LOUISIANA PUBLIC SERVICE COMMISSION STAFF COMMENTS ON 1803'S REQUEST FOR PROPOSALS

The Louisiana Public Service Commission ("LPSC" or "Commission") Staff, with the assistance of J. Kennedy and Associates, Inc., submits these comments to 1803 Electric Cooperative Inc. ("1803" or "Company") associated with its 2019 Request for Proposals for Long-Term Power Purchase Contracts and/or Generating Capacity ("RFP"). Staff hopes that the Company will take these and all other comments in to consideration in finalizing its RFP documents as required by the Commission's Market Based Mechanism Order.[1]

I. Background and Overview

On June 25, 2019, 1803 submitted a notice of intent to conduct this RFP in order to fulfill the combined power needs of the five LPSC-regulated electric cooperatives which it represents: Beauregard Electric Cooperative, Inc., Claiborne Electric Cooperative, Inc., Northeast Louisiana Power Cooperative, Inc., South Louisiana Electric Cooperative Association, and Washington-St. Tammany Electric Cooperative, Inc. (collectively referred to as the "Member Cooperatives"). The Member Cooperatives each currently have full-requirements wholesale power contracts that expire in the 2025-2026 timeframe. As a result of the RFP notice, 1803 will become the full-requirements provider for the entirety of the load-serving obligations for its Member Cooperatives upon completion of the current full-requirements wholesale power supply contracts.

[1] LPSC General Order dated October 29, 2008 (Docket R-26172 Subdocket C).

1803's 2019 Long-Term RFP Documents were filed with the LPSC on November 26, 2019, and indicate that 1803 will need to secure approximately 1,000 MW of resources which must be at least partially available by April 1, 2025, and fully available by January 1, 2026. The RFP states that both peak and energy for the Member Cooperatives are expected to grow 1% annually and reach a peak demand of about 1,250 MW by 2050. The RFP also states that as load-serving entities of the Midcontinent Independent System Operator, Inc. ("MISO"), the Member Cooperatives of 1803 must also satisfy a Planning Reserve Margin Requirement ("PRMR"), equal to its peak load forecast plus a planning reserve margin ("PRM") of about 7.75%. The RFP states the following concerning the PRMR beginning on page 7 of its Draft RFP:

> The PRM will be established by MISO prior to each planning year. In addition to serving its energy obligations, 1803 will be obligated to procure capacity, known as Zonal Resource Credits ("ZRC") equal to its PRMR for each planning year prior to the start of the planning year.

1803's RFP states that five types of bid responses for resources are acceptable, including Designated Generation Resources (discussed in Section 3.3.1), Firm Load Following Obligations (Section 3.3.2), Energy Only Blocks (Section 3.3.3), Capacity Only Products (Section 3.3.4), and Call Option Products (Section 3.3.5) from all types of suppliers, including electric utilities, power marketers, exempt wholesale generators, independent power producers, and renewable developers. 1803 concluded that the 2019 Long-Term RFP will not require supervision by an independent monitor ("IM"), nor will 1803 propose a self-build, self-supply, or inter-affiliate resource option. The duties of the RFP Administrator for the 2019 Long-Term RFP will be performed by Alliance for Cooperative Energy Services Power Marketing LLC ("ACES"). Proposals will be evaluated in a Two-Phase process based on price and non-price factors discussed in section 4.9 through 4.13 of the 2019 Long-Term RFP document. In the first phase, the RFP administrator will narrow down the list of bids for further evaluation in the next phase, by no later than July 1, 2020. In the second phase, remaining bidders will submit final pricing, and the winning bidder(s) will be notified as early as October 19, 2020. 1803's schedule anticipates that applications would be filed with the LPSC on November 6, 2020.

The following section includes Staff's comments addressing issues that have arisen over the course of the RFP process to date, including at the January 16, 2020 Technical and Bidder's Conference ("Technical Conference"), as well as issues Staff also raised in questions that were submitted to 1803 on January 22, 2020.

II. Staff's Comments

Staff is mindful that 1803 was incorporated to represent the combined interests of five Member Cooperatives, which must balance multiple objectives, including but not limited to: providing service at the lowest reasonable cost, maintaining reliability for customers, and complying with all state and federal regulations. The Member Cooperatives believe that by aggregating their loads they will be able to achieve lower overall power supply costs than if each Cooperative separately contracts for its own power supplies. This RFP is intended to provide 1803 the opportunity to realize these economy-of-scale benefits by selecting the lowest-cost combination of resources, which can reliably meet the Member's load requirements.

Potential Conflict of Interest

During the Technical Conference, an issue was raised concerning the potential for a conflict of interest that could arise given that ACES is acting as the RFP administrator, and that ACES may also want to provide energy management and market participation services to 1803 when the new contracts go into effect. The potential for a conflict of interest is that ACES will be performing bid evaluations in the RFP, and decisions it makes could conceivably be influenced by its future desire to provide energy management and market participation services to 1803 when the new contracts go into effect. While Staff does not necessarily believe this is a significant concern, Staff does believe that 1803 could mitigate the possibility of a perceived conflict of interest.

One of 1803's objectives is to identify the lowest cost resource portfolio to serve its Members' load requirements. Any attempt on the part of ACES to bias the outcome of the RFP would be detrimental to this objective, and ACES' own client, 1803, would have a vested interest in preventing this from happening. Normally, in an RFP process, when concerns about conflicts of interest arise, it is because the utility would stand to gain something if the RFP process were biased. In this situation ACES' own client would be harmed and would therefore act as a bulwark against this. Furthermore, Staff and other bidders will monitor the RFP and will work to prevent this from happening.

Nevertheless, in an attempt to mitigate the possibility of any bias being introduced, either perceived or otherwise, 1803 could take actions in regard to this concern to ensure a fair and transparent RFP process. One option would be that 1803 could now commit to hiring a different firm to ultimately supply energy management and market participation services other than ACES. A second option, which would not preclude ACES from being hired one day as the energy manager, would be for 1803 to establish parameters and publish costs ahead of bids being submitted that ACES would then use in the bid evaluation studies. Those costs and parameters would need to be scrutinized in some way for reasonableness, and the assumptions would need to be different depending on the type of bid expected to be received. This process would need to identify all possible costs that 1803 could incur in the event that it does not enter into a full requirements contract. This would include energy management services, market participant services, and all costs to setup a management structure that otherwise would not be necessary if a full requirements contract was selected. This way all costs would be known in advance and would be added automatically to the bid evaluation studies that ACES performs based on a predetermined set of conditions. By doing this, ACES effectively would be following a predetermined set of rules about when to add costs to the cases, which would mitigate against any chance of a bias being introduced.

Risk Analysis

Pages 29 and 30 in the RFP document discusses 1803's plans to use risk analysis and explains how it will be evaluated. For example, at page 29, the RFP states,

> Stochastic model runs are helpful for assessing portfolio risk, which is defined as the 95th percentile variable cost output less the expected value (mean) variable cost output.

The RFP also states at page 30 that final proposals and scenarios will be compared using stochastic model runs. It would be useful if 1803 could explain more about the risk analysis steps it will perform. For example, assume that two portfolios are proposed with exactly the same cost, but one portfolio includes all market risks being absorbed by the seller, and the other portfolio requires all market risks to be absorbed by 1803. With all else being equal, it can be assumed that 1803 will select the portfolio in which the seller absorbs all of the risk. While this seems logical, it would be helpful if 1803 would discuss more about the risk analysis steps that 1803 will perform, and the decisions that will be made to select the winning portfolio. This includes consideration of all types of important risk such as cost, resource reliability, and resource deliverability, among others that may be important. Question 15 is an example in which a bidder sought more information about the risk analysis, and while it was answered, Staff believes it would be helpful to bidders and would make for a more transparent bid evaluation process, if 1803 could explain further about the steps it will take to evaluate the risk differences in competing bids.

Legal Structure of 1803

On 1803's website, Question 3 asks whether 1803 will be "considered a wholesale power provider for purposes of establishing market-based rate authority under FERC."[2] Staff believes that this and other legal considerations, while important, will be considered more fully by the Commission at the time that 1803 seeks certification of resources. Staff recognizes that 1803 and the Member Cooperatives must take the appropriate steps to ensure that the proper legal structure is established; however, Staff does not believe that this can be, or has to be fully vetted at this time, in order for the RFP to be properly conducted.

Non-Conforming Bids[3]

Section 4.11 of the RFP document concerns Screening for Requirements and explains that bidders "may be given three business days after the proposal submission deadline to remedy their non-conformity." Staff notes that the RFP does not mention when a bidder will be notified. This section is unclear about how long a bidder will actually be given to rectify its non-conforming bid after notification is provided. Staff recommends that 1803 revise this language to indicate that once notification is given, the bidder will be afforded three business days to remedy its non-conforming bid.

Phase 2 Bid Refresh

In Section 4.1 of the RFP document, 1803 discusses that bidders making it into Phase 2 will be permitted to update their bids provided "the variance in price between a bidder's first

[2] Other legal questions related to 1803's status were raised at the January 16, 2020 technical conference.
[3] See Bidder's Question 18.

phase proposal and second phase proposal will be consistent with, and align with, market fluctuations from the initial submission deadline." It seems logical that 1803 would seek to place limits on the change in cost a bidder could make to its bid in Phase 2. Otherwise, it could be argued that all bidders should be accepted into the Phase 2 and should be permitted to update their bids. However, the RFP is vague about the amount that a bidder could change its bid, before possibly being disqualified. Staff recommends that 1803 should provide clarification of what might cause the disqualification of a refreshed bid. In other words, Staff recommends that 1803 should explain what magnitude of a change in a bid could lead 1803 to decide that a refreshed bid was not "consistent with" or "aligned with" market fluctuations from the initial submission deadline.

Resource Planning

It appears that 1803 has not conducted detailed analyses of its Members' load forecasts, nor has it conducted other preliminary analyses that are typically performed in an Integrated Resource Planning ("IRP") process, which is normally conducted ahead of an RFP. The IRP process typically aids the RFP process by preliminarily identifying the types of resources that could be acquired to minimize cost and reliably serve the utility's load. It is possible that 1803 and the RFP process could have benefited from the results that that type of preliminary analysis would have provided. However, Staff also recognizes that the current Integrated Resource Planning ("IRP") rule does not obligate Cooperatives to perform an IRP, and 1803 was under no obligation to perform one prior to beginning this RFP. Second, this RFP is different than most in the sense that all of 1803's resource needs will be addressed in the RFP. In most RFPs, only incremental future additions are evaluated. As such, when ACES conducts this RFP, for all intents and purposes, a similar set of rigorous analyses will be performed as are typically performed in an IRP. Third, Staff is cognizant that there are certain time considerations that 1803 is under requiring it to get the RFP underway in order for the new power supplies to be acquired and available by 2025. However, notwithstanding these considerations, Staff does believe there are some things that 1803 should keep in mind, and some additional steps that 1803 could reasonably take to ensure that it properly evaluates all important types of resource in its bid evaluation process. These are:

A) In Section 4.11 of the RFP document, 1803 states that it will perform deterministic and stochastic analyses to evaluate portfolios and assess risk. Staff reminds 1803 that it must use these analyses to fully inform regulators about the reasonableness of the cost and reliability attributes of its selected resource portfolio at the time it seeks certification. At that time, 1803 will need to provide evidence justifying the reasonableness of the data assumptions selected, the models it used, and the results it produced that led to the ultimate portfolio it selected.

B) Staff recommends that 1803 should conduct an assessment to determine and notify bidders what it believes to be its baseload, intermediate and peaking capacity requirements. As part of this discussion, 1803 should clarify what it refers to as its load following obligation. This will provide bidders a better understanding of 1803's resource requirements as they begin to prepare their bid responses.

C) Staff recommends that 1803 clarify its intention about how much firm capacity resources it prefers to acquire through the RFPs. The RFP document at Sections 3.3.1 through 3.3.5 describe the type of products that 1803 would be willing to acquire, however, 1803 never states how much of those it would prefer to acquire as firm capacity resources. Staff also believes this information would be helpful to bidders as they prepare their bid responses.

D) Section 2.1 of 1803's RFP states that 1803's load growth for both peak and energy is expected to be approximately 1% per year from 2026 through 2050. It does not appear that this was based on a rigorous analysis, and Staff recommends that prior to beginning the RFP, 1803 should conduct an additional analysis to confirm the reasonableness of this assumption.

E) Staff understands that currently 1803's Member Cooperatives do not have an obligation to acquire demand-side resources; however, Staff suggests that as 1803 conducts its RFP, it should consider whether the acquisition of demand-side resources could lead to its customers achieving lower overall costs, while maintaining the same level of reliability.

F) It is conceivable that 1803 will receive numerous offers of renewable resources. It would be helpful to bidders to know whether 1803 intends to include any type of integration costs in the renewable resource analysis, and if so, 1803 should identify the magnitude of the costs that will be included. Also, an important part of a resource evaluation is the amount of capacity contribution (also referred to as capacity accreditation) that will be given to renewable resources. It would useful if 1803 could explain the amount of capacity credit it plans to assign to renewable resources in its bid evaluation process.

Once again, Staff does believe that preliminary resource planning analyses could have provided some beneficial information that would have possibly led to an improved RFP process. However, Staff believes it has identified a series of items that would address this concern, which 1803 should consider and would likely lead to an improved RFP process.