

## MEMORANDUM

June 16, 2014

**REDACTED PUBLIC VERSION**

**TO: RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**FROM: RICHARD HAHN AND AL PEREIRA, LA CAPRA ASSOCIATES, ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**SUBJECT: NATIONAL GRID 2015 STANDARD OFFER SUPPLY AND RENEWABLE ENERGY  
STANDARD PROCUREMENT PLANS, DOCKET NO. 4490**

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### Introduction

The purpose of this memorandum is to respond to the Company's rebuttal testimony filed on June 6, 2014. On May 14, 2014, I provided a memorandum that presented the results of my review of the Company's SOS plan and the RES plan. In that memorandum, I addressed the issue of bid competitiveness. The Company has stated that it would consider a block solicitation competitive only if there are at least two bids to compare. If only one bid is received, the Company proposes to automatically reject that bid as not competitive. NGRID further states that bids are compared to the Company's estimate of expected bids (as discussed in the SOS RFP Notice) but that these estimates are not used to evaluate bids. Thus, even if only a single bid were received and was competitive compared to the Company's estimate, the bid block would not be awarded.

### Bid Competitiveness

In my May 14, 2014, I stated as follows:

*"I do not see the need to establish such rigid restrictions on this process, and it does not appear that this process is discussed in any SOS document. The Company's SOS RFP Summary (section 9) currently allows the Company to withdraw to terminate the RFP at any time and gives the Company the right to "accept or reject, in whole or in part, any and all proposals." Thus, the Company currently has and has had the ability to reject a single (or all) bid(s) that it deemed non-competitive (for whatever reason).*

*On the other hand, a single bid received from a creditworthy entity that is competitive compared to market indicators may prove more beneficial than an alternative that is selected under the Company's SOS contingency plan. The Company should preserve it[s] flexibility and keep the right to accept such a bid, just as it has the right to reject any and all bids for good cause. I also recommend that the Company inform the Division of*

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*its intent to not award a bid block due to “inadequate participation” and provide the comparison of the bid price to the Company’s estimate of expected bid prices.”*

### Company Rebuttal

On June 6, 2014, the Company filed rebuttal testimony of Margaret Janzen, respectfully disagreeing with the suggestion of possibly accepting a single bid. The following reasons were offered for this position.

1. The PUC has previously approved the Company’s procurement plans to solicit Full Requirements Service (“FRS”) transactions through Request for Proposals (“RFP”), and these solicitations are conducted competitively. Only when there are two suppliers submitting bids for the same bid block can the competitive bid process yield the lowest price for SOS customers.
2. The Company’s expected bid prices are not appropriate for evaluating the competitiveness of a single or multiple bids.
3. Even if it were determined that an estimated market price was sufficient to validate a single bid, there is no procedure for determining which bids are excessive and which bids are acceptable. Any threshold to determine whether a bid is excessive would be an arbitrary amount.

### Our Response

We agree with the Company that it is always desirable, if possible, to get multiple bids in any solicitation. We also agree with the Company that we have not provided a specific, formulaic approach for dealing with single bids. For example, we do not recommend accepting a single bid if it is less than the “bottom- up” market-based estimate plus X%, but reject any single bid that is more than the “bottom- up” market-based estimate plus X%. What we are proposing is that the Company exercise judgment, in conjunction with discussions with the Division, depending upon the circumstances involving each solicitation.

We understand the Company’s reluctance to exercise judgment in procurement matters. It is not unusual for default service providers to desire to completely eliminate all risk, including the exercise of judgment. However, in this case, the Company can approach the Division (and the Commission) prior to actually accepting the bid. If consensus can be reached that it is desirable to accept or reject a single bid, the Company is not exposed to any risk. We note that under the current RFP, the Company already exercises judgment because it can reject any bid(s) at any time.

We believe that comparing a bottom-up market-based estimate to bids received is a useful way to help assess whether bids are competitive. This approach has been used in other jurisdictions to determine if bids are competitive, even when multiple bids had been received. For example, in the direct testimony of Joseph Cavicchi on behalf of PPL Utilities in Docket No. P-2014-2417907 before the Pennsylvania Public Utility Commission, a bottom-up, market-based estimate was used to demonstrate that past default service bids were competitive. Similarly, in the direct testimony of Scott Fisher on behalf of PECO Energy in Docket No. P-2014-3409362 before the Pennsylvania Public Utility Commission, a bottom-up, market-based estimate was also used to demonstrate that past default service bids were competitive. Furthermore, it is our understanding from reviews of prior NGRID default service solicitations that the Company has

used such a method in the past. For instance, when La Capra Associates first started reviewing NGRID's SOS filings in Rhode Island, the Company used a bottom-up, market-based procedure to estimate the cost of SOS bids. At that time, the Company stated that it compared the estimates to the bids. If the difference was relatively small, the Company would not reject those bids. Finally, in Docket 4149 before this Commission, NGRID retained Scott Fisher of the Northbridge Group to analyze the use of fixed price full requirements contracts instead of a managed portfolio of block and spot market purchases. Mr. Fisher, the same person who testified in the Pennsylvania proceeding cited above, used a bottom-up, market-based cost estimate to demonstrate that fixed price full requirements contracts were competitive. We see no reason why this approach can't or shouldn't be used to help assess the competitiveness of bids going forward.

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In addition, customers risks are somewhat mitigated if the Company accepts a single bid that is, or turns out to be, exceedingly high. These customers can always seek to switch to a competitive supplier rather than remain on standard offer service.

Lastly, there are ramifications to rejecting bids that do not appear to have been considered by the Company. Suppose the Company receives a single bid to supply 100% of the industrial standard offer power supplies, and is then forced to rely upon ISO-NE spot market to supply that portion of supplies for the upcoming quarter. NGRID will need to forecast the spot market prices and

file a rate for the Commission to approve in advance of its implementation. The actual costs could be significantly different from the Company's forecast, resulting in a large over-collection or under-collection. Under the Company's reconciliation process, such a large variance will be recovered over the next reconciliation period, which could cause higher fluctuations in standard offer rates. If this becomes problematic, it may be necessary to revisit the reconciliation process that currently exists.

Conclusion

We stand by our original recommendation. Rather than automatically reject any single bid, the Company should maintain the flexibility to exercise judgment and accept or reject such a bid based upon the circumstances and market conditions that exist at the time of the solicitation.