needs to be updated on an ongoing basis as circumstances change.
- » Serves as the basis for the resource acquisition process followed.