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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER'S)
APPLICATION FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR THE)
LANGLEY GULCH POWER PLANT.)

CASE NO. IPC-E-09-03

DIRECT TESTIMONY AND EXHIBITS OF
DR. DON READING
ON BEHALF OF
NORTHWEST & INDEPENDENT POWER PRODUCERS COALITION
JUNE 19, 2009

1 **Q. Please state your name, address, and affiliation.**

2 **A.** My name is Don Reading. I am Vice President and Consulting Economist for
3 Ben Johnson Associates, 6070 Hill Road, Boise Idaho. My resume is attached as Exhibit 701.

4 **Q. On whose behalf are you testifying?**

5 **A.** The Northwest & Intermountain Power Producers Coalition (NIPPC) asked me
6 to examine the competitive bidding aspects of Idaho Power's filing for a Certificate of
7 Convenience and Necessity (CPCN) for its Langley Gulch Power Plant. NIPPC is an association
8 of independent power producers established to actively pursue informal and formal (i.e., laws,
9 policies, rules and regulations) avenues and forums to promote competitive electric power supply
10 markets in the Pacific Northwest and Intermountain West. NIPPC supports a fully competitive
11 electric power supply marketplace. Among NIPPC's 15 full members are some of the major
12 independent energy producers in the country. The member companies' energy projects currently
13 on-line have a capacity of more than 3,500 MW in the Northwest.

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

15 **A.** My testimony will focus on the competitive bidding process that Idaho Power
16 used in its most recent Request for Proposals (RFP) for a new supply-side resource. The end
17 result of that competitively bid RFP was that Idaho Power selected itself as the winning bidder.
18 Idaho Power (IPCO) issued its RFP on April 1, 2008 for competitive proposals for up to 600
19 MW of energy. In June 2008 the amount was reduced to approximately 300 MW.

20 **Q. How is your testimony organized?**

21 **A.** The testimony that follows contains four parts. First, I will briefly review the
22 bidding process and provide a time-line with key dates. The second section will discuss what
23 aspects make up a transparent and competitive bidding process for utility resources that assures

1 all bidders (the purchasing utility and independent suppliers) have an equal opportunity to supply
2 power to the utility seeking it. The third section will look at Competitive Bidding Guidelines for
3 the state of Oregon where Idaho Power serves approximately 18,000 customers who use 700,000
4 MWh annually. I conclude this testimony by recommending the Commission deny a CPCN for
5 Langley Gulch at this time and adopt competitive bidding procedures before the Company
6 embarks upon a new RFP process in the future.

7 **Q. Dr. Reading could you briefly review the RFP process the Company used**
8 **that resulted in the selection of its self-build Langley Gulch project.**

9 **A.** Company witness Bokenkamp discusses the Company's RFP procedure on
10 pages 5 through 13 from his direct testimony. The following description is based on that
11 testimony and the Company's responses to discovery requests. In September 2007 the Company
12 decided it would no longer pursue the conventional coal plant it had previously planned. Idaho
13 Power's 2008 Integrated Resource Plan Update (2008 IRP Update) published in June 2008
14 confirmed that decision. In its 2008 IRP Update the Company's analysis indicated a more cost
15 effective resource would be a combined cycle combustion turbine (CCCT) rather than a coal-
16 fired resource. IPC then issued a request for proposals (RFP) in April 2008 for 250 to 600 MW
17 dispatchable, physically delivered, firm, or unit contingent energy resource with an on-line date
18 of June 2012. The energy acquisition would be through a power purchase agreement (PPA), a
19 tolling agreement (TA) or a self-build facility. The Company excluded build-own-transfer
20 (BOT) proposals.

21
22 **Q. How many responses did the Company receive?**

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1 A. The Company received responses from six organizations. One proposal failed
2 to provide an intent to bid and thus the bid was returned unopened. The five remaining proposals
3 offered one PPA, nine TA's, two "hybrid" bids, along with the Company's own benchmark
4 resource. The thirteen alternatives contain a variety of different gas fired technologies. The
5 Company, through its screening process, vetted four offers from three bidders. The four short
6 listed gas plants, from three bidders, had significant variation in operational considerations. Two
7 of the facilities were combined cycle, including the Company's benchmark at Langley Gulch,
8 and two were combustion turbine. The three short listed proposals, other than the self-build,
9 were tolling agreements.

10
11 **Q. Dr. Reading, you have filed testimony before this Commission relating to**
12 **competitive bidding practices in another docket, GNR-E-08-03. How will this direct**
13 **testimony differ for that filed in the generic competitive bidding docket?**

14 A. In the generic competitive bidding docket, GNR-E-08-03, I addressed Idaho
15 Power's RFP process that resulted in the Commission issuing a CPCN for the Evander Andrews
16 gas plant at Mountain Home. The current RFP process differs from the Evander Andrews RFP
17 in several ways. In other ways the selection process used to select Langley Gulch parallels the
18 Evander Andrews RFP. Therefore, some of the same discussion points will be used here when
19 they are applicable to this docket.

20 **Q. In your GNR-E-08-03 testimony you referenced a report by the Analysis**
21 **Group for NARUC that discusses recent trends in state policies as they relate to**
22 **competitive bidding practices and guidelines. [Competitive Procurement of Retail**

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1 **Electricity Supply: Recent Trends in State Policies and Utility Practices, July 2008,**
2 **Analysis Group, Boston, Mass.] What did that report recommend?**

3 A. As the Report title implies it contains a review of competitive procurement rules
4 and guidelines that have been implemented in various states. These bidding rules, as would be
5 expected, vary among different states. The study provides a good summary of the guidelines in
6 various states that includes the major elements the researchers found. The Executive Summary
7 outlines the elements that lead to a robust and transparent competitive bidding process.

8 **Q. Please summarize those elements.**

9 A. First, the procurement process should be fair and objective. Second, the
10 procurement should be designed to encourage robust competitive offerings and creative
11 proposals from market participants. Third, the procurement should select winning offers based
12 on appropriate evaluation of all relevant price and non-price factors. Fourth, the procurement
13 should be conducted in an efficient and timely manner. Finally, when using a competitive
14 procurement process, regulators should align their own procedures and actions to support the
15 development of a competitive response.¹

16 **Q. The five elements you just presented appear to be goals of a good bidding**
17 **process that almost everyone could agree with. Did the Report describe specific procedures**
18 **that can be used to achieve those goals?**

19 A. Yes, the Executive Summary describes what the researchers found.

20 The first key issue for incremental resource procurements is the design of safeguards
21 to prevent potential improper self-dealing by the utility. Because the utility may financially

¹Competitive Procurement of Retail Electricity Supply: Recent Trends in State Policies and Utility Practices, July 2008, Analysis Group, Boston, Mass., p. ii.

1 benefit from the selection of its own self-build offer or a proposal from an affiliate, safeguards
2 are necessary to ensure that the process is not improperly tilted toward the selection of such
3 offers. As the report describes, a variety of means are available to provide such safeguards,
4 including: The involvement of a third-party independent monitor (“IM”) and/or independent
5 evaluator (“IE”); Measures to increase the transparency of the procurement process to market;
6 Providing potential bidders with detailed information needed to prepare competitive bids; Utility
7 codes of conduct to prohibit improper sharing of information that is valuable to utility affiliates
8 in their design of procurement offers and/or their competitiveness in other electricity markets;
9 and, Careful disclosure and review of how “non-price” factors are considered and evaluated by
10 the utility in weighing offers from third parties against self-build or affiliate offers.²

11 I think it is significant that the “first key issue” is that a utility may derive financial
12 benefit from building its own resources and that could “tilt” the utility issuing the RFP in its own
13 favor.

14 **Q. Idaho does not have competitive bidding guidelines in place. However the**
15 **State of Oregon does have guidelines in place. Since Idaho Power serves 18,000 customers**
16 **in that state did the Company follow Oregon’s guidelines in the Langley Gulch bidding**
17 **process?**

18 **A.** No. Idaho Power did not follow Oregon’s bidding rules despite the fact that it is
19 covered by those rules. In Oregon if an electric utility plans to acquire a resource that is larger
20 than 100 MW, and with a duration greater than five years, then it must comply with that state’s
21 competitive bidding rules. Although there are elements of the Company’s bidding process that
22 appear would meet the Oregon Public Utility Commission Guidelines, while there are others that
23 did not. However, the Company has not sought a waiver from Oregon from compliance with
24 those rules.

²Ibid, p. v

1
2 **Q. What could be the consequences to the Company for not following the**
3 **Oregon guidelines?**

4 **A.** Since Idaho Power derives approximately four percent of its revenue from its
5 Oregon jurisdictional operations it could potentially not be permitted to rate base four percent of
6 the cost of Langley Gulch. This would put the responsibility for that portion of the plant on the
7 Company shareholders' shoulders.

8 **Q. Do you know why the Company chose to ignore the requirement that they**
9 **meet the Oregon Guidelines?**

10 **A.** No, I do not. Although in response to the Industrial Customers of Idaho
11 Power's discovery request Nos. 33 and 34, the Company states that it intends to file for rate
12 recovery in Oregon. It also stated that it believes that it has "substantially" complied with the
13 Oregon rules.

14 **Q. You stated above that there were elements of the Langley Gulch bidding**
15 **process that seemed to meet the Oregon guidelines and other that did not. Could you**
16 **describe those guidelines?**

17 **A.** In discussing the Company's RFP procedure the following testimony will use
18 those Guidelines as a touchstone. (See attached, Guidelines Adopted, UM1182, Order No. 06-
19 446, August 10, 2006, Exhibit 702.) I am not assuming the Oregon guidelines would be the
20 same ones the Idaho Commission would approve if they open a generic docket on competitive
21 bidding. However, the Oregon guidelines do insure that the bidding process is fair and the
22 resulting selection was arrived at where all parties had an equal chance of selection.

23 **Q. Could you discuss the first Oregon Competitive Bidding Guideline?**

24 **A.** Oregon Guideline One states,

1 *RFP Requirement: A utility must issue an RFP for all Major Resource*
2 *acquisitions identified in its last acknowledged Integrated Resource Plan (IRP).*
3 *Major Resources are resources with durations greater than 5 years and*
4 *quantities greater than 100 MW.*

5 Idaho Power met this Oregon Guideline requirement originally requesting bids on a
6 resource from 250 to 600 MW. The size request was lowered to 300 MW two months after the
7 issuance of the original RFP.

8 **Q. Could you discuss the second Oregon Guideline for Competitive Bidding?**

9 **A.** Oregon Guideline 2 deals with the conditions for exempting a utility from the
10 competitive bidding requirements. There three conditions for an exemption: (1) Acquisition of a
11 Major Resource in an emergency or where there is a time-limited resource opportunity of unique
12 value to customers, (2) Acknowledged IRP provides for an alternative acquisition method for a
13 Major Resource. (3) Commission waiver on a case-by-case basis.

14 None of these three conditions were met in Idaho Power's RFP process that resulted in
15 the Company selecting Langley Gulch. Therefore it seems that Idaho Power is not exempt from
16 following the Guidelines.

17 **Q. Dr. Reading, are you aware of Idaho Power asking the Oregon Commission**
18 **for a waiver of its competitive bidding guidelines for any resource?**

19 **A.** On June 2nd, 2009, Idaho Power filed a Petition for Partial Waiver of
20 Competitive Bidding Guidelines for 150 MW of wind generation to be added to the Company's
21 resources in 2012. (*In the Matter of Idaho Power Company's Petition for Partial Waiver of*
22 *Competition Bidding Guidelines – 2012 Wind Resource UM 1433.*) The Company states it needs
23 to act quickly to take advantage of a time-limited resource acquisition opportunity. This short
24 time frame is the basis for the Company's request for a waiver.

1 It is curious that the Company would ask for a waiver of Oregon's competitive
2 bidding guidelines for a 150 MW resource while it failed to either comply with the guidelines or
3 ask for a waiver for what was originally a 600 MW facility. Langley Gulch will more than
4 double the wind resource and add significantly more to the Company's rate base. In addition,
5 Langley Gulch is not a time-limited resource that needs to be fast-tracked.

6 **Q. Oregon Guidelines 3 and 4 are related, did the Company comply with those**
7 **two guidelines?**

8 **A.** Guidelines 3 and 4 state:

9 "Affiliate Bidding: A utility may allow its affiliates to submit RFP bids. If affiliates
10 are allowed to bid, the utility must blind all RFP bids and treat affiliate bids the same as all other
11 bids."

12 And:

13 "Utility Ownership Options: A utility may use a self-build option in an RFP to provide
14 a potential cost-based alternative for customers. A site-specific, self-build option proposed in this
15 way is known as a Benchmark Resource. A utility may also consider ownership transfers within
16 an RFP solicitation."

17 Idaho Power no longer has an affiliate that is involved in building generating resources
18 therefore Guideline 3 would not apply. A self-build Benchmark Resource was announced as
19 being part of the RFP process and was ultimately selected as the winning bid.

20 **Q. Would you please discuss Guideline 5?**

21 **A.** The fifth Oregon Guideline states that an Independent Evaluator must be used in
22 the RFP process and defines how the IE is to be selected.

23 "*Independent Evaluator (IE): An IE must be used in each RFP to help ensure that all*
24 *offers are treated fairly. Commission Staff, with input from the utility and interested, non-bidding*
25 *parties, will recommend an IE to the Commission, which will then select or approve an IE for the*

1 *RFP. The IE must be independent of the utility and likely, potential bidders, and also be*
2 *experienced and competent to perform all IE functions identified in these Guidelines. The IE will*
3 *contract with and be paid by the utility. The IE should confer with Commission staff as needed,*
4 *on the IE's duties under these Guidelines. The utility may request recovery of its payments to the*
5 *IE in customer rates."*

6 The Company states that it did hire an "independent third-party to review the
7 Company's RFP and bid evaluation process" [Bokenkamp, p. 6.] R. W. Beck was selected to
8 aid the Company in the RFP process and Steven Stein of that firm has filed testimony in support
9 of his Letter Report attached to Company witness Bokenkamp's direct testimony.

10 Mr. Stein, in his Letter Report, reiterates Section 5.5 of the Company's RFP that
11 outlines five items the independent evaluator "may" perform to help ensure the RFP is
12 "conducted fairly and properly". Mr. Stein goes on to say Idaho Power asked his firm to perform
13 only three of the five criteria. R.W. Beck was requested to consult with the Company in
14 preparing the RFP and evaluation criteria along with the evaluation of the proposals. In addition,
15 they were asked prepare reports including those to the Public Utilities Commissions of Idaho and
16 Oregon. The two items listed in Section 5.5 RFP that R. W. Beck was not requested to undertake
17 was an independent scoring of all or a sample of the proposals to insure they were consistent
18 with the scoring criteria and compare their scoring results with that of the Company's to
19 reconcile and resolve any scoring differences.

20 **Q. In what aspects did Idaho Power fail to meet the fifth Oregon Guideline?**

21 **A.** R.W. Beck was selected by Idaho Power, not Commission Staff, nor the firm
22 approved by the Commission of either state. Aside from these specific criteria, the essence of
23 Guideline 5 is to insure that the IE is truly independent. It is clear the Company selected R.W.
24 Beck and directed their responsibilities. Consulting with the utility and receiving direction from
25 it is different from being an independent third party approved by a Commission and operating

1 under pre-established guidelines. This is not to say that R.W. Beck may not have done a proper
2 job, given its limited role in this RFP process. What is important is what it was not asked to do –
3 to be a truly independent evaluator from start to finish. The conclusion of the Mr. Stein’s Letter
4 Report states,

5 *“Finally, based on our work with the Idaho Power RFP Evaluation Team as described*
6 *above, we believe that the Idaho Power 2012 Baseload RFP process was conducted fairly and*
7 *properly and that offers provided to Idaho Power as part of the RFP process, including the*
8 *Benchmark Resource, were treated objectively and consistently as set forth in Section 5.5 of the*
9 *RFP”.*

10 The key phase in R.W. Beck’s conclusion that the RFP process was conducted fairly
11 and properly is “based on our work”. Section 5.5 of the RFP, as stated above, provides that the
12 Company “may” ask the IE to perform the given tasks. Any firm, or individual, hired to consult
13 on specified selected items in the RFP process while working under the directives of the hiring
14 utility cannot be assumed to totally independent. This fact casts a cloud over the selection
15 process, especially when the results of the RFP process is the selection of the utility’s own self-
16 build option.

17 **Q. You just stated that pre-established guidelines are an important element in**
18 **the process because they establish the rules the IE must follow in the bidding process. Do**
19 **the Oregon Guidelines give direction to the selected IE?**

20 **A.** Yes. The majority of the Guidelines outline specific actions the IE must follow.
21 Rule 6 establishes RFP design criteria:

22 *“RFP Design: The utility will prepare a draft RFP and provide it to all parties and*
23 *interested persons in the utility's most recent general rate case, RFP and IRP dockets. The utility*
24 *must conduct bidder and stakeholder workshops on the draft RFP. The utility will then submit a*
25 *final draft RFP to the Commission for approval, as described in Guideline 7 below. The draft*

1 *RFPs must set forth any minimum bidder requirements for credit and capability, along with bid*
2 *evaluation and scoring criteria. The utility may set a minimum resource size, but Qualifying*
3 *Facilities larger than 10 MW must be allowed to participate. The final draft submitted to the*
4 *Commission must also include standard form contracts. However, the utility must allow bidders*
5 *to negotiate mutually agreeable final contract terms that are different from ones in the standard*
6 *form contracts. The utility will consult with the IE in preparing the RFPs, and the IE will submit*
7 *its assessment of the final draft RFP to the Commission when the utility files for RFP approval.”*

8 Many of the criteria described in the Oregon Guidelines were included in the RFP
9 used by Idaho Power. However, some of the most important guidelines that help insure the
10 impartiality of the selection process were not. A draft RFP was not submitted for Commission
11 approval, nor did the Commission approve and direct the IE, nor did the IE submit its assessment
12 of the final draft RFP to the Commission. These facts cast serious doubt on the independence
13 and transparency of the competitive bidding process.

14 **Q. Please comment on guideline 7.**

15 **A.** Guideline 7 deals with Commission approval of the RFP.

16 **Q. Didn't you state earlier the Company did not submit the RFP to either state**
17 **Commission?**

18 **A.** That is correct. The Company did not submit either its draft or final RFP to
19 either Commission. Oregon Guideline 7 states:

20 *“RFP Approval: The Commission will solicit public comment on the utility's final*
21 *draft RFP, including the proposed minimum bidder requirements and bid scoring and evaluation*
22 *criteria. Public comment and Commission review should focus on: (1) the alignment of the*
23 *utility's RFP with its acknowledged IRP; (2) whether the RFP satisfies the Commission's*
24 *competitive bidding guidelines; and (3) the overall fairness of the utility's proposed bidding*
25 *process. After reviewing the RFP and the public comments, the Commission may approve the*

1 *RFP with any conditions and modifications deemed necessary. The Commission may consider*
2 *the impact of multi-state regulation, including requirements imposed by other states for the RFP*
3 *process. The Commission will target a decision within 60 days after the filing of the final draft*
4 *RFP, unless the utility requests a longer review period when it submits the final draft RFP for*
5 *approval”.*

6 Idaho Power developed and issued the RFP with only R.W. Beck providing input.
7 There were no independent third parties having input in the development of the RFP to insure it
8 was not constructed in ways that would favor the utilities own self-build project.

9 **Q. What is the focus of Guideline 8?**

10 **A.** Guideline 8 establishes the rules for scoring the utilities Benchmark Resource, if
11 one has been part of the bidding process. Guideline 8 states:

12 *“Benchmark Resource Score: The utility must submit a detailed score for any*
13 *Benchmark Resource, with supporting cost information, to the Commission and IE prior to the*
14 *opening of bidding. The score should be assigned to the Benchmark Resource using the same bid*
15 *scoring and evaluation criteria that will be used to score market bids. Information provided to*
16 *the Commission and IE must include any transmission arrangements, and all other information*
17 *necessary to score the Benchmark Resource. If, during the course of the RFP process, the utility,*
18 *with input from the IE, determines that bidder updates are appropriate, the utility may also*
19 *update the costs and score for the Benchmark Resource. The IE will review the reasonableness*
20 *of the score(s) for the Benchmark Resource. The information provided to the Commission and IE*
21 *will be sealed and held until the bidding in the RFP has concluded.”*

22 The Company reports that it did make efforts to separate the bidding evaluation
23 process from the group within the Company that developed Benchmark Resource resulting in
24 Langley Gulch CCCT proposal. The Company formed a separate team to develop the
25 Benchmark Resource. The Benchmark Resource development team did not include any members

1 of the RFP evaluation team. The RFP evaluation team treated the proposal presented by the
2 Benchmark Resource development team in an identical manner as it treated all other entities
3 submitting proposals in the RFP process. The Benchmark Resource development team received
4 no preferential communication or treatment and the Benchmark Resource proposal was
5 evaluated utilizing using the same evaluation manual and techniques as applied to the other
6 proposals [Application, pgs. 4, 5].

7 However, as pointed out above, there was no independent scoring by a Commission
8 approved IE. To insure the scoring process is transparent and fair, Guideline 8 specifies the
9 scoring of the Benchmark bid should be provided to the Commission and its IE. The Benchmark
10 scoring should then be sealed and held until the bidding of the RFP is concluded. The sealing
11 and holding of the scoring of the Benchmark bid may sound as if the utility is not to be trusted in
12 scoring its own resource. It is really for the utility's benefit and protection because it removes
13 any hint of self dealing.

14 **Q. Could you discuss Oregon Guideline 9?**

15 **A.** Oregon Competitive Bidding Guideline 9 states,

16 *"Bid Scoring and Evaluation Criteria:*

17 *Selection of an initial short-list of bids should be based on price and non-price*
18 *factors, and provide resource diversity (e.g., with respect to fuel type and resource duration).*
19 *The utility should use the initial prices submitted by the bidders to determine each bid's price*
20 *score. The price score should be calculated as the ratio of the bid's projected total cost per*
21 *megawatt-hour to forward market prices, using real-levelized or annuity methods. The non-price*
22 *score should be based on resource characteristics identified in the utility's acknowledged IRP*
23 *Action Plan (e.g., dispatch flexibility, resource term, portfolio diversity, etc.) and conformance to*
24 *the standard form contracts attached to the RFP.*

1 *Selection of the final short-list of bids should be based, in part, on the results of*
2 *modeling the effect of candidate resources on overall system costs and risks. The portfolio*
3 *modeling and decision criteria used to select the final short-list of bids must be consistent with*
4 *the modeling and decision criteria used to develop the utility's acknowledged IRP Action Plan.*
5 *The IE must have full access to the utility's production cost and risk models.*

6 *Consideration of ratings agency debt imputation should be reserved for the selection*
7 *of the final bids from the initial short-list of bids. The Commission may require the utility to*
8 *obtain an advisory opinion from a ratings agency to substantiate the utility's analysis and final*
9 *decision.*”

10 Idaho Power's IRP process met most of the criteria in this ninth Guideline. The
11 Company used its AURORA model to evaluate the impact of the short-listed proposals on Idaho
12 Power's system, including forward market prices as part of the input to AURORA. Debt
13 imputation was not factored in the valuation of the non-self build short-listed proposals. The
14 exclusion of estimated debt imputation would tend to favor the tolling and purchase power
15 proposals over the Company's self-build option. Company witness Lori Smith does discuss
16 imputed debt as relates to general financing issues facing Idaho Power in raising capital to build
17 Langley Gulch.

18 The Company's IRP does not specifically discuss non-price factors. The RFP does list
19 the non-price factors that were considered for the scoring of each short-listed proposal. The
20 seven categories of non-price variables that were scored were: (1) project development; (2)
21 project characteristics; (3) product characteristics; (4) project location; (5) environmental; (6)
22 credit factors; and (7) financial strength. These non-price factors accounted for 40 percent of the
23 total with price variables accounting for the remaining 60 percent. The RFP contained additional
24 explanations as to the scoring for each factor along with their respective weightings. This

1 additional scoring information was a significant improvement over the RFP for Evander
2 Andrews which did not provide information to bidders about how they were to be scored.

3 **Q. What factors does Guideline 10 consider?**

4 **A.** Guideline 10 outlines the roles of the utility that issues the RFP and IE. It
5 provides:

6 *“Utility and IE Roles in the RFP Process:*

7 *The utility will conduct the RFP process, score the bids, select the initial and final*
8 *short-lists, and undertake negotiations with bidders.*

9 *The IE will oversee the RFP process to ensure that it is conducted fairly and properly.*

10 *If the RFP does not allow affiliate bidding and does not include ownership options*
11 *(i.e., the utility is not including a Benchmark Resource or considering ownership transfers), the*
12 *IE will check whether the utility's scoring of the bids and selection of the short-lists are*
13 *reasonable.*

14 *If the RFP allows affiliate bidding or includes ownership options, the IE will*
15 *independently score the utility's Benchmark Resource (if any) and all or a sample of the bids to*
16 *determine whether the selections for the initial and final short-lists are reasonable. In addition,*
17 *the IE will evaluate the unique risks and advantages associated with the Benchmark Resource (if*
18 *used), including the regulatory treatment of costs or benefits related to actual construction cost*
19 *and plant operation differing from what was projected for the RFP.*

20 *Once the competing bids and Benchmark Resource (if used) have been scored and*
21 *evaluated by the utility and the IE, the two should compare results. The utility and IE should*
22 *attempt to reconcile and resolve any scoring differences. If the two are unable to agree, the IE*
23 *should explain the differences in its Closing Report”.*

24 Since the IE was not asked to score the proposals, no reconciliation could occur (see
25 above Guideline 8 above). R.W. Beck was also not asked to evaluate the unique risks and

1 advantages that are associated with the Benchmark Resource. This is another example where
2 fairness and transparency would be improved and the utilities self-build resource could be held
3 above any acquisitions of self-dealing.

4 **Q. What topics do the final three Oregon Guidelines cover?**

5 **A.** Guidelines 11, 12, and 13 deal with reporting, confidentially, and Commission
6 acknowledgment:

7 *IE Closing Report: The IE will prepare a Closing Report for the Commission after the*
8 *utility has selected the final short-list. In addition, the IE will make any detailed bid scoring and*
9 *evaluation results available to the utility, Commission staff, and non-bidding parties in the RFP*
10 *docket, subject to the terms of a protective order.*

11 *Confidential Treatment of Bid and Score Information: Bidding information, including*
12 *the utility's cost support for any Benchmark Resource, as well as detailed bid scoring and*
13 *evaluation results will be made available to the utility, Commission staff and non-bidding parties*
14 *under protective orders that limit use of the information to RFP approval and acknowledgment*
15 *and to cost recovery proceedings.*

16 *RFP Acknowledgment: The utility may request that the Commission acknowledge the*
17 *utility's selection of the final short-list of RFP resources. The IE will participate in the RFP*
18 *acknowledgment proceeding. Acknowledgment has the same meaning as assigned to that term in*
19 *Commission Order No. 89-07. RFP acknowledgment will have the same legal force and effect as*
20 *IRP acknowledgment in any future cost recovery proceeding. The utility's request should discuss*
21 *the consistency of the final short-list with the Company's acknowledged IRP Action Plan."*

22 The Company is making available, under protective order, documents used in the RFP
23 process to interveners in this docket. However, as discussed above, there was no request to
24 provide a scoring critique. Mr. Stein of R.W. Beck has filed testimony support his Letter Report
25 and will be available for cross examination.

1 **Q. You stated above that following the Oregon Competitive Bidding**
2 **Guidelines would insure a bidding process that is fair and would result in the selection of a**
3 **resource where all parties had an equal chance of selection. Do you believe the Company**
4 **made sufficient efforts to conduct a fair competitive bidding process?**

5 **A. No.** It is my belief the Company did not take enough precautions to insure that
6 the process did give all parties an equal chance. Idaho Power states the RFP process leading up
7 to the selection of Langley Gulch was competitive.

8 *“The competitive RFP process allows the Company to access the broader power*
9 *supply market to obtain the best resource for our customers. It gives us access to a spectrum of*
10 *potential resources and resource developers. Use of a formal RFP process provides customers*
11 *and regulatory agencies with the assurance that the resource selection process was competitive,*
12 *all potential suppliers had an equal opportunity to participate, and that the best resource*
13 *alternative was selected”.*

14 (Bokenkamp direct testimony, p. 5)

15 An example of where the Company’s RFP process failed to provide ‘a spectrum of
16 potential bidders’ is contained in a letter sent to Idaho Power by a potential bidder. (Exhibit 703)

17 *****START CONFIDENTIAL*****

1
2 *******END CONFIDENTIAL*******

3 **Q. What are your recommendations for Commission in this docket?**

4 A. I recommend the Commission deny the CPCN for Langley Gulch at this time.
5 In my testimony filed on behalf of the ICIP in this docket I show why the plant is not needed at
6 this time, and why a tolling agreement or power purchase may well serve the Company and its
7 ratepayers better. As I have outlined above, the bidding process has not been conducted in a fair
8 and transparent manner. Therefore, I recommend the Commission in its Order denying the
9 Langley Gulch CPCN include some conditions for the new issuing of an RFP. Specifically that
10 the Commission and Commission Staff and relevant stakeholders become involved with the
11 selection of the IE and establishing specific duties that the selected firm should follow.

12 **Q. Are you recommending this Commission follow the Oregon guidelines?**

13 A. Not necessarily. Although they are very workable. In the long term, I
14 recommend the Commission establish a set of its own guidelines that will apply to resource
15 acquisitions down the road. Competitive procurement rules should be embedded in the
16 Commission's regulations. After all, even the State of Idaho uses competitive bidding guidelines
17 when it purchases supplies for state government. The regulated utilities in Idaho should be
18 required to do the same.

19 **Q. Does this complete you this testimony on June 19, 2009?**

20 A. Yes it does.
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Don C. Reading

Present position Vice President and Consulting Economist

Education B.S., Economics — Utah State University
M.S., Economics — University of Oregon
Ph.D., Economics — Utah State University

Honors and awards Omicron Delta Epsilon, NSF Fellowship

Professional and business history Ben Johnson Associates, Inc.:
1989 --- Vice President
1986 ---- Consulting Economist

Idaho Public Utilities Commission:
1981-86 Economist/Director of Policy and Administration

Teaching:

1980-81 Associate Professor, University of Hawaii-Hilo
1970-80 Associate and Assistant Professor, Idaho State University
1968-70 Assistant Professor, Middle Tennessee State University

Experience Dr. Reading provides expert testimony concerning economic and regulatory issues. He has testified on more than 35 occasions before utility regulatory commissions in Alaska, California, Colorado, the District of Columbia, Hawaii, Idaho, Nevada, North Dakota, Texas, Utah, Wyoming, and Washington.

Dr. Reading has more than 30 years experience in the field of economics. He has participated in the development of indices reflecting economic trends, GNP growth rates, foreign exchange markets, the money supply, stock market levels, and inflation. He has analyzed such public policy issues as the minimum wage, federal spending and taxation, and import/export balances. Dr. Reading is one of four economists providing yearly forecasts of statewide personal income to the State of Idaho for purposes of establishing state personal income tax rates.

In the field of telecommunications, Dr. Reading has provided expert testimony on the issues of marginal cost, price elasticity, and measured service. Dr. Reading prepared a state-specific study of the price elasticity of demand for local telephone service in Idaho and recently conducted research for, and directed the preparation of, a report to the Idaho legislature regarding the status of telecommunications competition in that state.

Dr. Reading's areas of expertise in the field of electric power include demand forecasting, long-range planning, price elasticity, marginal and average cost pricing, production-simulation modeling, and econometric modeling. Among his recent cases was an electric rate design analysis for the Industrial Customers of Idaho Power. Dr. Reading is currently a consultant to the Idaho Legislature's Committee on Electric Restructuring.

Since 1999 Dr. Reading has been affiliated with the Climate Impact Group (CIG) at the University of Washington. His work with the CIG has involved an analysis of the impact of Global Warming on the hydro facilities on the Snake River. It also includes an investigation into water markets in the Northwest and Florida. In addition he has analyzed the economics of snowmaking for ski areas impacted by Global Warming.

Among Dr. Reading's recent projects are a FERC hydropower relicensing study (for the Skokomish Indian Tribe) and an analysis of Northern States Power's North Dakota rate design proposals affecting large industrial customers (for J.R. Simplot Company). Dr. Reading has also performed analysis for the Idaho Governor's Office of the impact on the Northwest Power Grid of various plans to increase salmon runs in the Columbia River Basin.

Dr. Reading has prepared econometric forecasts for the Southeast Idaho Council of Governments and the Revenue Projection Committee of the Idaho State Legislature. He has also been a member of several Northwest Power Planning Council Statistical Advisory Committees and was vice chairman of the Governor's Economic Research Council in Idaho.

While at Idaho State University, Dr. Reading performed demographic studies using a cohort/survival model and several economic impact studies using input/output analysis. He has also provided expert testimony in cases concerning loss of income resulting from wrongful death, injury, or employment discrimination. He is currently an adjunct professor of economics at Boise State University (Idaho economic history, urban/regional economics and labor economic.)

Dr. Reading has recently completed a public interest water rights transfer case. He is currently a member of the Boise City Public Works Commission.

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- The Economic Impact of the 2001 Salmon Season In Idaho, Idaho Fish and Wildlife Foundation, April 2003.
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- "A Note on the Distribution of Federal Expenditures: An Interstate Comparison, 1933-1939 and 1961-1965." In *The American Economist*, Vol. XVIII, No. 2 (Fall 1974), pp. 125-128.
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UM 1182
Competitive Bidding Guidelines

1. **RFP Requirement:** A utility must issue an RFP for all Major Resource acquisitions identified in its last acknowledged IRP. Major Resources are resources with durations greater than 5 years and quantities greater than 100 MW.
2. **Exceptions to RFP Requirement:** A utility is not required to issue an RFP under the following circumstances:
 - a. Acquisition of a Major Resource in an emergency or where there is a time-limited resource opportunity of unique value to customers.
 - b. Acknowledged IRP provides for an alternative acquisition method for a Major Resource.
 - c. Commission waiver on a case-by-case basis.

Within 30 days of a Major Resource acquisition under Subsection (a) above, the utility must file a report with the Commission explaining how the requisite conditions have been met for acting outside of the RFP requirement. The report must be served on all the parties and interested persons in the utility's most recent rate case, RFP and IRP dockets.

When requesting a waiver under Subsection (c) above, the utility must file its request with the Commission and serve the request on all parties and interested persons in the utility's most recent general rate case, RFP and IRP dockets. The Commission will issue an order addressing the waiver request within 120 days, taking such oral and written comments as it finds appropriate under the circumstances.

3. **Affiliate Bidding:** A utility may allow its affiliates to submit RFP bids. If affiliates are allowed to bid, the utility must blind all RFP bids and treat affiliate bids the same as all other bids.
4. **Utility Ownership Options:** A utility may use a self-build option in an RFP to provide a potential cost-based alternative for customers. A site-specific, self-build option proposed in this way is known as a Benchmark Resource. A utility may also consider ownership transfers within an RFP solicitation.
5. **Independent Evaluator (IE):** An IE must be used in each RFP to help ensure that all offers are treated fairly. Commission staff, with input from the utility and interested, non-bidding parties, will recommend an IE to the Commission, which will then select or approve an IE for the RFP. The IE must be independent of the utility and likely, potential bidders and also be experienced and competent to perform all IE functions identified in these Guidelines. The IE will contract with and be paid by the

utility. The IE should confer with Commission staff as needed on the IE's duties under these Guidelines. The utility may request recovery of its payments to the IE in customer rates.

6. RFP Design: The utility will prepare a draft RFP and provide it to all parties and interested persons in the utility's most recent general rate case, RFP and IRP dockets. The utility must conduct bidder and stakeholder workshops on the draft RFP. The utility will then submit a final draft RFP to the Commission for approval, as described in paragraph 7 below. The draft RFPs must set forth any minimum bidder requirements for credit and capability, along with bid evaluation and scoring criteria. The utility may set a minimum resource size, but Qualifying Facilities larger than 10 MW must be allowed to participate. The final draft submitted to the Commission must also include standard form contracts. However, the utility must allow bidders to negotiate mutually agreeable final contract terms that are different from ones in the standard form contracts. The utility will consult with the IE in preparing the RFPs, and the IE will submit its assessment of the final draft RFP to the Commission when the utility files for RFP approval.

7. RFP Approval: The Commission will solicit public comment on the utility's final draft RFP, including the proposed minimum bidder requirements and bid scoring and evaluation criteria. Public comment and Commission review should focus on: (1) the alignment of the utility's RFP with its acknowledged IRP; (2) whether the RFP satisfies the Commission's competitive bidding guidelines; and (3) the overall fairness of the utility's proposed bidding process. After reviewing the RFP and the public comments, the Commission may approve the RFP with any conditions and modifications deemed necessary. The Commission may consider the impact of multi-state regulation, including requirements imposed by other states for the RFP process. The Commission will target a decision within 60 days after the filing of the final draft RFP, unless the utility requests a longer review period when it submits the final draft RFP for approval.

8. Benchmark Resource Score: The utility must submit a detailed score for any Benchmark Resource, with supporting cost information, to the Commission and IE prior to the opening of bidding. The score should be assigned to the Benchmark Resource using the same bid scoring and evaluation criteria that will be used to score market bids. Information provided to the Commission and IE must include any transmission arrangements and all other information necessary to score the Benchmark Resource. If, during the course of the RFP process, the utility, with input from the IE, determines that bidder updates are appropriate, the utility may also update the costs and score for the Benchmark Resource. The IE will review the reasonableness of the score(s) for the Benchmark Resource. The information provided to the Commission and IE will be sealed and held until the bidding in the RFP has concluded.

9. Bid Scoring and Evaluation Criteria:

- a. Selection of an initial short-list of bids should be based on price and non-price factors and provide resource diversity (e.g., with respect to fuel type and resource duration). The utility should use the initial prices submitted by the bidders to determine each bid's price score. The price score should be calculated as the ratio of the bid's projected total cost per megawatt-hour to forward market prices using real-levelized or annuity methods. The non-price score should be based on resource characteristics identified in the utility's acknowledged IRP Action Plan (e.g., dispatch flexibility, resource term, portfolio diversity, etc.) and conformance to the standard form contracts attached to the RFP.
- b. Selection of the final short-list of bids should be based in part on the results of modeling the effect of candidate resources on overall system costs and risks. The portfolio modeling and decision criteria used to select the final short-list of bids must be consistent with the modeling and decision criteria used to develop the utility's acknowledged IRP Action Plan. The IE will have full access to the utility's production cost and risk models.
- c. Consideration of ratings agency debt imputation should be reserved for the selection of the final bids from the initial short-list of bids. The utility should obtain an advisory opinion from a ratings agency to substantiate its analysis and final decision, if requested by the Commission.

10. Utility and IE Roles in RFP Process:

- a. The utility will conduct the RFP process, score the bids, select the initial and final short-lists, and undertake negotiations with bidders.
- b. The IE will oversee the RFP process to ensure that it is conducted fairly and properly.
- c. If the RFP does not allow affiliate bidding and does not include ownership options (i.e., the utility is not including a Benchmark Resource or considering ownership transfers), the IE will check whether the utility's scoring of the bids and selection of the short-lists are reasonable.
- d. If the RFP allows affiliate bidding or includes ownership options, the IE will independently score the utility's Benchmark Resource (if any) and all or a sample of the bids to determine whether the selections for the initial and final short-lists are reasonable. In addition, the IE will evaluate the unique risks and advantages associated with the Benchmark Resource (if used), including the regulatory treatment of costs or benefits related to actual construction cost and plant operation differing from what was projected for the RFP.

- e. Once the competing bids and Benchmark Resource (if used) have been scored and evaluated by the utility and the IE, the two should compare results. The utility and IE should attempt to reconcile and resolve any scoring differences. If the two are unable to agree, the IE should explain the differences in its Closing Report.

11. IE Closing Report: The IE will prepare a Closing Report for the Commission after the utility has selected the final short-list. In addition, the IE will make any detailed bid scoring and evaluation results available to the utility, Commission staff, and non-bidding parties in the RFP docket subject to the terms of a protective order.

12. Confidential Treatment of Bid and Score Information: Bidding information, including the utility's cost support for any Benchmark Resource, as well as detailed bid scoring and evaluation results will be made available to the utility, Commission staff and non-bidding parties under protective orders that limit use of the information to RFP approval and acknowledgment and to cost recovery proceedings.

13. RFP Acknowledgment: The utility may request that the Commission acknowledge the utility's selection of the final short-list of RFP resources. The IE will participate in the RFP acknowledgment proceeding. Acknowledgment has the same meaning as assigned to that term in Commission Order No. 89-507. RFP acknowledgment will have the same legal force and effect as IRP acknowledgment in any future cost recovery proceeding. The utility's request should discuss the consistency of the final short-list with the company's acknowledged IRP Action Plan.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 19th day of June, 2009, a true and correct copy of the within and foregoing **TESTIMONY OF DON READING ON BEHALF OF THE NORTHWEST & INDEPENDENT POWER PRODUCERS COALITION OF IDAHO POWER** was served in the manner shown to:

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