



# Project for an Energy Efficient Florida

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March 10, 1993

Mr. Steven Tribble  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399

Re: Bidding Goals Rule (Docket 921288-EU)


Dear Mr. Tribble:

Enclosed for filing in this docket are:

- (1) Preliminary comments by Steve Warn, and
- (2) An outline of the proposed recommendations.

As always, we appreciate the opportunity to comment on the proceedings, and look forward to further involvement on this issue.

Sincerely,



Steven Warn





**Preliminary Comments on PSC Bidding Docket No. 921288-EU**  
**Steve Warn, Energy Policy Analyst**  
**March 10, 1993**

The PSC staff proposal and workshop regarding bidding for resources may satisfy the requirements of the National Energy Policy Act of 1992, but falls short of seriously addressing the need or opportunity provided for by the Act. The proposal serves as a starting point for discussion of the topic, and to this end these comments are addressed.

Bidding, in theory, increases the overall efficiency of energy resource acquisition. Utilizing a market based approach minimizes costs, opens previously restricted markets to competition, and offers opportunities for new and promising services and technologies towards meeting energy needs. Additionally, bidding is in line with national trends supporting utility deregulation and least cost planning. Most states utilize some sort of bidding procedure, and indeed, an informal process has been used here in Florida.

But, as evidenced in the Cypress coal plant case, our state's process is far from efficient, and the results appear, to many, to be less than satisfactory. Presumably, PSC staff deliberately avoided some of the key issues surrounding bidding for internal reasons, and opted instead to invite comments from interested parties before elaborating the details. While the notion of soliciting outside input is reasonable, we worry about the implications of state regulators looking to a regulated industry for direction on a policy matter where the best interest of the public may run contrary to the wishes of the industry.

Presumably, the staff proposal is for supply side bidding only, as a previous docket concerning conservation goals is pending. The process for acquiring resources, whether demand or supply side, should be more consistent, either based on a regulatory approach or a market based approach, not a hybrid. A market approach is preferable, although there are unique considerations for both demand and supply side resource acquisition that need be addressed. Bidding has an added advantage over regulatory intervention, in that bidding programs can acquire resources presently unknown by the regulatory agencies.

The issue of how to increase utility investment in efficiency and renewables has been raised before, and decoupling and the total resource cost test proposed and debated. A bidding program that creates the elusive "levelized playing field" could also result in increased activity in efficiency and renewables, but not based on a price only evaluation criteria. The PSC perceives some of the non-monetized social costs and benefits of energy when scheduling workshops on

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regulated utilities and economic development. The Governor's Cabinet recognized the need to consider environmental externalities when requiring a full evaluation of the power plant siting process. And the Florida Energy Office realized that presently efficiency and renewables are underutilized when it undertook a comprehensive study of demand side resources. Non-price factors are institutionalized barriers to full implementation to efficiency and renewables in Florida, and it is time they were addressed and removed.

Whether a bidding program takes the form of supply side, demand side or accommodates all sources is not as important as the criteria which are used for evaluation. Experience has shown that price-only auctions have resulted in low rates of project completion. The concern should not be minimum price, but rather maximum value. A rigid bid evaluation rule is poor at maximizing value.

A bidding process which recognized the positive environmental contributions of efficiency and renewables could de facto establish a preference for these non-emitting technologies and services. On the flip side, environmental externalities of power production should be monetized to the extent possible. To fairly compensate for those factors which are not monetary or quantifiable, additional adjustments need to be made.

Studies out of the Oak Ridge National Laboratory (Hirst et al) indicate that increasing public participation in energy planning increases the amount of DSM that a utility acquires. If the Florida Energy Efficiency and Conservation Act is to be complied with, it would be counterproductive for the PSC to reduce the opportunities for public involvement through streamlining the permitting process.

The streamlined permitting process proposed offers no checks and balances to utility need determination. With the modifications to the Public Utilities Holding Company Act and increasing access to transmission lines, power exchanges between utilities both in state and out of state will be more frequent. Other states are incorporating environmental externalities in their evaluations of resource options. If Florida does not, then the cost of siting, building and operating energy facilities in our state is less expensive and more attractive. The end result is inefficient overconstruction of the supply side with corresponding environmental damage. The PSC should consider incorporating safeguards to protect and preserve Florida's environment from overcapacity.

There is ample experience in administering bidding programs throughout the United States. Rather than reinvent the wheel, or worse, institute a flawed program, a careful evaluation of these programs should be undertaken. A number of states have implemented price only bid mechanisms, and their record



has not proven positive. California would be a good example. Other states, like Massachusetts, started with a price-only bid program, and have since modified their approach with better success. The bidding program in Maine is often referred to as an example to be emulated. Additional material on other bidding programs can be found in the work of Goldman and Kahn from the Energy Analysis Program at Lawrence Berkeley Lab.

**PSC Bidding Docket No. 921288-EU**  
**Steve Warn, Energy Policy Analyst**  
**March 10, 1993**

**Outline of Recommendations**

**PSC Staff Proposal**

1. utility identifies need, releases RFP
2. bids evaluated on a price only basis
3. utility can bid and win if 3% lower than lowest bid
4. payment through fuel and purchased power cost recovery clause
5. non-bidders cannot intervene in need proceeding
6. utilities can be excused from bidding requirements

**Concerns**

- A. Bidding programs tend to favor supply side options
- B. Interstate power purchases distance energy supply from demand, therefore determining need becomes a regional issue
- C. Price only criteria for evaluating bids is inadequate
- D. Streamlining the process reduces opportunities for public participation

**An Alternative Proposal**

1. Utility identifies need, releases RFP
2. PSC holds public hearing on needs allocation (between DSM and supply side options)
3. Bids evaluated on multiple factors
4. Utility allowed to file sealed bids like anyone else
5. Contract(s) awarded to the project(s) that score the best on evaluation criteria
6. Affected parties have limited time period to contest awards
7. After any contention is settled, PSC holds public hearing on permitting utility's acquisition projects