

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)	HOWARD L. FRIEDMAN
Power Project)	

MAY 2004

1 **Introduction**

2 **Q. Please state your name, business name, and business address.**

3 A. My name is Howard Friedman. I am employed by Navigant Consulting Inc
4 (“Navigant”). My business address is 77 South Bedford Street, Suite 400,
5 Burlington, Massachusetts 01803.

6 **Q. Please describe your educational and business experience.**

7 A. I received a BA degree in Government from Franklin and Marshall College. I
8 also received a Masters in Urban Affairs with a concentration in energy and
9 economics from Virginia Tech. From 1993 to 1995, I worked for the Iowa
10 Department of Natural Resources where I focused on issues related to energy
11 forecasting, energy data analysis, emergency preparedness, energy efficiency, and
12 renewable energy development. In 1995, I took a position with DynCorp
13 Information and Engineering Technology where I worked primarily on energy
14 and environmental issues relating to the deployment of utility technologies for the
15 U.S. Department of Energy and the Environmental Protection Agency. In 1997, I
16 took a position with mc², the competitive gas and electric retail-marketing arm of
17 MidCon Corporation where I represented the company in regulatory meetings and
18 proceedings in support of retail gas and electric competition. In 1998, I took a
19 position with Metzler and Associates, which became Navigant Consulting Inc.,
20 where I am now a Principal. In this position, I have advised more than twenty
21 different domestic and international energy companies in the areas of asset
22 acquisition and divestiture, supply planning, regulatory and business strategy,
23 energy commodity marketing, and decision analysis.

1 **Q. What RFPs and formal supply solicitations have you and Navigant been**
2 **involved in over the past three years?**

3 A. I have directly been involved in three RFPs including this one. The two other
4 recent engagements have been RFPs issued by Puget Sound Energy and
5 Wisconsin Electric. Experience that was tapped within Navigant to validate the
6 reasonableness and fairness of PacifiCorp's RFP process included personnel that
7 worked on more than a dozen other recent supply solicitations for such clients as
8 the Long Island Power Authority, Xcel Energy, TXU and Reliant.

9 **Q. Has Navigant been involved in any other relevant supply planning and**
10 **solicitation work that was leveraged in support of this RFP engagement?**

11 A. Yes. During the course of managing this work for PacifiCorp, we consulted
12 others within Navigant that have advised clients on bidding into RFPs, managed
13 the acquisition and sale of development projects and existing facilities, managed
14 both short and long-term supply solicitations on behalf of clients, and have been
15 responsible for the financial valuation of power plant acquisition targets.

16 **Q. Have you previously appeared in any proceedings before the Utah Public**
17 **Utility Commission?**

18 A. Yes. I testified in Docket No. 03-035-38 (the certificate proceeding for the
19 Currant Creek Power Plant).

20 **Q. What is the purpose of your direct testimony?**

21 A. The purpose of my direct testimony is two-fold. First, it is intended to address the
22 central components of the RFP 2003-A process used by PacifiCorp to identify the
23 resources with the best cost/risk balance. Second, it is intended to layout

1 Navigant’s role in independently monitoring this process to ensure that
2 PacifiCorp’s review and selection process was consistent, fair, and reasonable.
3 While the focus of my testimony is on the 2007 baseload bid category, I will
4 provide some context for the process as a whole in order to clearly distinguish the
5 resources sought in this bid category from the resources sought in the other two
6 bid categories.

7 **Q. What are the specific topics you plan to address in your direct testimony?**

8 A. The specific areas I will address include: (1) an outline of the Outside Evaluator
9 (“Outside Evaluator”) responsibilities that Navigant held through the RFP
10 process; (2) an overview of the 2007 Bid Category RFP Process; (3) an
11 assessment of how the negotiations with the counterparties evolved; and, (4)
12 Navigant’s perspective on the outcome of the 2007 Bid Category RFP Process.

13 **Outline of the Outside Evaluator**

14 **Q. What was Navigant’s overall role?**

15 A. Navigant’s overall role was to ensure that the Company evaluated each resource
16 alternative, including PacifiCorp’s own self-build option, in a manner that was
17 reasonable, fair, unbiased, and comparable to the extent practicable (“Fair
18 Manner”), and then to submit detailed reports on whether the process followed by
19 the Company adequately met those objectives. The role of Navigant, as an
20 Outside Evaluator, was agreed to in a stipulation between the Company and
21 various parties to Docket No. 03-035-03.

22

1 **Q. What are the specific tasks in the course of the RFP that were performed by**
2 **Navigant as the Outside Evaluator?**

3 A. Navigant’s involvement in the RFP process revolved around six key tasks: (1)
4 reviewing and validating PacifiCorp’s Next Best Alternative (“NBA”); (2)
5 overseeing each step of the RFP on behalf of PacifiCorp; (3) reviewing
6 PacifiCorp’s proposal screening approach; (4) validating the modeling, scoring
7 and ranking; (5) overseeing the negotiation process with short listed
8 counterparties; and, (6) submitting reports on each major step of the RFP process.

9 **Q. Can you describe briefly what was done to review and validate the NBA?**

10 A. Yes. Navigant began its involvement in the RFP process with a review of
11 PacifiCorp’s NBAs, for each of the three bid categories. To perform this task,
12 Navigant relied on its own interviews, its own cost assumption review, and its
13 own assessment of the cost based model and the market-based model used in the
14 evaluation of the NBAs. The focus of Navigant’s review was first on validating
15 the material input assumptions of the NBAs including such variables as the capital
16 costs, the fixed and variable charges, the operating assumptions, the forward price
17 curves for electricity and gas, the heat rates, and the discount and inflation factors.
18 Second, Navigant’s focus turned to the actual functioning of the model to ensure
19 that the costs and revenues appropriately tracked and followed through in the
20 models. Each step of this review and validation revealed that the evaluation of
21 the NBAs was developed in a reasonable manner and that the cost assumptions
22 themselves were consistent with the costs that would be incurred to develop and
23 operate the types of projects proposed by PacifiCorp. The assumptions

1 underlying the NBAs were also consistent with Navigant's experience in the
2 development of similar projects for other clients.

3 **Q. Can you describe what activities took place during Navigant's administration**
4 **of the RFP?**

5 A. Navigant administered the entire RFP process. The responsibility included the
6 documentation of the notices of intent to bid, the identification and validation of
7 the counterparty short list for each bid category, and the identification of which
8 counterparties PacifiCorp would engage in detailed negotiations. This task began
9 immediately following the June 20, 2003 Pre-Bid Workshop at which NCI was
10 introduced to interested bidders as the primary point of contact regarding the RFP.
11 To perform this task, Navigant focused on applying lessons learned from RFP
12 processes in which it has been involved as well as others to promote PacifiCorp's
13 goals of consistency, objectivity and fairness. In administering the RFP, Navigant
14 used proven approaches for ensuring that the process adhered to the PacifiCorp's
15 (and bidders') needs for information distribution in an objective and timely
16 manner and that proper documentation was made to track the evolution of an
17 offer. As the primary conduit for information between the bidders and
18 PacifiCorp, Navigant managed all aspects of this process to ensure clarity
19 regarding the details of the offers that would allow PacifiCorp to completely and
20 fairly assess the economic value of each offer.

21 **Q. What was Navigant's role in reviewing PacifiCorp's proposal screening**
22 **approach?**

23 A. The intent of this step was to validate the reasonableness of the approach set up

1 by PacifiCorp to screen the offers. Navigant's review of PacifiCorp's proposal
2 screening process focused on the Company's application of the screening criteria
3 to the RFP responses. Navigant's objective with this task was to audit and
4 validate that the screening of offers was done in a reasonable, consistent and fair
5 manner across all of the proposals. In this role, Navigant was involved in each
6 step of PacifiCorp's review and valuation of the offers received to ensure that
7 proposals were treated in a manner that identified the greatest intrinsic value of
8 each offer based on the terms presented by the bidders. Specific tasks included
9 oversight of the evaluation process, validation of the modeled proposal
10 assumptions, clarifying ambiguous aspects of proposals with bidders, and
11 determining whether or not proposals were being evaluated in the appropriate bid
12 category.

13 **Q. What did Navigant do in terms of validating the modeling, scoring and**
14 **ranking of proposals?**

15 A. Navigant's approach to this task consisted of examining the results from the
16 financial valuations and how they were rank ordered based on their score using
17 the screening criteria (i.e., price, dispatch ability, and environmental
18 characteristics). PacifiCorp performed the actual scoring and ranking, which was
19 then reviewed by NCI. NCI's focus was on validating that the scores were
20 appropriate given the specific attributes of the offer and that the ranking of offers
21 was consistent with the valuations produced from the offer modeling.

22

1 **Q. Was there more than one round of modeling in the 2007 bid category? If so,**
2 **did Navigant review all of the models and rankings after each round?**

3 A. Yes. There were several rounds of evaluations in this bid category. Round I
4 evaluations were completed as of August 22, 2003, which was the first day that
5 2007 bid category bidders were contacted about having made the short list. The
6 RFP screening criteria were used as the basis for this ranking. As the first series
7 of clarifying discussions were concluded with bidders and responses to proposal
8 questions were received, PacifiCorp prepared another ranking of the offers using
9 the updated information from bidders. This new set of models and ranking
10 constituted Round II. These rankings were based on the overall economics of the
11 proposed deals. Shortly after this revised ranking was produced, it became
12 apparent that the Currant Creek facility was the most economic alternative in the
13 2005 bid category. In light of this development, a hybrid scenario was examined
14 whereby PacifiCorp considered whether or not any economies of scope or scale
15 from leveraging the Currant Creek facility would result in a shift of the rankings.
16 While this was referred to as the Hybrid Round, it was effectively Round III. As
17 negotiations with Bidder 922, Bidder 213, and Summit Power proceeded apace,
18 revisions to the models were prepared to reflect material changes to the offers.
19 Navigant reviewed the models and rankings in each one of these subsequent
20 rounds to ensure that the offers were being represented fairly and that the revised
21 assumptions were consistent with information presented by the bidder.

22

1 **Q. You mentioned that Navigant was also involved in the negotiation process**
2 **with counterparties. What role did Navigant play during these negotiations?**

3 A. Navigant's involvement in the negotiation process centered on the identification
4 and chronicling of material issues associated with each offer. Navigant saw its
5 role as ensuring that PacifiCorp and the bidders engaged one another in good faith
6 negotiations. Navigant's intent was to ensure that both bidders and PacifiCorp
7 were negotiating with the expectation of moving toward identifying mutually
8 acceptable terms. It was Navigant's charge to validate the reasons underlying the
9 continuation, or discontinuation, of negotiations with each of the counterparties
10 based on the respective terms and conditions of each offer. Central to this process
11 was validation that PacifiCorp reasonably represented the costs, risks and other
12 material attributes associated with each offer presented by the bidders. It was not
13 Navigant's role to facilitate the negotiations with counterparties, nor was it
14 Navigant's role to provide any coaching to PacifiCorp during the course of these
15 negotiations. This was an important separation that Navigant sought to make to
16 preserve objectivity in its involvement. Navigant worked with PacifiCorp to
17 ensure that bidders were provided a reasonable opportunity during the
18 negotiations to present the case for their offer(s) and that the offer(s) were treated
19 in the same manner as the Company's NBA in terms of understanding the
20 proposal, the materiality of offer terms and conditions, the risks associated with
21 the transaction, and the economic value of the transaction.

22

1 **Q. What is the nature of the reports that you were expected to submit to**
2 **PacifiCorp and the Utah Public Service Commission?**

3 A. There were three reports that Navigant was expected to file during the process of
4 the RFP. The first was a report on the NBA projects that PacifiCorp identified as
5 its fall back project in the absence of economic alternatives from the market.
6 Navigant's focus in that report was on the reasonableness of the cost and
7 operating assumptions associated with the NBAs. The second report was a
8 document that encapsulated the screening process used by PacifiCorp for the
9 modeling, screening and ranking of offers. The core of this report was a
10 validation of PacifiCorp's adherence to the screening process outlined in its RFP.
11 The Final Report was intended as a summation of the entire process rolling
12 together the observations and findings from the two previous reports and
13 highlighting the conclusions of the negotiations with counterparties in each bid
14 category and a series of recommendations for improving future resource
15 solicitations. At the time of the Final Report filing only two out of the three bid
16 categories had been concluded. In the 2007 bid category seeking baseload
17 resources, the negotiations had not concluded with the counterparties at the time
18 of the Currant Creek proceeding (Docket No. 03-035-03), so Navigant agreed to
19 prepare an addendum to the Final Report, which will document the activities and
20 findings related to the 2007 bid category subsequent to the February 11, 2004
21 report filing.

22

1 **Q. In addition to the reporting responsibilities, Navigant was also expected to**
2 **address issues in the overall process, the modeling of offers and the**
3 **negotiations that came up on a real time basis. Can you describe some of**
4 **these issues?**

5 A. In the monitoring function performed by Navigant, there were several areas of
6 focus. The primary area was ensuring that there was consistency and fairness in
7 all aspects of the process. From our perspective, it was imperative that each
8 proposal and bidder be given equal opportunity to present its best case and that
9 they be evaluated in a consistent and fair manner. Related to this issue was
10 making certain that the evaluation of offers was transparent to us. This tied in
11 directly with the modeling tools used by PacifiCorp. We needed to be able to
12 identify how cost and performance inputs tracked through the models in order to
13 validate that the correct inputs were being used and that the calculations were
14 taking place appropriately. To perform this task, we were provided unfettered
15 access to information and personnel within PacifiCorp along with all of the
16 models and add-ins necessary to run them independently. While a number of
17 items were found early on in the model and assumption review, these were
18 addressed and incorporated into later versions of the models. When the final
19 model review was performed one material item was identified within the asset
20 evaluation model. The modeling issue found involved the exclusion of sales taxes
21 in the evaluation of Summit Power's offer. Incorporating this cost resulted in the
22 value of their offer declining by up to 5.5 percent. In spite of this decline,
23 PacifiCorp concluded that the Summit Power proposal still offered the best

1 cost/risk balance.

2 **Overview of the 2007 Bid Category RFP Process**

3 **Q. Can you describe what you mean by the 2007 Bid Category?**

4 A. The 2007 Bid Category was one of the three bid categories in RFP 2003-A
5 intended to solicit resource proposals from bidders. Resources in this bid
6 category were expected to meet three basic criteria to be considered as viable
7 proposals for PacifiCorp's consideration. These criteria included the ability to
8 operate in a baseload manner (i.e., able to be dispatched for all hours of the term
9 of the contract), a point of delivery in or to PacifiCorp's eastern system interface,
10 and a commercial operation date by the summer of 2007.

11 **Q. How is the 2007 bid category different from the other two bid categories for
12 which proposals were solicited in the RFP?**

13 A. The other two bid categories, which are referred to as the super peak and peaker
14 bid categories, share a number of attributes that differentiate them from the 2007
15 bid category. In the super peak bid category, PacifiCorp sought resources that
16 could be dispatched daily or be made available during specific hours of the
17 summer months beginning June 2004 and ending September 2007. In the peaker
18 bid category, PacifiCorp solicited turnkey offers and 20 year PPAs that offered a
19 daily dispatch capability. Other than these three distinctions (dispatch, delivery
20 date, term), many of the preferred attributes were the same including the desire
21 for delivery in or to PacifiCorp's eastern control area, various types of transaction
22 structures, a resource that could be integrated as a network resource, and an
23 indication as to who would be responsible for supplying operating reserves.

1 **Q. What criteria did PacifiCorp use to rank proposals in this baseload bid**
2 **category?**

3 A. PacifiCorp used the screening criteria that were outlined in the RFP. The initial
4 screening done to rank order the bids was based on three criteria that were
5 established in the RFP itself. These three criteria were net Present Value Revenue
6 Requirement (PVRR), resource dispatch ability, and pre-established
7 environmental factors. PVRR, dispatch ability, and environmental factors
8 accounted for weightings of up to 70 percent, 20 percent and 10 percent,
9 respectively.

10 **Q. As the Outside Evaluator, please describe your understanding of the 2007**
11 **Bid Category RFP process.**

12 A. In general, the RFP process for the 2007 Bid Category followed a logical
13 sequence of steps that can be broken down into six phases: (1) Pre-RFP review
14 period; (2) Post RFP issuance and bidder proposal development period; (3) Bid
15 review, screening and ranking period; (4) Short list identification and offer
16 clarification; (5) the period of detailed negotiations; and, (6) the period of
17 preferred resource identification and selection.

18 **Q. Can you briefly describe what you understand to be the commencement of**
19 **the RFP process?**

20 A. Yes. In the pre-RFP review period, PacifiCorp sought to communicate with
21 bidders and other interested parties regarding the attributes of each resource being
22 sought. A Pre-RFP Workshop was set up on March 21, 2003 as an open forum to
23 allow bidders to ask questions about the types of resources preferred by

1 PacifiCorp, the timing of the process, and what bidders should expect to see in the
2 RFP itself.

3 **Q. What happened in the RFP 2003A process following the March 21, 2003 Pre-**
4 **RFP Workshop?**

5 A. The purpose of the meeting was to solicit feedback on the RFP and answer
6 questions about the anticipated RFP process. Subsequent to that meeting,
7 PacifiCorp prepared the RFP based in part on feedback from the workshop and
8 input from the Oregon Public Utility Commission. Throughout this period of
9 time prior to the issuance of the RFP in June, interested parties were encouraged
10 to ask questions regarding the resources being sought, the time frame, and the
11 criteria that would be used to develop the ranking and short list of offers.

12 **Q. Once the RFP had been issued, what took place next in the process?**

13 A. Bidders began developing their individual RFP responses. PacifiCorp then held a
14 Pre-Bid Workshop on June 20, 2003 to allow bidders to react to the RFP and ask
15 any clarifying questions they might have prior to submitting their bids. It was at
16 this meeting that Navigant was first introduced as the Outside Evaluator. The
17 purpose of this meeting was to assist bidders by addressing PacifiCorp's
18 expectations regarding bidder proposals, outlining the expected time frame for the
19 process and responding to bidder questions. To facilitate the exchange of
20 information between PacifiCorp and bidders, a website was set up that provided
21 public responses to bidder questions raised during this bid development period.
22 This phase lasted just over seven weeks, concluding on July 22, 2003 with the
23 formal submittal of proposals.

1 **Q. When did Navigant review and validate the details of the NBAs?**

2 A. Navigant performed this task contemporaneously with the time spent by bidders
3 preparing their responses. As soon as Navigant was retained at the beginning of
4 June 2003, we began reviewing the models, the input assumptions, and the
5 supporting documentation regarding each of the NBAs. Navigant's analysis was
6 completed prior to the competitive bid information being provided to PacifiCorp
7 for its review. Additionally, the NBAs were locked down at this time.

8 **Q. How did the bid review, screening and ranking activities proceed and what
9 role did Navigant play in those activities?**

10 A. The review of bids began immediately after Navigant provided PacifiCorp with
11 the blinded bid responses. Once bids were received, PacifiCorp and Navigant
12 worked toward completing and validating, respectively, the economic valuation
13 and screening of offers. At that point, PacifiCorp and Navigant identified the
14 preliminary short list and began the process of better understanding the substance
15 and form of the offers made. PacifiCorp's first opportunity to review the bids
16 came on July 23, 2003 subsequent to Navigant issuing the first of its interim
17 reports. Over the following two weeks, PacifiCorp and Navigant reviewed the
18 offers first separately and then jointly to identify questions and areas of the
19 proposals requiring clarification from bidders. As questions and issues came up
20 regarding individual proposals, they were forwarded to the bidders for their
21 response. Once there was confidence that the necessary information was in hand
22 to complete an initial valuation of each of the offers, PacifiCorp prepared a
23 complete set of models and offer summaries for each offer in each of the three bid

1 categories, which was then provided to Navigant for its review. Details of this
2 review are included in Navigant's second interim report. Once Navigant
3 validated the modeling of offers and the application of the screening criteria, an
4 initial ranking was identified for the offers in each bid category.

5 **Q. Were the screening criteria the basis for determining the short list of**
6 **bidders? If so, how did this relate to the bidders that were contacted for**
7 **initial discussions?**

8 A. Yes. The short list for each bid category was based exclusively on the screening
9 criteria of price, dispatch ability, and environmental characteristics. At this stage
10 of the RFP process, bidders at the top of the ranking in each bid category were
11 contacted to set up offer clarification sessions to allow PacifiCorp to better
12 understand the details and substance of the offers. Individual offer clarification
13 sessions were held over a two-week period with each of the bidders. At the
14 conclusion of these preliminary discussions, PacifiCorp prepared a re-ranking of
15 the offers to reflect the updated information. In the baseload bid category this
16 resulted in several offers being more economic than the NBA. However,
17 PacifiCorp and Navigant agreed that the Company would begin detailed
18 negotiations with the top candidates.

19 **Q. What generally took place during the period of detailed negotiations?**

20 A. During this phase of the process, more in depth discussions were held with these
21 bidders to work through a number of specific issues related to the costs and
22 inherent risks implicit and explicit with each proposed transaction. These detailed
23 discussions began with these parties, but eventually extended to a third potential

1 counterparty (Summit Power) when the cost and risk profile for one of the offers
2 (Bidder 922) was no longer perceived as achievable as it was initially. In its
3 entirety, this process lasted approximately eight months from September 2003
4 through April 2004. The objective of this phase was the development of
5 agreements with mutually acceptable terms and a recommended transaction that
6 could be presented to the PacifiCorp board for its consideration and approval.

7 **Q. What was the final step in the RFP process?**

8 A. The final step in the process was the presentation of a recommendation to the
9 PacifiCorp Board for its review and approval. This meeting took place on April
10 30, 2004 with the PacifiCorp Board granting approval to the recommended
11 transaction with Summit Power.

12 **Q. What is the approximate timeframe over which the entire six-phase RFP
13 process took place?**

14 A. The process began on March 21, 2003 with the Pre-RFP workshop and concluded
15 with the PacifiCorp board approval and subsequent announcement on May 10,
16 2004. A total of thirteen months transpired between the first formal
17 communications with bidders and when PacifiCorp obtained board approval to
18 move forward with the proposed transaction.

19 **Q. What are Navigant's general conclusions regarding the overall RFP process
20 for the 2007 Bid Category?**

21 A. Navigant found the process to be logical and consistent in its implementation and
22 execution. PacifiCorp used a methodical approach to understand, model, and rank
23 each one of the fifty plus offers received in the baseload bid category. Although

1 the process took longer than expected, it resulted in the Company being able to
2 diligently address all of the costs and risks associated with each of the offers that
3 it negotiated in parallel with the selected counterparties. Navigant was given
4 unrestricted access to every aspect of the process to allow us to get comfortable
5 with not only the process, but also the analytics from a cost and risk perspective.
6 As such, Navigant believes that PacifiCorp's 2007 Bid Category RFP process was
7 run fairly and that PacifiCorp communicated and negotiated with bidders in this
8 bid category in a good faith manner.

9 **Q. How does Navigant characterize the quality of communications between**
10 **bidders and PacifiCorp in this bid category?**

11 A. Considerable time was spent with potential bidders and other interested parties on
12 the front end of the RFP process to outline what types of resources were being
13 sought in this bid category. In addition, bidders had unrestricted access to
14 Navigant throughout the remainder of the process to seek clarification about what
15 PacifiCorp was seeking through the RFP and getting guidance for responding to
16 questions posed by PacifiCorp regarding their respective offers. Once the
17 preliminary short list had been identified based on the RFP screening criteria,
18 PacifiCorp followed a methodical approach of communicating with each of the
19 short list candidates in one-on-one conference calls for the explicit purpose of
20 clarifying the offers. Where necessary, PacifiCorp provided to each of the bidders
21 lists of questions about the offers that would ensure PacifiCorp was fairly
22 modeling the offer from a pricing and operational perspective. During
23 negotiations with the counterparties, the communications were in depth and

1 frequent.

2 **Q. Does Navigant believe that the RFP resulted in competitive proposals that**
3 **were given earnest consideration by PacifiCorp?**

4 A. Yes. Among the fifty three proposals submitted for consideration, more than
5 twenty of those proposals from nine different companies initially were found to be
6 more economic than PacifiCorp's NBA. PacifiCorp held an offer clarification
7 session with every one of the companies having submitted an offer that was
8 modeled and found to be more economic than the NBA. Navigant participated in
9 every one of these preliminary sessions to assess that PacifiCorp approached these
10 discussions in an open and direct fashion. The typical result of these discussions
11 was a formal list of questions that PacifiCorp issued to the bidder in the interest of
12 refining the initial modeling of the offers. While the ranking shifted slightly
13 among these offers at the conclusion of these preliminary discussions, the
14 valuation of the majority of the proposals remained in the same order and
15 continued to be economically superior to the NBA. Each bidder was given a
16 reasonable and equal opportunity to present its offer to PacifiCorp. During the
17 course of clarifying discussions with PacifiCorp, each bidder also had an
18 opportunity to present variations of its original offer that it wanted PacifiCorp to
19 consider subsequent to its initial offer being short listed. If anything of a material
20 nature, such as start charges or option prices for purchasing a project at the end of
21 a power purchase agreement, had not been included in PacifiCorp's summary of
22 the offer, bidders had an opportunity to alter the offer summary sheet to make
23 sure PacifiCorp included such material items in their valuation. During the one-

1 on-one discussions with PacifiCorp they also had an opportunity to present
2 alternative structures or corrections to material aspects of their proposed deals. At
3 the conclusion of this iterative process with bidders, bidders were requested to
4 submit their best and final offers.

5 **Q. If PacifiCorp had multiple companies submitting offers that were**
6 **economically superior to the NBA, why did Navigant recommend to**
7 **PacifiCorp that it enter detailed negotiations only with the top candidates?**

8 A. Given the time commitment needed to diligently negotiate long-term agreements
9 with counterparties, we recommended that PacifiCorp limit the negotiations to the
10 top bidders. More importantly, the indicative offers submitted by the top bidders
11 were significantly better economically than the other alternatives. In light of
12 these more favorable economics, it was reasonable to proceed with these
13 candidates before moving further down the list. Navigant believed that it was
14 important to conduct these negotiations in parallel to preserve some leverage with
15 the counterparties as well as minimizing the risk of being several months down
16 the road and having to start anew with another counterparty if negotiations
17 deteriorated into an unworkable situation with the first counterparty. Along with
18 accepting this recommendation, PacifiCorp communicated with bidders that this
19 was the approach that was being used so that they were aware of the process and
20 how it was being handled.

21 **Q. Does Navigant believe that PacifiCorp conducted themselves in a good faith**
22 **manner during the negotiations with bidders?**

23 A. Yes. Throughout the process PacifiCorp exhibited a clear commitment to

1 identifying the best resource alternative for its ratepayers. At no time did
2 Navigant perceive PacifiCorp as biasing the process, arbitrarily changing the
3 modeling of the offers, or purposely misconstruing the facts of the offers in an
4 attempt to slant the results in favor of any one resource alternative over another.

5 **Q. Does Navigant believe that PacifiCorp is presenting the best resource**
6 **alternative received in response to the RFP?**

7 A. Yes. Based on the cost and risk analyses performed by PacifiCorp and validated
8 by Navigant, the offer from Summit Power represents the best cost/risk balance
9 among the final offers negotiated with the bidders.

10 **Evolution of the Negotiations**

11 **Q. Describe what is meant by the evolution of negotiations.**

12 A. This refers to the phases through which the discussions with the short listed
13 counterparties transpired. It begins with the period of time when the short listed
14 counterparties were first identified in August 2003 and concludes with the final
15 negotiating sessions held with bidders in April 2004 just prior to the preparation
16 of PacifiCorp board level presentations recommending one of the transactions.

17 **Q. Please describe the actual evolution of the negotiations during that eight-**
18 **month period of time.**

19 A. The negotiations moved through eight distinct phases whereby a natural
20 progression occurred with the discussions with each of the counterparties. The
21 negotiations began with a period of offer clarification that followed right on the
22 heels of identifying the preliminary short list. From here, a much smaller subset
23 of companies was identified with whom PacifiCorp would engage in detailed

1 negotiations. Parties focused on developing a memorandum of understanding
2 (“MOU”) as the touchstone of the going forward negotiations. Within the MOU,
3 PacifiCorp and the counterparty outlined the basic components of the offer and
4 the commitments and obligations of each party to one another during the course
5 of negotiations. For those counterparties that signed an MOU with PacifiCorp,
6 the focus turned to developing drafts of the transaction agreements. Once drafted,
7 the parties all took turns redlining the documents both individually and
8 collaboratively in order to address their respective issues. When material changes
9 were identified during the course of these negotiating sessions on the provisions
10 in the draft agreements, updates were made to the economic valuation models for
11 each of the offers that were then given to management to keep them apprised of
12 how the offers were evolving from a contractual and economic perspective.
13 Contemporaneous with this facet of the negotiations, PacifiCorp and the
14 respective counterparty addressed each of the risk elements associated with the
15 transaction including, but not limited to, issues such as environmental risks,
16 development risks, construction risk, the risks associated with project default,
17 change of law risks, the creation of special purpose entities, and others. As one
18 would expect, central to these discussions was who would bear the respective
19 risks and how they would bear them (e.g., leveraging an existing balance sheet,
20 posting collateral, securing letters of credit, etc.). After having extensively
21 addressed many of these issues, but not necessarily having resolved them in their
22 entirety, PacifiCorp concluded the negotiations with the top counterparties. Given
23 PacifiCorp’s need to have a facility on-line and operational with service available

1 to PacifiCorp by June 2007, it was crucial that PacifiCorp's Commercial and
2 Trading ("C&T") group move forward and present to its management the facts
3 and status of each negotiation and its recommendation for the preferred
4 transaction.

5 **Q. Which organization within PacifiCorp held responsibility for developing the**
6 **board level presentations on the RFP process and the recommended**
7 **transaction?**

8 A. PacifiCorp's C&T group took the lead in preparing the final materials for
9 presentation to the PacifiCorp and Scottish Power boards. Although the Risk
10 group and the Office of the General Counsel also provided inputs from their
11 analyses, the structure and majority of content was assembled by C&T. This
12 C&T prepared material included the final economic valuations, the development
13 of the step-in scenario model runs for the Bidder 213 offers, the aggregation and
14 analysis of financial and credit information for Bidder 213 and Summit Power,
15 the description of the contractual provisions embedded in the draft agreements,
16 and the assessment of perceived risks with each alternative.

17 **Q. What are the specific offers that PacifiCorp considered under detailed**
18 **negotiations in the 2007 bid category?**

19 A. PacifiCorp began negotiations with Bidder 922 and Bidder 213. After
20 approximately a month of negotiations with each of these counterparties,
21 PacifiCorp dropped Bidder 922 from further consideration and included Summit
22 Power.

1 **Q. What were the basic offers presented by Bidder 922, Bidder 213, and Summit**
2 **Power?**

3 A. Bidder 922 in conjunction with a transmission developer proposed the
4 development of an 810 MW combined-cycle coal-bed-methane-fired facility with
5 230 MW of duct firing along with the construction of a 400+ mile 345 kV dual
6 circuit transmission line from Glen Rock, Wyoming to the Ben Lomond
7 substation in Utah. The proposed term of the deal was for 20 years under a unit
8 contingent tolling agreement. This was the basic offer around which Bidder 922
9 submitted eight different pricing proposals.

10 Bidder 213 proposed a unit contingent day-ahead spread option for 20
11 years from a 669 MW facility (+218 MW of duct firing) that Bidder 213 would
12 develop at a site of its choosing (i.e., Geneva Steel site in Vineyard, Utah).
13 Delivery would be to the 345kV Camp Williams/Huntington line.

14 Summit Power proposed a turnkey offer to PacifiCorp wherein Summit
15 Power's proposal would involve Siemens Westinghouse constructing, and
16 transferring a 534 MW gas-fired combined-cycle facility at a site selected by
17 Summit Power (i.e., Geneva Steel site near Vineyard, Utah). Proposed point of
18 delivery was the Spanish Fork to Camp Williams 345kV transmission line.

19 **Navigant Position on the Recommended Resource**

20 **Q. Do you believe that PacifiCorp approached the negotiations with the top**
21 **baseload bid category bidders (Bidder 922, Summit Power and Bidder 213)**
22 **in a consistent and reasonable manner?**

23 A. Yes. Early in the process PacifiCorp set a tone of working toward identifying the

1 resource offering the best cost/risk balance for customers. This was a consistent
2 theme in the negotiations with each of these bidders. PacifiCorp attempted to
3 methodically work through cost and risk related issues with each bidder with the
4 intent of developing definitive agreements that would underlie the proposed
5 transactions. Throughout the process, bidders were informed that negotiations
6 were being conducted in parallel in order to streamline the process and allow
7 sufficient time for the selected project to be developed and constructed by June
8 2007. From Navigant's perspective, this was an important facet of the
9 negotiations that would help to avoid a situation where PacifiCorp would become
10 a price taker in the market due to time constraints. The method used by
11 PacifiCorp to communicate with bidders was consistent and was executed in a
12 reasonable manner.

13 **Q. Did PacifiCorp apply standard techniques for identifying the resource**
14 **offering the best cost/risk balance?**

15 A. Yes. They used discounted cash flow models to screen the more than 50 offers
16 received in the baseload bid category in response to the RFP. The tools used by
17 PacifiCorp allowed it to use the exact same types of inputs and operating
18 information to derive the net present value revenue requirement for each
19 alternative. These models took into account both the costs and market revenues
20 associated with the investments over their economic life, or the contractual life
21 that PacifiCorp and its ratepayers would benefit from. This is a very similar
22 approach used by others and myself within Navigant to identify the net present
23 value of acquisition alternatives being considered by our clients. Along with the

1 baseline economic valuation of offers, PacifiCorp also prepared a stochastic risk
2 analysis in the later stages of the negotiation process to assess the exposure any
3 one offer had to variations among the basic input variables such as heat rates,
4 availability factors, and operating costs. Since the basic technology was the same
5 across the final two offers, the scenario analyses varied similarly.

6 **Q. How did PacifiCorp treat situations where there existed fundamentally**
7 **different ways of interpreting the same information? Please provide an**
8 **example.**

9 A. PacifiCorp erred on the side of being more conservative so as to reflect all of the
10 possible costs that a proposed transaction would result in. This was done to
11 minimize the risk of underestimating the future impact of a particular resource
12 alternative. An example of this treatment is PacifiCorp's view of the accounting
13 rules addressing whether or not Bidder 213 could demonstrate a greater than
14 slight chance that one or more parties other than PacifiCorp would take 10 percent
15 or more of the output of their proposed facility produced over the term of the
16 agreement. While a case might have been made for this, PacifiCorp chose to look
17 at it in the most conservative manner in the interest of reducing risk.

18 **Q. Given PacifiCorp's approach, do you believe the Company came to a logical**
19 **and reasoned conclusion regarding the best resource alternative?**

20 A. Yes. In the final economic analysis, the values of the Bidder 213 and Summit
21 Power deals were within close range of one another. Both parties clearly
22 demonstrated their capabilities in bringing projects on-line, on time, and within
23 budget. The key difference boiled down to an issue of deliverability risk. Bidder

1 213's credit rating places it in a position of substantial default risk according to
2 Moody's. Summit, while not having a credit rating of its own, partnered with
3 SWPC, which has a very strong credit score and is serving as the guarantor of the
4 entire proposed Summit Power project. As PacifiCorp considered each
5 alternative, the question raised by PacifiCorp was which transaction posed the
6 best cost/risk balance for PacifiCorp and its ratepayers? The Summit Power
7 transaction offered the best cost/risk balance by virtue of having a lower
8 probability of being stalled or interrupted for any reason other than force majeure
9 events. On the other hand, the credit quality of Bidder 213 would continue to
10 overhang the development and construction process through the greater
11 possibility of a default that could hamper the ability to bring the proposed facility
12 on-line on time.

13 **Q. What other evidence did Navigant rely upon to conclude that PacifiCorp was**
14 **recommending the best resource from the RFP process?**

15 A. There were several things that Navigant looked to in order to come to this
16 determination. First, Navigant relied upon the actual offers submitted by the
17 bidder and an independent validation that PacifiCorp was accurately incorporating
18 the operational and cost assumptions of each offer into the economic valuation.
19 Second, Navigant participated in all of the clarification sessions with bidders and
20 a majority of the negotiating sessions with bidders. When absent from these latter
21 discussions, Navigant reviewed the meeting notes prepared by PacifiCorp and/or
22 its external counsel. Third, Navigant reviewed the results of the stochastic risk
23 analyses and the step-in scenario analyses that took into consideration various

1 transaction and project related risks. Under the expected case scenarios, the
2 Bidder 213 and NBA appeared less attractive than the offer from Summit. Taken
3 in aggregate, it was apparent that the preferred transaction would be with Summit
4 Power due to its lower risk and its equivalent cost characteristics.

5 **Q. From the perspective of ratepayers, what appeared to be the best attributes**
6 **of the Summit Power offer?**

7 A. Over their respective economic lives, the Summit Power offer came out
8 economically superior to the NBA and close with the offer from Bidder 213. The
9 credit quality and track record of the Summit Power and SWPC suggests that
10 ratepayers can have a high degree of confidence that the plant will be well
11 constructed and be operational by June 2007. Having reviewed the Summit
12 Power draft contracts, there are strong built-in provisions that mitigate a variety of
13 development and construction risks that help to ensure that the plant will meet the
14 agreed upon operational performance objectives as well as being available when
15 needed. Lastly, the 12-year full requirements operations and maintenance
16 contract proposed by Summit Power/SWPC would provide ratepayers with a
17 known cost stream on top of receiving quality service from the actual
18 manufacturer of the equipment for the first third of the project's life.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes