BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	Docket No. 04-035-____
PACIFICORP for a Certificate of	)	
Convenience and Necessity Authorizing	)	DIRECT TESTIMONY OF
Acquisition of the Lake Side	)	RICHARD Y. ITO
Power Project	)	

MAY 2004

Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is Richard Y. Ito, my business address is 825 N.E. Multnomah, Suite 600, Portland, Oregon 97232, and my present position is Vice President of U.S. Energy Risk Management. My position is part of PacifiCorp's independent risk management function.

Q. Please describe your employment history beginning with your current position.

A. I have been the Vice President of US Energy Risk Management since April 10, 2001. Prior to that date, I was a Senior Manager for PricewaterhouseCoopers, LLP responsible for utility operations and energy risk management consulting practice development in the western United States from June 1997 to April 2001. Prior to June 1997 I worked for the City of Los Angeles Department of Water and Power (LADWP) from June 1990 through June 1997 in various functions including environmental assessment, power contracts and wholesale electricity trading. My last position at LADWP was Director of Wholesale Trading from approximately March 1995 to June 1997.

Q. Please describe your educational history.

A. I have a Master of Science degree and Bachelor of Science degree in Electrical Engineering from the University of Southern California and the California State University, Long Beach, respectively, and a Master of Business Administration degree from the University of California at Los Angeles. I am also a Registered Professional Engineer in the state of California.

Q. Please describe your responsibilities at PacifiCorp.

A. I am responsible for the Energy Risk Management function at PacifiCorp. The Energy Risk Management function at PacifiCorp is part of the Group Risk Management function which is an independent group reporting to the Group Energy Risk Director who in turn reports to the Chief Financial Officer of ScottishPower plc.

The Energy Risk Management group is responsible for independent review and challenge of all energy trading and risk management activities to ensure compliance with the Company's Energy Trading and Risk Management Policy. The Energy Risk Management group provides objective and independent risk assessment, while remaining functionally and organizationally independent of the operating business units (e.g., the Commercial & Trading business unit of PacifiCorp). The Energy Risk Management group provides executive management with independent due diligence for new strategies, transactions, products and risk management methodologies, advises executive management, and reviews and recommends to the Board, appropriate risk measurement methodology and risk limits.

The Energy Risk Management group at PacifiCorp is part of the Group Risk Management function (headed by the Group Energy Risk Director) which also includes the Credit Risk (responsible for credit risk management, counterparty evaluation and approval and other counterparty analysis functions), and Insurance (responsible for all business insurance needs, e.g., property and casualty, business interruption) functions.

Summary of Testimony

Q. What is the purpose of your testimony?

A. PacifiCorp issued a Request for Proposal (RFP 2003A) on June 6, 2003. RFP 2003A solicited offers for 995 megawatts (MW) of supply-side resources in three bid categories ("SuperPeak", "Peaker", and "Baseload"). The purpose of my testimony is to describe how the final bids negotiated for the "Baseload" bid category were evaluated from a risk management perspective.

Q. Would you please summarize your testimony in this proceeding?

A. I provide an overview of the risks PacifiCorp considered when making its resource decision under the RFP and how those risks impact the Company and its obligation to serve. I describe how the Company has evaluated the risks relative to the results of the RFP 2003A Baseload bid category. Finally, I describe the results of the risk analyses for the Lake Side Power Project.

Background

Q. To whom did PacifiCorp send its RFP 2003A for proposals?

A. PacifiCorp sent its RFP 2003A to all members of the Western Systems Power Pool (WSPP) which is comprised of members from all sectors of the wholesale electricity industry. The WSPP had approximately 220 members when the RFP was released. In addition, PacifiCorp posted RFP 2003A on its internet website and the release of the RFP was reported in various trade publications.

Q. How many participants responded to the Company's RFP 2003A Baseload bid category?

A. As described in the direct testimony of Mark R. Tallman, the Company received fifty-three offers applicable for the Baseload bid category.

Q. How were these offers initially evaluated?

A. As further described in Mr. Tallman's testimony, of these fifty-three offers, twenty were short-listed for consideration. These offers were from nine individual counterparties. These short-listed counterparties were subsequently reduced to three, each with multiple offers. The three counterparties, or bidders, are identified by bid number in Mr. Tallman's testimony as the bidders for bid number 213, bid number 922 and bid number 493. The bidder for bid number 493 is further identified as Summit Power.

Q. What aspects of the wholesale electricity industry did PacifiCorp consider when conducting its RFP process?

A. It is important to consider the geographic market, the volatility of market prices and the liquidity of the market when making a resource decision.

Q. Please describe the geographic market for the wholesale electricity industry in the western United States.

A. The wholesale electricity market in the western United States is segmented geographically into several distinct market areas, loosely based on transmission system limitations or constraints between these areas: 1) the northwest, including Washington, Oregon, Idaho and western Montana; 2) California; 3) the southwest, including southern Nevada, Utah, Arizona, New Mexico and a small portion of west Texas; and, 4) the Rocky Mountains, including Colorado and Wyoming. In addition, within these geographic areas there are sub-market areas with additional transmission constraints such that imports of electricity into the area are limited.

Q. Why is it important to consider the geographic market?

A. Incremental electricity needs are driven by the amount and shape of load growth. In which region the load growth is occurring influences the ways the growth can be economically supplied. For the RFP 2003A Baseload bid category, PacifiCorp focused on its need for resources in the East portion of its system, which includes PacifiCorp's Utah service territory. PacifiCorp's Utah service territory is one sub-area wherein transmission constraints historically and for the foreseeable future have limited import capability. Therefore, it is important for PacifiCorp to consider this transmission import limitation and where a proposed supply resource lies with respect to the transmission constraints in evaluating bids for the RFP.

Q. Please describe the volatility of electricity and natural gas prices.

A. Price volatility can be described as the relative amount of change in prices over time. For example, a commodity that is priced at $100.00 per unit today that was priced at $50.00 per unit last month is more volatile than a commodity that is priced at $60.00 per unit today versus $50.00 per unit last month. Moreover, since a history of prices exist for electricity and natural gas, this price history can be used to make estimates of the likelihood of prices changing in the future, based on the assumption that future price movements are in part determinable by the historical price movements. A higher volatility of historical prices is generally interpreted to mean that prices in the future are less certain and can be much higher (or lower) than current prices. Electricity and natural gas prices are amongst the most volatile of all commodities. PacifiCorp has a regulatory obligation to serve the load within its service territory often in circumstances where load and supply are highly variable. PacifiCorp often must rely on the market to purchase unanticipated electricity needs or to sell excess electricity resources.

Q. What specific risk does this price volatility represent?

A. This price volatility represents a risk that net power costs will be different than anticipated, resulting in higher costs to PacifCorp's customers unless this risk is mitigated by securing a reliable, predictable long-term resource.

Q. Please describe what you mean by the liquidity of the market.

A. The liquidity of the market is a qualitative description of the ease or difficulty a buyer or seller would have to complete a transaction with an arms-length counterparty. A more liquid market would provide the opportunity for more bilateral transactions to be executed in a given period of time than a less liquid market.

Q. What causes liquidity or lack of liquidity in a market?

A. Liquidity or lack of liquidity in a market can be caused by many factors. Physical factors include transmission constraints which limit import capability and therefore limit the amount and/or number of transactions that can be executed for physical delivery and limit the number of counterparties that have access to the market. Financial factors include the creditworthiness of counterparties in the market. If the counterparties in the market are not creditworthy, it is more difficult to come to agreement on a transaction because of the financial backing that is required to guarantee performance.

Q. Why is this important to PacifiCorp?

A. As mentioned in the testimony of Melissa Seymour, the physical transmission system into Utah has constraints. This region has typically been referred to as the Utah 'Bubble'. These constraints restrict PacifiCorp's ability to rely on resources that are physically removed from inside the Utah Bubble. Therefore, access to "market hubs" such as Palo Verde, where there are many buyers and sellers in the market, are limited thereby reducing the number of counterparties with whom PacifiCorp can transact. The amount of resources and counterparties within the Utah Bubble is also limited which limits the liquidity within the Utah Bubble. This limited liquidity is also exacerbated by the long-term nature of the resources PacifiCorp is seeking in the Baseload bid category, which requires a financially strong counterparty or other credit risk mitigation to ensure a reliable and secure supply resource. Delivery risk increases if a reliable and creditworthy counterparty is not secured because of the clear need for this resource and lack of supply alternatives.

Q. What other aspects of PacifiCorp are important to consider when making a resource decision?

PacifiCorp is a regulated utility with an obligation to serve its customers. This load service obligation requires PacifiCorp to plan prudently to ensure that resources are always available for customer needs. The PacifiCorp Integrated Resource Plan (IRP) acknowledged by the Commission directly discussed this obligation to serve. The IRP recognizes that it is critical to develop a portfolio of resources that serve customers with the best cost/risk balance. The competitive electricity market presents PacifiCorp with the prospect of continued price volatility and risk, and significant uncertainty affecting future resources. Although the risks from exposure to these uncertainties cannot be eliminated, the Company seeks to manage these risks through the choice of new resources that balance both cost and risk.

Overview of the risks considered in the RFP process.

Q. Please provide a general description of the risks considered by the Company in conducting its business.

A. The risks considered by the Company can be categorized as market risks, credit risk and operational risks. Market risks include electricity and fuel price risk and volumetric risks. Credit risk relates to the risk of loss that might occur as a result of nonperformance by a counterparty of their contractual obligations. Operational risks include the schedule risk, or risk of delay, environmental risk, accounting risk, legal risk and other risks which may have an impact on the reliability, availability, flexibility, security or ultimate costs of the transaction being considered. It is important to note that these risks cannot be considered in isolation as each risk may have an impact on another risk. For example, to mitigate market risk, the Company may seek to enter into a contract with a particular counterparty for a fixed-price supply of power. While the Company's exposure to volatile market prices has been mitigated, the Company has increased its credit risk by exposing itself to the counterparty's ability to meet its obligations. In general, mitigating one risk will give rise to another risk. The key is to mitigate those risks over which the Company has the least control, as opposed to eliminating all risks, which would generally be cost prohibitive.

Q. Please describe the market risks in more detail.

A. Market risks include electricity and fuel price risk and volumetric risks. These are the risks to which the Company is exposed to the extent that its current portfolio of purchase contracts and generating assets are not balanced with its sales contracts and retail load obligations. These are also some of the risks that are being mitigated through acquisition of a resource(es) through the RFP 2003A process in accordance with the Commission acknowledged IRP. Electricity and natural gas price risk is the risk that the purchase (sale) price for the commodity will be higher (lower) than expected due to the volatility of prices as described above, which may result in a higher net power cost to serve customers. Volumetric risks can be described as the risk of an unbalanced position (supply not equal to demand) due to unexpected changes in the volume of supply resources (unplanned generation outages, higher or lower water supply for hydrogeneration, intermittent wind generation) and demand (weather and economic growth effects on load). This unbalanced position leads to exposure to price risk as described above.

Q. Please describe the credit risks in more detail.

A. As mentioned above, credit risk relates to the risk of loss that might occur as a result of nonperformance by a counterparty of their contractual obligations. Counterparty offers in response to the RFP represent promises of future commitments, which may or may not be met depending upon the specific circumstances of the particular counterparty. Thus, it is necessary that PacifiCorp consider the reliability of each counterparty's promises and its likely ability to meet its commitments. Factors such as a counterparty's financial viability, access to capital markets, historical financial performance, its operating track record, its stated or implied commitment to the business of operating generation projects, its history of disputes with its customers and successfully delivering against commitments are all important when making a commitment to purchase power. This is especially true when making a long-term commitment to purchase power from a power plant to be constructed to serve the commitment. A supplier that cannot complete construction of a plant according to the schedule agreed to, either because of operational failure or because of financial impairment, jeopardizes the Company's ability to provide electricity sufficient to meet customer's needs and further exposes PacifiCorp and its customers to market risk.

Q. Why is credit risk so critical?

A. If credit risks are not appropriately considered, significant losses can be incurred. Conversely, if credit risk is appropriately managed, losses are limited in the event of a counterparty default. For example, PacifiCorp limited its losses to the Enron bankruptcy filing, one of the largest bankruptcy filings in U.S. history, to less than $8 million by limiting transaction activity well before Enron filed for bankruptcy. PacifiCorp also limited its exposure to losses resulting from the bankruptcy filing of the California Power Exchange by similarly limiting transaction activity prior to the bankruptcy filing.

Q. Why was credit risk critical in the evaluation of bids in this RFP2003A process?

A. As I describe earlier in my testimony, there are transmission constraints into the Utah Bubble. In order to meet its need for resources, these transmission constraints mean there is a requirement to have a resource within the Utah Bubble in 2007. These resources must be reliable both from a scheduling perspective as well as operational perspective.

A supplier must be able to maintain a strong financial profile over the life of the project. A supplier that fails to deliver a project on schedule or fails to operate and maintain a project due to financial or other constraints will expose the Company to the risk of having to purchase replacement power on short notice and at the risk of higher prices or otherwise compromising system reliability if such replacement power is unavailable due to limited import capability or other constraint. In addition, the Company may face increased risk of contract disputes with a financially weakened supplier. The cost of these various risks may ultimately be borne by the Company's customers, who should directly bear the costs of replacement power, or loss of power if replacement power is unavailable, if the supplier does not have the financial wherewithal to correct operational problems or to pay the replacement power costs in the form of damages.

These concerns, which the Company ordinarily would consider in any transaction, have become increasingly important to the extent the financial condition of the market participants in the industry worsens, as has been the case over the past several years. Additionally, because of the megawatt size of the resource requested in the RFP 2003A Baseload category coupled with the limited liquidity of the market in the Utah Bubble, a mistake in counterparty choice could be an expensive mistake and could render the Company unable to meet its obligation to serve all of its Utah customers. The load serving obligation of PacifiCorp makes counterparty performance especially important.

Q. Please describe operational risks in more detail.

A. Operational risks can generally be defined as those risks, other than market and credit risks as described above, that may have an impact on the reliability, availability, flexibility, security or ultimate costs of the transaction being considered. Operational risks can take many forms including legal risk – the risk of legal dispute; schedule risk – the risk of a delay in the project; accounting risk – the risk of financial impacts due to unanticipated interpretations or changes in accounting regulations; and operations risk – the risk of unplanned outage due to mechanical equipment failure. Each of these risks can have an impact on the costs borne by the Company, and ultimately its customers, if experienced. For example, a delay in completion of a power plant may result in the Company purchasing electricity (assuming such electricity is available) from the market at significantly higher costs than the production cost of the power plant.

All risks are interrelated and cannot be viewed in isolation. For example, a credit risk can result in a default which gives rise to a legal dispute resulting in a schedule risk ultimately culminating in a delay of the project and the associated market risk which is mitigated by purchasing replacement power (due to PacifiCorp's obligation to serve) at a higher cost than anticipated. Mitigation of risks results in either shifting the risk from one form to another or increases the overall cost of the transaction, or both. In the above example, to mitigate the risk of legal dispute, the Company may hire a team of attorneys to ensure that the contract contains no ambiguities or perhaps the Company would purchase an option to acquire power in the event a legal dispute arises. Either way, costs increase and/or other risks are introduced.

Risk Evaluation Process

Q. What was the independent Risk Management Group's role in the process?

A. The Risk Management Group provided an independent role relative to the review, identification, evaluation and reporting of the risks associated with the proposals received and negotiated though the RFP2003A process. This included active participation in the determination of the credit risk mitigation measures requested by the Company of its potential counterparties, performance of the stochastic risk analyses relative to certain risks, and a review of the documentation of each final proposal to ensure all significant risks were identified, measured (quantitatively or qualitatively) and reported to executive management.

Q. What part did Navigant play in the risk evaluation process?

A. Navigant was retained as an independent, objective expert to both oversee and review the methodology proposed by PacifiCorp for evaluating bids, which included a review of the risk assessment methodology. In its review of the risk assessment methodology, Navigant's main objective was to review and validate the overall risk assessment methodology being proposed by PacifiCorp to evaluate risks associated with NBA alternatives as well as the offers actively being negotiated. Navigant concluded that PacifiCorp paid careful attention in identifying the major value drivers and has a reasonable overall methodology in place that is not inconsistent with industry practices.

Q. What was the process for risk evaluation for the RFP 2003A Baseload bid category?

A. Once the final three offers were identified to enter into the negotiation phase of the RFP process, as described in Mr. Tallman's testimony, the Company utilized its internal experts to identify the risks associated with each proposal from a Present Value Revenue Requirement (PVRR). Risks identified as stochastic risks underwent a statistical simulation using the same valuation models used to determine the expected value of each proposal from a PVRR perspective. The stochastic risks identified included changes in electricity and natural gas prices, variability in unit availability, variability in operation and maintenance costs and variation in the expected capital required to complete the project. Scenario risks identified were used by the negotiating team to negotiate a project which mitigated the risks, to the extent possible. Residual scenario risks were quantified relative to the impact on PVRR should the scenario identified occur.

Q. Were any proposals eliminated from further consideration at this stage?

A. Yes. As described in Mr. Tallman's testimony, bid number 922 was removed from further consideration due to the schedule risk related to completion of the construction of a high voltage transmission line and the credit risk related to inadequate credit instruments offered by the bidder that the Company would have in the case of non-performance.

The results of this risk analysis were presented to Senior Management for their consideration.

Q. What were the most important risk factors to consider in making the decision on which proposal to accept?

A. The most important risks to consider in weighing the alternatives were credit risk, carbon dioxide (CO_2) liability, and schedule risk. Moreover, it is the interrelated nature of these risks which led to the conclusion that the Summit Power proposal was the best cost/risk balance for customers.

Q. Why were these risk factors the most important?

A. Absent these risk factors, the expected economic value of the two proposals being considered was closely comparable. In addition, many of the other risks identified for analysis in the two proposals were comparable. For example, since both proposals were utilizing the same type of technology, namely natural gas-fired combined cycle combustion turbines from the same manufacturer, the expected performance from each proposal was comparable in terms of heat rate. Therefore, exposure to market risk from natural gas price volatility in each proposal was comparable.

This was not true for credit risk, CO_2 liability, and schedule risk. Each proposal presented significantly different risk profiles with respect to these risks, especially when considering the interrelated nature of these risks.

Q. Please explain the differences in credit risk between the two bidders.

A. For credit risk, the bidder for bid number 213 is a non-investment grade rated entity with an unsecured debt rating of "Caa1" from Moody's. The bidder for bid number 493 was guaranteed by an investment grade rated entity (Siemens Westinghouse Power Corporation) with an “A2” rating from Moody’s. This difference in credit ratings was crucial throughout the negotiation process and significantly impacted the final outcome of the negotiations. As a “Caa1” rated entity, the bidder for bid number 213 had a 48 percent to 64 percent chance of defaulting on its debt within the next three years as opposed to the guarantor for bid number 493 having a 0.23 percent to 1.74 percent chance as an “A2” rated entity, according to Moody’s.

Q. Why wasn’t the bidder for bid number 213 eliminated from further consideration due to its poor credit rating?

A. Ordinarily, PacifiCorp is relatively conservative when choosing to conduct business with a counterparty. As of March 31, 2004, over 90 percent of PacifiCorp’s credit exposure in its portfolio of electricity and natural gas purchase and sale contracts was with investment grade-rated counterparties. However, as mentioned earlier in my testimony, liquidity is an issue when procuring resources to serve PacifiCorp’s customers in the Utah Bubble. This limited liquidity and the desire by the Company to explore all proposals to obtain its needed resources compelled the Company to consider less than investment grade-rated counterparties in this RFP process. However, the Company was not willing to accept imprudent risks in potentially transacting with a poor credit counterparty.

Q. How was the final outcome of the negotiations with the bidder for bid number 213 impacted?

A. As mentioned in Mr. Tallman's testimony, the proposal from the bidder for bid number 213 included a tolling services agreement (TSA). Because the TSA was with a limited liability company, whose only assets would be the power plant to be built to provide service under the TSA and the TSA itself, the Company was diligent to negotiate terms and conditions that would, in theory, shield customers during a counterparty default situation.

A key component of these terms and conditions was the ability for PacifiCorp to "step in" and take over the project if the counterparty defaulted.

In addition, the transaction proposed by the bidder for bid number 213 would have encompassed numerous agreements to document the rights and obligations of both counterparties. This is exclusive of the myriad of agreements between the bidder and its subcontractors necessary to construct the project. If PacifiCorp were compelled to step in and take over the project prior to completion of construction, PacifiCorp would be exposed to potential construction delays while sorting through a large number of contracts at varying stages within the project and subcontractors hired by the counterparty for construction of the project. Therefore, PacifiCorp requested the counterparty to provide an engineer/procure/construct (EPC) wrapped (EPC wrap) contract which would minimize the risk of construction delay once PacifiCorp gained control of the project (upon exercising its step in rights). This EPC wrap provision would provide for a single entity responsible to PacifiCorp for completion of construction if PacifiCorp were to exercise its rights to step into the project under a counterparty default situation. This provision added approximately $0.80 per kilowatt-month (/kW-month) of costs to the price proposed by the bidder for bid number 213, which resulted in economics of $3.07/kW-month for the bid.

Q. Were there other issues related to the credit risk of the bidder for bid number 213 that PacifiCorp considered?

A. Yes. As discussed in Mr. Tallman's testimony, the bidder for bid number 213 indicated its intent to accept the risk of all future expenses (up to a certain amount) associated with CO_2 liability. This liability was valued at approximately $604 million in nominal terms, and approximately $225 million in present value terms. In its analysis of the counterparty's promise to accept this liability, PacifiCorp must consider the counterparty's creditworthiness in regard to its ability to perform on its promise to accept this liability.

In addition, in the event that the counterparty defaulted, say due to a bankruptcy filing, PacifiCorp must consider the potential for construction delay (schedule risk) if it attempted to exercise its step in rights and the exercise of these rights was challenged in a legal dispute.

Q. How was the CO_2 liability considered in relation to bid number 213?

A. The counterparty negotiated a limit of $100 million on CO_2 liability if PacifiCorp chose to terminate the agreement without stepping in after a counterparty default. Therefore, PacifiCorp determined that in order to preserve the CO_2 value for customers associated with the transaction, PacifiCorp must step in if the counterparty defaults. This led to the same schedule risk as described above.

In addition, PacifiCorp qualitatively considered the CO_2 liability risk of a counterparty default (i.e., bankruptcy) after the plant was constructed and in operation. In this case, PacifiCorp would likely lose any CO_2 "premium" paid to the counterparty if the CO_2 liability did not occur as originally assumed beginning in 2008 and PacifiCorp's customers would be exposed to any CO_2 liability in excess of its assumptions ($8/ton) if the actual liability were realized above this amount.

Finally, it was noted that PacifiCorp's assumptions on the timing of when the CO_2 liability would be realized impacted the relative economics between the two proposals. If the CO_2 liability were realized later than PacifiCorp assumed in its analyses (after 2008), this would make the Summit proposal more attractive relative to bid number 213.

Q. Please explain the schedule risk in relation to bid number 213.

A. As mentioned above, the Company was diligent to negotiate terms and conditions that would, in theory, shield customers during a counterparty default situation. Notwithstanding this, however, there remained the risk that during such an event the Company could run into barriers in an attempt to exercise its rights. It is reasonable to consider that ring-fenced entities, such as the special purpose limited liability company proposed by the bidder, would be among the most desirable assets to be retained, for example, by a bankruptcy estate. Unfortunately, during a default such as a bankruptcy situation, the management that PacifiCorp negotiated the TSA with would no longer be in control of the asset or the numerous contracts negotiated to effect the transaction. This uncontrollable situation, the litigious nature of any large bankruptcy proceeding and intolerability of any delay associated with PacifiCorp being able to exercise its step-in rights must be taken into consideration.

Q. How was the schedule risk evaluated under this particular counterparty default scenario?

A. The Company looked at the effect if such a delay resulted in the resource not being available to meet the critical 2007 summer time period. For purposes of the analysis, the Company assumed sufficient import capability to serve retail load during the delay. If a 2-month delay ensued then the economic evaluation fell from $3.07/kW-month to $2.90/kW-month. With a 4-month delay, the economics fell to $2.65/kW-month. Given the size of the resource, and using the 4-month delay scenario, a 25 percent scarcity premium in the market would result in economics of $2.47/kW-month.

Q. How are the credit risk, CO_2 liability and schedule risks different for the Lake Side Power Project proposed by Summit?

A. As mentioned above, the probability of default by Summit (as guaranteed by Siemens Westinghouse Power Corporation) is significantly lower than the probability of default by the bidder for bid number 213 (between 0.23 percent to 1.74 percent versus 48 percent to 64 percent probability of default). Therefore, the credit risk and resulting schedule risk are significantly less.

In addition, the transaction with Summit is contractually defined by fewer contracts to effectuate the transaction than that for bid number 213. While qualitative, the schedule risk arising from a legal dispute between the parties would appear to be less with Summit.

For the Summit project, PacifiCorp's customers would bear the CO_2 liability. Therefore, there were no issues with respect to the counterparty's ability to accept this risk. However, PacifiCorp did take into account the costs of its customers bearing this risk as part of the evaluation of Summit's proposal.

Q. Did the bidder for bid number 213 offer a different price whether it did or did not assume the CO_2 liability?

A. No. The bidder for bid number 213 indicated that the pricing in its proposal would not change if PacifiCorp accepted the CO_2 liability. While pricing remained the same with either option, the economic analysis shifted significantly based on the acceptance of the CO_2 liability. If PacifiCorp accepted the CO_2 liability with the pricing contained in bid number 213, the economics for this bid would have been significantly lower at $0.77 per kilowatt-month versus the $3.07 per kilowatt-month mentioned above.

Q. How did these risk factors impact the final choice of Summit over the other alternatives?

A. Ultimately, the risk of delay resulting from a credit event or schedule risk and concern over the ability of the bidder for bid number 213 to perform on its acceptance of the CO_2 liability, given its credit rating, was found to impose unacceptable risks on customers. Any delay which led to PacifiCorp not having the resource available by the summer of 2007 resulted in bid number 213 being at or significantly above the cost for the Summit proposal. Therefore, the best cost/risk balance was determined to be the Summit proposal.

Q. Does this conclude your testimony?

A. Yes.