

REDACTED  
Docket No. UE 263  
Exhibit PAC/200  
Witness: Stefan A. Bird

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**PACIFICORP**

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**REDACTED  
Direct Testimony of Stefan A. Bird**

**March 2013**

**REDACTED DIRECT TESTIMONY OF STEFAN A. BIRD**

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**ATTACHED EXHIBITS**

Confidential Exhibit PAC/201 – Independent Evaluator Final Report, RFP Shortlist

Confidential Exhibit PAC/202 – Siemens LTP Contract

Confidential Exhibit PAC/203 – Lake Side 2 Large Generation Interconnection Agreement

Exhibit PAC/204 – Lake Side 2 Timeline

1 **Q. Please state your name, business address, and present position with**  
2 **PacifiCorp d/b/a Pacific Power (PacifiCorp or Company).**

3 A. My name is Stefan A. Bird. My business address is 825 NE Multnomah Street,  
4 Suite 600, Portland, Oregon 97232. I am Senior Vice President, Commercial and  
5 Trading, for PacifiCorp Energy, a division of PacifiCorp.

6 **QUALIFICATIONS**

7 **Q. Briefly describe your education and professional background.**

8 A. I hold a Bachelor of Science in mechanical engineering from Kansas State  
9 University. I joined PacifiCorp Energy and assumed my current position in  
10 January 2007. From 2003 to 2006, I served as president of CalEnergy Generation  
11 U.S., an owner and operator of Qualifying Facility and merchant generation  
12 assets, including geothermal and natural gas-fired cogeneration projects across the  
13 United States. From 1999 to 2003, I was vice president of acquisitions and  
14 development for MidAmerican Energy Holdings Company (MEHC). From 1989  
15 to 1997, I held various positions at Koch Industries, Inc., including energy  
16 marketing, financial services, corporate acquisitions, project engineering and  
17 maintenance planning in the Americas and Europe.

18 In my current position, I oversee the Company's Commercial and Trading  
19 organization, which is responsible for dispatch of the Company's owned and  
20 contracted generation resources and procurement of natural gas and electricity  
21 wholesale purchases and sales to balance the Company's load and resources. I am  
22 also responsible for PacifiCorp's load and revenue forecast, integrated resource  
23 plan (IRP), and net power costs modeling. Most relevant to this docket, I am

1 responsible for acquisition of power resources for the Company's east and west  
2 balancing authority areas (the System) through negotiated power purchase  
3 agreements and the acquisition of generation resources, including implementation  
4 of requests for proposals (RFPs) consistent with applicable law and guidelines.

5 **PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your testimony?**

7 A. My testimony demonstrates the prudence of the Company's Lake Side 2 natural  
8 gas-fired generating plant (Lake Side 2), a 645 megawatt (MW)<sup>1</sup> resource located  
9 adjacent to Lake Side 1 in Vineyard, Utah County, Utah. As explained in the  
10 testimony of Ms. Joelle R. Steward, the Company proposes to include Lake Side 2  
11 in rates through a separate tariff rider when the plant goes into service in the  
12 second quarter of 2014.

13 **Q. Please provide a summary of your testimony.**

14 A. The Lake Side 2 acquisition is the result of a comprehensive regulatory review  
15 process spanning nearly five years at the Public Utility Commission of Oregon  
16 (Commission). That process included two distinct phases and several key  
17 milestones, including acknowledgment of three consecutive IRPs that reflected  
18 the need for Lake Side 2 and its planned acquisition; approval of the RFP through  
19 which PacifiCorp acquired Lake Side 2; acknowledgment of the shortlist  
20 including Lake Side 2; and a favorable report from the Oregon Independent

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<sup>1</sup> The Company's practice is to report the ratings of its combustion-turbine-based resources at the average ambient temperature in a "new and clean" condition. The net output rating of Lake Side 2 is 645 MW, based on the engineering, procurement, and construction (EPC) contract current performance estimates at 52 degrees Fahrenheit. The evaluation in the RFP used a consistent approach for all resources, which was an estimated output at each of the 12 months average ambient temperature (*i.e.*, the average of the 12 estimated outputs at each month's average temperature) which was 637 MW.

1 Evaluator (IE) regarding the fairness and transparency of the Company's RFP  
2 process. *See* Confidential Exhibit PAC/201.

3 My testimony provides the complete history of the Lake Side 2 acquisition  
4 process. This process took several years in part because it was temporarily  
5 interrupted when the Company took advantage of the time-limited opportunity in  
6 2008 to acquire the Chehalis natural gas-fired plant at an advantageous price with  
7 a Commission-approved RFP waiver. The Chehalis acquisition saved customers  
8 [REDACTED] million dollars and enabled the Company to make mid-course  
9 changes in the RFP process that also took into account the global economic  
10 downturn and anticipated change in market conditions.

11 Several months after the Chehalis acquisition, the Company suspended its  
12 acquisition process and terminated a similar but more expensive resource  
13 (Original Lake Side 2), which was the winning bid in the Company's initial RFP  
14 (the 2012 RFP). With Commission approval, the Company then revised and re-  
15 issued its more recent RFP (the 2008 RFP) in late 2009. The Company acquired  
16 Lake Side 2 in late 2010 as the winning bid in the revised 2008 RFP. Because of  
17 technology improvements and favorable market conditions, Lake Side 2 is more  
18 than [REDACTED] dollars [REDACTED] costly than Original Lake Side 2 from the 2012  
19 RFP, provides more output, has a lower heat rate, and has materially favorable  
20 construction contract terms and conditions.

21 This history demonstrates that the Company's decision to acquire Lake  
22 Side 2 was fully evaluated and prudent. It also shows that the timing of the  
23 acquisition resulted in dramatic savings to customers. At the end of this

1 acquisition process, customers have the benefit of two natural gas-fired plants,  
2 Lake Side 2 and Chehalis, acquired at prices that are attractive in current market  
3 conditions and highly favorable as compared to market conditions that existed  
4 when PacifiCorp began the acquisition process.

5 My testimony also provides additional details on the Lake Side 2  
6 acquisition. I explain certain key terms and conditions of the engineering,  
7 procurement, and construction agreement (Agreement) with CH2M Hill  
8 Engineers, Inc. (CH2M Hill) for the construction of Lake Side 2. I also provide  
9 an explanation of the managed long-term gas turbine parts and services contract  
10 (LTP) with Siemens Energy, Inc. The LTP is attached as Confidential Exhibit  
11 PAC/202. Finally, I explain how Lake Side 2 is integrated into the Company's  
12 System, and I provide the Lake Side 2 Large Generation Interconnection  
13 Agreement (LGIA) as Confidential Exhibit PAC/203.

#### 14 **HISTORY OF LAKE SIDE 2 ACQUISITION—OVERVIEW**

15 **Q. Please provide an overview of the history of the Lake Side 2 acquisition**  
16 **process.**

17 A. The history of the Company's decision to acquire Lake Side 2 spans several years  
18 and is intertwined with three IRPs and three RFPs. To clearly show the important  
19 milestones in the acquisition process, including Commission filings and  
20 approvals, I have prepared a Lake Side 2 timeline as an exhibit to my testimony.  
21 See Exhibit PAC/204.

1 **Q. Was the need for Lake Side 2 established in the Company’s acknowledged**  
2 **IRPs?**

3 A. Yes. The need for a resource such as Lake Side 2 was recognized as a part of the  
4 Commission’s acknowledgement of the Company’s 2007 and 2008 IRPs.<sup>2</sup> These  
5 are the two IRPs that immediately preceded the Company’s execution of the Lake  
6 Side 2 acquisition agreement in December 2010.

7 **Q. Was Lake Side 2 specifically included in the Company’s most recent**  
8 **acknowledged IRP?**

9 A. Yes. The Commission acknowledged the Company’s 2011 IRP in March 2012.<sup>3</sup>  
10 Item 2 in the 2011 IRP Revised Action Plan indicates that the Company will:  
11 Acquire a combined cycle combustion turbine resource at the Lake Side site in  
12 Utah by the summer of 2014; the plant is proposed to be constructed by CH2M  
13 Hill E&C, Inc. (“CH2M Hill”) under the terms of an engineering, procurement  
14 and construction (EPC) contract. This resource corresponds to the 2014 CCCT  
15 proxy resource included in the 2011 preferred portfolio.<sup>4</sup>

16 **HISTORY OF LAKE SIDE 2 ACQUISITION—PHASE I**

17 **Q. Please provide background on how the Company initially sought to acquire**  
18 **this resource in the Company’s 2012 RFP.**

19 A. In July 2006, the Company filed a draft of its 2012 RFP with the Commission in  
20 docket UM 1208. One month later, the Commission issued competitive bidding

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<sup>2</sup> *In re PacifiCorp, dba Pacific Power, 2008 Integrated Resource Plan*, Docket No. LC 47, Order No. 10-066 (Feb. 24, 2010); *In re PacifiCorp, dba Pacific Power, 2007 Integrated Resource Plan*, Docket No. LC 42, Order No. 08-232 (Apr. 24, 2008).

<sup>3</sup> *In re PacifiCorp 2011 Integrated Resource Plan*, Docket No. LC 52, Order No. 12-082 (March 9, 2012).

<sup>4</sup> *Id.* at App. A, page 3.

1 guidelines for new supply side resources in docket UM 1182.<sup>5</sup> To comply with  
2 these guidelines, the Company revised the 2012 RFP, and the Commission  
3 ordered retention of an Oregon IE.<sup>6</sup>

4 In January 2007, the Commission denied approval of the 2012 RFP, but  
5 indicated that the Company could seek acknowledgement of the final shortlist of  
6 bidders from the 2012 RFP.<sup>7</sup> The Company filed for acknowledgement of the  
7 2012 RFP final shortlist in December 2008. The shortlist included the Original  
8 Lake Side 2, a 607 MW<sup>8</sup> gas-fired facility with a total project cost of [REDACTED] million  
9 and a June 2012 in-service date.

10 In the request for acknowledgment, the Company relied in part on the  
11 report of the IE, which concurred with the final shortlist of bidders. *See*  
12 Confidential Exhibit PAC/201. The Company also relied upon the fact that  
13 Original Lake Side 2 was consistent with the Company's acknowledged 2007  
14 IRP.

15 In February 2009, the Company exercised the contractual option it had  
16 negotiated to terminate Original Lake Side 2 and withdrew its request for  
17 acknowledgment of the 2012 RFP shortlist.

18 **Q. Did the Company issue the 2008 RFP while the 2012 RFP remained pending?**

19 A. Yes. In December 2007, the Company filed for approval of the 2008 RFP in  
20 docket UM 1360. The 2012 RFP was designed to meet up to 2,000 MW of the

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<sup>5</sup> *In re Investigation Regarding Competitive Bidding*, Docket No. UM 1182, Order No. 06-446 (Aug. 10, 2006).

<sup>6</sup> *In re PacifiCorp, dba Pacific Power, 2012 Draft Request for Proposals*, Docket No. UM 1208, Order No. 06-050 (Sept. 26, 2006), *clarified*, Order No. 06-676 (Dec. 20, 2006).

<sup>7</sup> *In re PacifiCorp, dba Pacific Power, 2012 Draft Request for Proposals*, Docket No. UM 1208, Order No. 07-018 (Jan. 16, 2007).

<sup>8</sup> More specifically, 524 MW base load with 83 MW of duct firing for a total capacity of 607 MW at 52 degrees Fahrenheit (new and clean).



1 Company's capacity and energy resource needs for calendar years 2012-2016.  
2 In June 2008, the Commission approved the 2008 RFP.<sup>9</sup> On October 2, 2008, the  
3 Company issued the RFP and received bidders' proposals on December 16, 2008.  
4 The pricing of bids received in this first issuance of the 2008 RFP did not yet  
5 reflect the impact of the global economic downturn. In February 2009, the  
6 Company filed to suspend the 2008 RFP.

7 **Q. Please provide background on the acquisition of the Chehalis gas-fired**  
8 **resource during the pendency of the 2008 and 2012 RFPs.**

9 A. After both the 2012 and 2008 RFPs were well underway, the Company became  
10 aware of an opportunity to acquire the Chehalis plant, an existing natural gas-fired  
11 combined cycle plant with a nominal output of about 500 MW located in  
12 Washington, at a cost of [REDACTED] million, or [REDACTED] per kilowatt. The purchase price  
13 for the Chehalis plant was very beneficial for customers. For example, as  
14 compared to the cost of Original Lake Side 2, ([REDACTED] million for 607 MW or  
15 [REDACTED] per kilowatt), the Chehalis plant has a cost advantage of [REDACTED] per kilowatt.  
16 Due to the unique value and time-limited nature of the Chehalis opportunity, the  
17 Company sought and obtained a waiver from the Commission's RFP process for  
18 the acquisition of Chehalis in July 2008 in docket UM 1374.<sup>10</sup> The Company  
19 acquired the Chehalis plant in September 2008. The Commission determined that  
20 the Chehalis plant was prudent and allowed it into rates in January 2010.<sup>11</sup>

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<sup>9</sup> *In re PacifiCorp, dba Pacific Power, Request for Approval of 2008 Draft Request for Proposals*, Docket No. UM 1360, Order No. 08-310 (June 5, 2008).

<sup>10</sup> *In re PacifiCorp, dba Pacific Power, Petition for Waiver of the Commission's Competitive Guidelines*, Docket No. UM 1374, Order No. 08-376 (July 17, 2008).

<sup>11</sup> *In re PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 210, Order No. 10-022 (Jan. 26, 2010).

1 **Q. Did the Chehalis acquisition play a role in the Company's decision to**  
2 **terminate the Original Lake Side 2 agreement and suspend the 2008 RFP in**  
3 **February 2009?**

4 A. Yes. The addition of low cost capacity from Chehalis allowed the Company to  
5 defer the acquisition of the natural gas-fired combined cycle resource need  
6 identified in the 2008 IRP for 2014. This enabled the Company an opportunity to  
7 reevaluate its acquisition strategy in light of the global economic downturn and  
8 anticipated change in market conditions. The Company determined that it was  
9 not in the best interests of its customers to immediately proceed with the Original  
10 Lake Side 2 resource or the 2008 RFP at the time, given the reasonable possibility  
11 that it would receive more favorable bids in the future as economic and market  
12 conditions changed.

13 **HISTORY OF THE LAKE SIDE 2 ACQUISITION—PHASE II**

14 **Q. Please explain why the Company reissued the 2008 RFP.**

15 A. In October 2009, the Company filed a notice proposing to resume the 2008 RFP.  
16 In this notice, the Company indicated that: (1) the economic downturn in late  
17 2008 resulted in a reduction of customer loads, a reduction in commodity prices,  
18 an anticipated reduction in construction costs, and other changes in economic and  
19 market conditions; (2) the Company's 2008 IRP indicated that the Company  
20 could serve its load from current resources supplemented by low cost market  
21 purchases until June 2014; and (3) it appeared that the recession had slowed down  
22 and economic conditions might start to improve. Based on these factors, the  
23 Company concluded that there was a reasonable possibility that it would receive

1 more favorable bids than those it received in December 2008. The Commission  
2 approved the reissued 2008 RFP in December 2009.<sup>12</sup>

3 **Q. How did the Company revise the 2008 RFP?**

4 A. The size of the 2008 RFP decreased from 2,000 MW to 1,500 MW, reflecting the  
5 500 MW addition of the Chehalis plant. In addition, after receiving input from  
6 the intervening parties and with concurrence of the Oregon IE, the Company  
7 made other modifications including (1) a change in the time period for which the  
8 resource need was sought from 2012–2016 to 2014–2016, and (2) a reduction of  
9 the number of Company benchmarks from three to one benchmark located at the  
10 Lake Side site.

11 **Q. Please describe the benchmark in the revised 2008 RFP.**

12 A. PacifiCorp's benchmark proposal consisted of a natural gas-fired combined-cycle  
13 plant at the Lake Side site with a capacity of 631 MW and an online date of  
14 May 1, 2014, or May 1, 2015 (Benchmark). PacifiCorp submitted the Benchmark  
15 to its IRP Team and the Oregon IE on February 15, 2010. The IRP Team  
16 completed the price score analysis for the Benchmark and submitted the models  
17 and the analysis to the Oregon IE before the receipt of the bids from the market on  
18 March 1, 2010.

19 The Oregon IE locked down the Benchmark prior to the opening of market  
20 bids on March 2, 2010. The Oregon IE provided a memorandum of its initial  
21 evaluation of the Benchmark to the Commission on February 26, 2010, which is  
22 attached as Confidential Exhibit PAC/201. The Oregon IE compared the

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<sup>12</sup> *In re PacifiCorp, dba Pacific Power, Requests Approval to Resume 2008 Request for Proposal*,  
Docket No. UM 1360, Order No. 09-491 (Dec. 14, 2009).

1 Benchmark costs and assumptions to actual bids from Phase I of 2008 RFP and to  
2 Original Lake Side 2. In so doing, the Oregon IE concluded that the Benchmark’s  
3 capital costs, operating and maintenance costs (fixed and variable), and heat rates  
4 were all reasonable.

5 **Q. Did the Company receive a robust response to the reissued 2008 RFP?**

6 A. Yes. The Company received a total of [REDACTED] bids. In the base load category,  
7 PacifiCorp received [REDACTED] bid variants from [REDACTED] bidders, totaling [REDACTED] MW,  
8 excluding the Benchmark. These bids included [REDACTED] tolling service agreements  
9 (TSA), [REDACTED] asset purchase and sale agreements (APSA), and [REDACTED] TSA/APSA  
10 bid variants. In the intermediate category, the Company received [REDACTED] bid variants  
11 from [REDACTED] bidders, totaling [REDACTED] MW (depending upon the technology at a  
12 given site). These bids included [REDACTED] TSA bid variants, [REDACTED] APSA bid variants, and  
13 [REDACTED] TSA/APSA bid variants. There were [REDACTED] proposals submitted in the summer  
14 peaking category.

15 **Q. Which projects did the Company include in the initial shortlist?**

16 A. The Company included [REDACTED] projects in its initial shortlist for the base load  
17 category: [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED].

1 In the intermediate category, the initial shortlist was comprised of the

2 following [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED].

9 **Q. Did the Oregon IE concur with the Company's selection of the initial**  
10 **shortlists?**

11 A. Yes. As stated in the Oregon IE's November 10 Final Report, the Oregon IE  
12 concurred with the Company's selection of the initial shortlists. *See Confidential*  
13 *Exhibit PAC/201.*

14 **Q. How was the final shortlist developed?**

15 A. The Company asked the bidders on the initial shortlists and the Benchmark to  
16 submit best and final offers. The Company submitted firm pricing for the  
17 Benchmark options on July 1, 2010. The bidders on the initial shortlists  
18 submitted their best and final offers by July 15, 2010, which were reviewed after  
19 the Oregon IE locked down the best and final offer on the Benchmark option.  
20 The Oregon IE provided a second memorandum on July 16, 2010, of its final  
21 evaluation of the Company Benchmark to the Commission, which is included in  
22 Confidential Exhibit PAC/201. The Oregon IE concluded that the final

1 Benchmark was reasonable and was lower cost and better performing than the  
2 initial Benchmark.

3 **Q. How did the Company determine the final shortlist?**

4 A. To determine the final shortlist, the Company used its IRP models and a three-  
5 step solicitation process analysis consistent with the Commission-approved 2008  
6 RFP. PacifiCorp selected [REDACTED] proposals for the final shortlist: [REDACTED]

7 [REDACTED]

8 **Q. Please provide a description of the [REDACTED] proposals comprising the final  
9 shortlist.**

10 A. [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED].

17 **Q. Did the Oregon IE recommend acknowledgement of the final shortlist?**

18 A. Yes, the Oregon IE recommended acknowledgment of the final shortlist.

19 **Q. Did the Oregon Commission acknowledge the final shortlist?**

20 A. Yes. In December 2010, the Commission acknowledged the final shortlist.<sup>13</sup>

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<sup>13</sup> *In re PacifiCorp, dba Pacific Power, Request for Acknowledgment of Final Shortlist of Bidders in the 2008 Request for Proposals*, Docket No. UM 1360, Order No. 10-494 (Dec. 27, 2010).

1 **Q. What was the result of evaluation of the [REDACTED] final shortlist proposals?**

2 A. In the course of the negotiations in the 2008 RFP final shortlist, [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 After the final shortlist negotiations, the Company selected Lake Side 2 as  
8 the winning proposal. [REDACTED]

9 [REDACTED] See Confidential Exhibit PAC/201.

10 **Q. What are the benefits to customers from the Company's Lake Side 2**  
11 **acquisition?**

12 A. As a result of the process that led to the Company's acquisition of Lake Side 2,  
13 customers will experience cost savings of [REDACTED] of millions of dollars and  
14 significantly reduced risks. Specifically:

- 15 • Lake Side 2 has a projected cost in the 2008 RFP of [REDACTED] million,  
16 [REDACTED] million less than Original Lake Side 2, prior to recent updates that I  
17 will discuss in the next section. Furthermore, the pricing for Lake Side 2  
18 has significantly less risk than the proposal for Original Lake Side 2.
- 19 • Lake Side 2 has a better heat rate, more output and materially more  
20 favorable contract terms and conditions compared to Original Lake Side 2.
- 21 • Concurrently with the Lake Side 2 acquisition process, the Company  
22 acquired the Chehalis plant for [REDACTED] million. This resource provides  
23 approximately [REDACTED] percent of the output at one-third the price—or





1 (1) load grows, (2) PacifiCorp's existing flexible contracts expire, and (3) new  
2 wind and solar resources are added to the system.

3 **TOTAL PROJECTED COST OF LAKE SIDE 2**

4 **Q. What is the total projected cost of Lake Side 2 as evaluated in the 2008 RFP?**

5 A. The total projected cost of Lake Side 2 as evaluated in the 2008 RFP is [REDACTED]  
6 million.

7 **Q. Please describe the components of the total projected cost associated with the**  
8 **development and engineering, procurement, and construction of Lake Side 2**  
9 **as evaluated in the 2008 RFP.**

10 A. The total estimated capital investment of [REDACTED] million includes the following  
11 estimated costs:

- 12 • A transfer to in-service cost of [REDACTED] million for the generation asset,  
13 including:
  - 14 ○ [REDACTED] million for the Agreement
  - 15 ○ [REDACTED] million for sales tax
  - 16 ○ [REDACTED] million for owner's cost
  - 17 ○ [REDACTED] million for allowance for funds used during construction  
18 (AFUDC)
  - 19 ○ [REDACTED] million for property taxes during construction



1 combination of these updates results in reducing the total capital investment  
2 forecast for the generating asset to be placed in service in 2014 from [REDACTED] million  
3 to [REDACTED] million.

4 **Q. Have there been any changes to the estimated transmission upgrade costs to**  
5 **integrate the plant into the Company's east balancing authority from the**  
6 **[REDACTED] million used in the final shortlist evaluation process?**

7 A. Yes. The Company's forecast for the transmission upgrade costs is currently  
8 approximately [REDACTED] million.

9 **Q. What is the updated total estimated capital investment for Lake Side 2?**

10 A. The combination of the updated forecast of generation asset to be placed in  
11 service in 2014 and the updated transmission upgrade costs described above  
12 results in reducing the total estimated capital investment for Lake Side 2 from  
13 [REDACTED] million to [REDACTED] million.

#### 14 **PRICING AND PAYMENT STRUCTURES**

15 **Q. Please describe the pricing and payment structure under the Agreement.**

16 A. If CH2M Hill does not achieve substantial completion of Lake Side 2 by June 1,  
17 2014, the Agreement provides for delay liquidated damages. Any delay in  
18 achieving substantial completion that is greater than [REDACTED] following June 1,  
19 2014, will entitle the Company to terminate the Agreement and to seek additional  
20 appropriate remedies. CH2M Hill's performance is secured by a parent guarantee  
21 and retainage or a retainage letter of credit equal to five percent of all payments  
22 made (other than the final payment).

1           The warranty under the Agreement is effective for [REDACTED] beginning  
2           June 1, 2014; provided that any repairs (other than the Siemens equipment) made  
3           during the warranty period will be warranted for a period that is the greater of one  
4           year or the balance of the warranty period. CH2M Hill has agreed to obtain  
5           insurance and assume risk of loss at the customary levels requested by the  
6           Company. CH2M Hill will not be liable for consequential damages; but, with a  
7           few exceptions, it will be liable for losses under the Agreement up to the  
8           aggregate amount of 100 percent of the contract price. In addition, the Company  
9           has secured an additional warranty on the Siemens power generation equipment  
10          (the combustion turbines, steam turbine and associated generators) for the earlier  
11          of the three-year anniversary of the substantial completion date, 24,000 equivalent  
12          operating hours, or 54 months following delivery of the equipment.

13   **Q.    Are the pricing and payment structure of the Agreement more favorable**  
14   **than the agreement for Original Lake Side 2?**

15   A.    Yes. The Agreement has more favorable terms that decrease the overall cost and  
16          risk to customers.

17   **Q.    Please explain.**

18   A.    First, the contract structure was changed from Original Lake Side 2. That  
19          agreement had an APSA structure (Developer and EPC Contractor). The current  
20          Lake Side 2 Agreement is an EPC contract, which minimizes the overall  
21          management of risks between the developer and the EPC contractor. Second, the  
22          agreement for Original Lake Side 2 was structured with 80 percent as a fixed  
23          price and 20 percent variable price, subject to a true up. The Lake Side 2

1 Agreement provides a single fixed price. Third, the Lake Side 2 Agreement  
2 improved the terms associated with liquidated damages and performance  
3 damages, increased the total limits of liability of the EPC contract, increased the  
4 warranty coverage, and improved performance guarantees.

5 **DESCRIPTION OF THE LONG-TERM PROGRAM**

6 **Q. Please briefly explain the LTP between Siemens and the Company for CH2M**  
7 **Hill.**

8 A. The LTP provides for the parts and services associated with the scheduled  
9 maintenance on the two combustion turbines, steam turbine, and three generators  
10 that are the core of Lake Side 2. The LTP Agreement is attached as Confidential  
11 Exhibit PAC/202.

12 **Q. Are LTP contracts common in the industry for these types of transactions?**

13 A. Yes. LTP contracts are used regularly in these types of transactions. With regard  
14 to pricing, the LTP with Siemens is comparable to other similar LTP contracts.

15 **Q. Are the LTP costs consistent with the LTP costs used in the analysis of the**  
16 **economics of Lake Side 2 during the reissued 2008 RFP process?**

17 A. Yes. The costs in the LTP are consistent with those costs used in the cost  
18 proposal submitted in the reissued 2008 RFP.

19 **Q. Did the Company consider alternative options to the LTP?**

20 A. Yes, although these options are limited. The Company's options are either to  
21 enter into a LTP with Siemens or to purchase parts and services on a transactional  
22 basis from Siemens. The Lake Side 2 LTP is based on Siemens SGT6-5000F  
23 (F4) combustion turbine which at the time of contract execution was the latest "F"

1 class design. These turbine designs are proprietary and exclusive to Siemens—  
2 Siemens is the only supplier who can provide the full range of parts, repair  
3 services, expertise, and the other services that will be provided under the  
4 negotiated terms and conditions. As these particular combustion turbines become  
5 more prevalent, alternative full-service suppliers may emerge; however, this  
6 market does not currently exist.

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

8 A. Yes.