MI POWER GRID

Making the Most of Michigan's Energy Future

MI Power Grid Phase II

Advanced Planning Evaluator and All-Source Meeting

Jesse Harlow

Workgroup Instructions

1. This meeting is being recorded
2. Please be sure to mute your lines
3. There will be opportunities for question/comments after each of the sections identified in the agenda
   - Please type questions into the chat function or use the raise hand function during this time
   - We will open it up to those on the phone after those using the chat function
4. The presentations for all the meetings are posted to the MI Power Grid webpage.

Agenda Items		
2:30 pm	Introduction	Jesse Harlow (MPSC)
2:45 pm	Colorado Procurement Perspective	Bob Bergman (CPUC)
3:05 pm	Overview of Competitive Procurement Practices	Ron Lehr
3:25 pm	Independent Evaluator Perspective	Dean Koujak (Guidehouse)
3:45 pm	Questions for Presenters	Michael O'Boyle (Energy Innovations)
4:00 pm	Discussion	
4:20 pm	Wrap-Up and Next Steps	Jesse Harlow (MPSC)
4:30 pm	Adjourn	

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Bob Bergman

MPSC

Michigan Public Service Commission

Competitive Procurement In Electric Resource Planning

Bob Bergman
February 2021

Attachment 5_Public Refile of HIGHLY CONFIDENTIAL 120-Day Report
Proceeding No. 16A-0396E

Xcel Energy®
RESPONSIBLE BY NATURE®

Public Service Company of Colorado

2016 Electric Resource Plan

120-Day Report

(CPUC Proceeding No.16A-0396E)

June 6, 2018

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Bids Received

Category	Build-Own Transfer	Company Self-Build	PPA	Split Ownership	Total
Battery Storage	4		24		**28**
Biomass			1		**1**
Combined Cycle			3	1	**4**
Combustion Turbine	5	10	8	4	**27**
Compressed Air Storage	1				**1**
CT + Storage	2		5		**7**
Internal Combustion	1				**1**
Other	1		1		**2**
Other Semi-Dispatchable	2		3		**5**
Solar PV	41		104	1	**146**
Solar PV + Storage	15		65		**80**
Wind	40		45	11	**96**
Wind + Solar Hybrid	1		7		**8**
Wind + Storage			11		**11**
Total	**113**	**10**	**277**	**17**	**417**

Approved Bids

Bid ID	Project Name	Bidder Name	In-Service Year	Nameplate Capacity (MW)	Storage (MW)	Storage (MWh)	Structure	Contract Term (yr)	45 DAY LEC ($/MWh)	45 DAY LCC ($/kW-mo)
W602	Bronco Plains Wind	NextEra	2020	300			PPA	25	$ 10.68	$ -
W192	Cheyenne Ridge	Tradewind	2020	500			Build-Own Transfer		$ 16.53	$ -
W301	CO_Green_162	Avangrid	2020	162			PPA	20	$ 14.16	$ -
W090	Mountain Breeze	Leeward	2020	169			PPA		$ 18.00	$ -
S430	Owl Canyon PV	Coronal	2022	75			PPA		$ 22.53	$ -
S085	Hartsel Solar	Adani	2022	72			PPA	25	$ 26.84	$ -
X647	Thunder Wolf	NextEra	2022	200	100	400	PPA	25	$ 30.32	$ -
X427	Piccadilly Solar + Storage	Coronal	2022	110	50	100	PPA		$ 30.33	$ -
X645	Neptune	NextEra	2022	250	125	500	PPA	25	$ 31.35	$ -
G215	Manchief Gas Combustion Turbine	Atlantic	2022	301			Existing Asset Sale		$ -	$ 1.50
G065	Valmont Gas Plant 2022	SW Generation	2022	82			Existing Asset Sale		$ -	$ 2.43

Low Cost Bids Enabled the "Colorado Energy Plan"

- Retire 660 MW of coal-fired generation <u>Cost Effectively.</u> Replaced with:

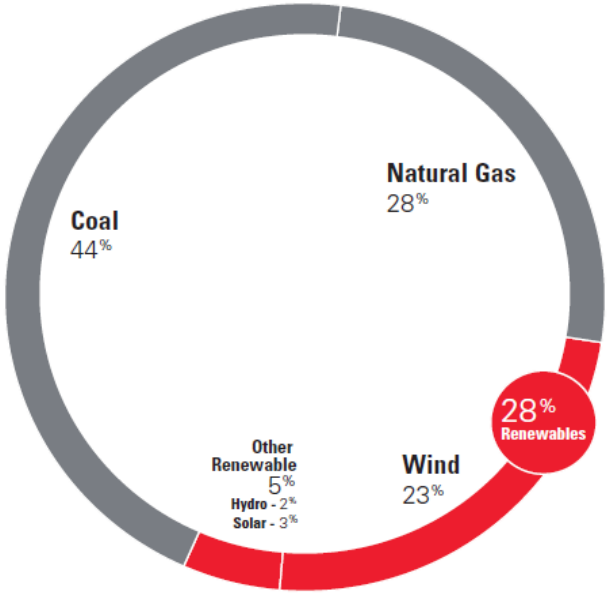
- 1,131 MW of wind generation
- 707 MW of solar generation
- 275 MW of large-scale battery storage.
- 383 MW of existing natural gas generation

Retirement of Two Coal-Fired Generating Plants

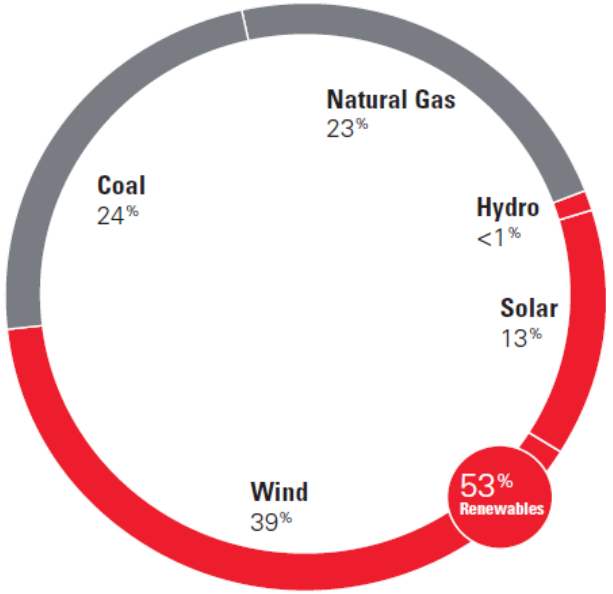
- Comanche units 1 & 2 (on right)
- 325/335 MW built 1973/1975
- Powder River Basin coal
- To be retired in 2022 (11 years early).

Resulting Emissions Reductions

2017 Colorado Energy Mix



2026 Estimated Energy Mix
Under The Colorado Energy Plan



Colorado Resource Planning Rules

Electric Resource Planning - ERP

Phase I

- Fully adjudicated proceeding with discovery, testimony and hearings. Sets all modeling scenarios, evaluation criteria, and resource needs.

– Plan filed (every 4 years) February 1 year 1
– Phase I decision ~ Mid-November year 1
– Utility Issues RFPs ~ Mid December year 1
– Bids Received ~ Mid-March year 2

Phase II

- Expedited proceeding without discover, testimony or hearings. Utility evaluates bids with Independent Evaluator (IE) oversight. Commission approves specific resource portfolio with party input.

– Utility and IE file reports ~ Mid-July year 2 (120 days after bids received)
– Parties file comments ~ End of August year 2 (45 days after report)
– Commission decision ~ Mid-October year 2 (45 days after comments)
– Utility negotiates contracts with winning bidders

Keys to Successful Competitive Procurement

- All-Source Bidding
  - All supply resources compete, limited carve-outs
  - Firm bid target capacity
  - IPP Bids, Utility rate-based proposals, Build-Transfer, must compete on a level playing field
  - Different term lengths must be addressed

Keys to Successful Competitive Procurement

- Independent Evaluator
  - Necessary to assure bidders of a fair evaluation process, mandatory if utility ownership is included
  - IE Vs. Commission in establishing modeling assumptions, evaluation process, and bid selection criteria
  - IE Vs. Utility bid administration, modeling
  - Commission Vs. Utility contracting with the IE
  - Full access to Utility information
  - Utility Capture, transparency

Keys to Successful Competitive Procurement

- Bidder Certainty
- Transparency
- Timeliness

How to access Colorado rules and dockets:

- Google “Colorado PUC” for our homepage
- To access Xcel’s last ERP filing login to efilings, search for Proceeding 16A-0396E
- To access ERP Rules, on homepage select Rules and Statutes, go to Electric rules 3600-3619. Or go to:

https://drive.google.com/file/d/0B8qvU2knU8BkcEJneE93YkNRQmM/view

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Ron Lehr

MPSC

Michigan Public Service Commission

Link Planning, Procurement Reduce Bidders' Risks

Planning as prelude to bidding

Resolve as many issues as possible up front:

- Planning information: loads and resources, fuel cost projections, assumed resource costs, transmission information, modeling approaches and assumptions, define desired portfolio outcomes
- Draft Request for Proposals, bid requirements, evaluation criteria, timing, bidders' Q & A process
- Draft Power Purchase Agreement, terms and conditions

Phase I: commission approves plan, authorizes RFP to acquire portfolio

Phase II: commission approves bid based portfolios for negotiations, PPAs

Goal: Lots of bids, low prices: competitive portfolio results

Why modify the default IRP process?

- Monopoly utilities have clear incentives for self-build and over-procurement
- These same utilities may be risk-averse to shift rapidly to new resource mixes, even as third parties (including demand-side solutions) are eager to take on this risk in arms-length transactions
- Utilities also have **monopsony power** – single buyers can exercise their power to the detriment of new market entrants in the following ways:
  - Control information and impose biases on procurement processes, which can discourage or disfavor otherwise competitive procurement opportunities
  - Exercise arbitrary or unfair decision making, which may result in competitive projects being rejected or saddled with unreasonable costs or delays
  - Impose terms and conditions that may result in sellers having to accept below-market prices or accept onerous contract requirements in order to remain active in the market
  - https://energyinnovation.org/wp-content/uploads/2019/11/Monopsony-Brief_December-2019.pdf
  - https://www.sciencedirect.com/science/article/abs/pii/S1040619020300968

Determine the need

Regulators should use the resource planning process to determine the technology-neutral procurement need.

Define in terms of:

- Load forecast
- Potential plant retirements

Do *not* define in terms of:

- A specific, numeric capacity target
- Technology specification

All-Source Procurement

Regulators should require utilities to conduct competitive, all-source bidding processes, with robust bid evaluation.

- Open to all technologies
- Model selects the mix of capacity and energy to meet the utility's need
- *Not* multiple, single-source procurements

Advance Review

Regulators should conduct advance review and approval of procurement assumptions and terms.

- Advance review of:
  - Assumptions
  - Bid evaluation process
  - Contract terms and conditions
- Most RFP processes currently provide for review after the RFP is complete
- Advance review avoids forcing an up-or-down decision using contested methods

Model Bid Evaluation Process

- Select an independent evaluator.
- Revise and publish RFP and model PPA documents with input from relevant parties and potential bidders
- Screen bids for minimum compliance
- Evaluate bids against need determination, using system planning models; create & compare multiple bid portfolios
- Further study costs of top performing optimized portfolios using a production cost model to run sensitivities as approved by regulators
- Transparently summarize evaluation results, include independent evaluator's report
- After soliciting comments, regulators approve or modify resource portfolio

Utility Ownership Protections

Regulators should renew procedures to ensure that utility ownership is not at odds with competitive bidding.

- Regulators often allow utilities to participate in their own RFPs
  - Utilities may also buy out winning bids
- Most resource practices have
  - Utility code of conduct
  - Independent evaluator

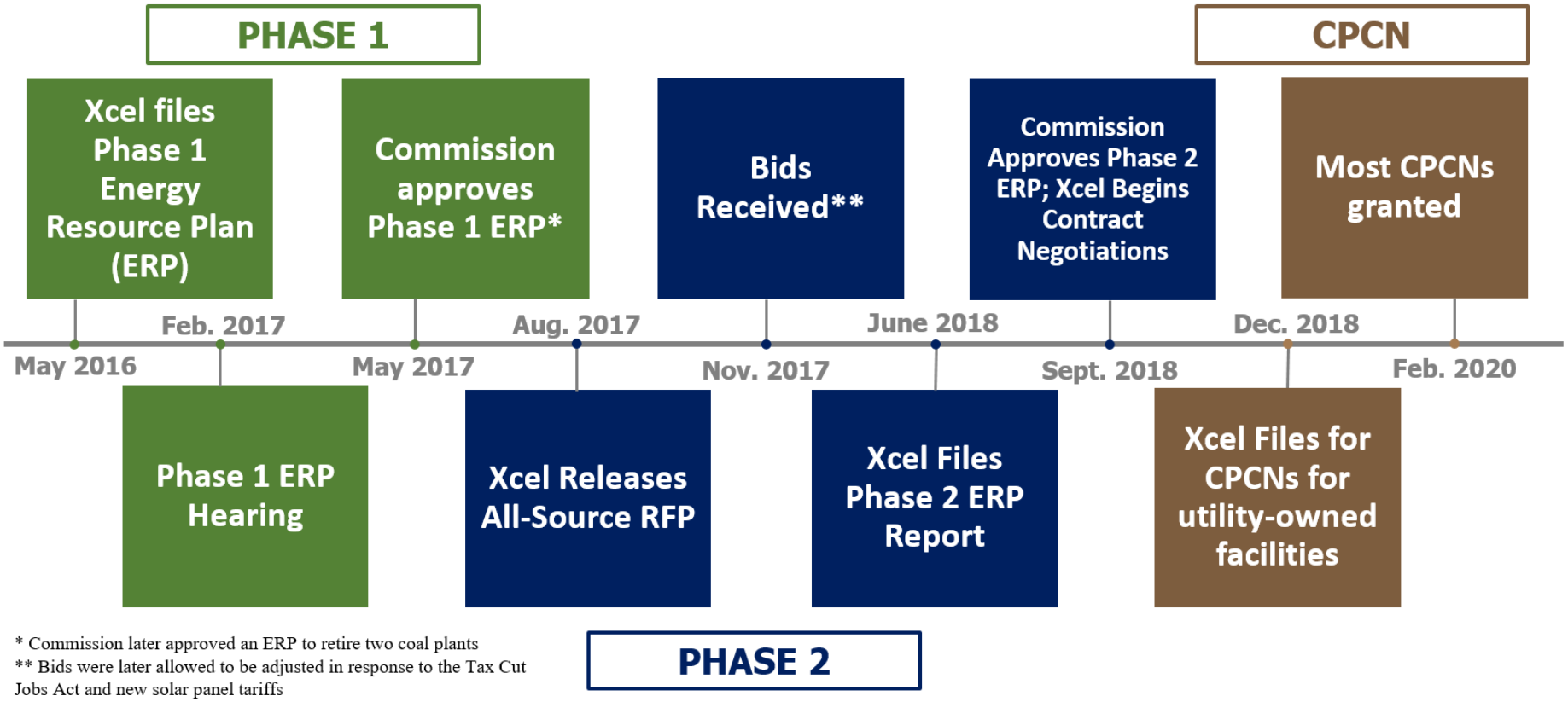
- More attention to complexity
  - Multiple resources
  - Different ownership models (e.g., implications of operating entity for tax purposes)

Rules for fairness

Regulators should revisit rules for fairness, objectivity and efficiency.

- Fairness, objectivity and efficiency:
  - Treatment of bidders
  - Engagement of stakeholders
- Contract terms should be pre-approved in a public process
- Stakeholders can challenge assumptions and methods to ensure objectivity
- Utilities with leverage can pressure regulators to make "constructive" decisions to approve the utility's preferred outcome

Putting the pieces together: Xcel Colorado Procurement



* Commission later approved an ERP to retire two coal plants
** Bids were later allowed to be adjusted in response to the Tax Cut Jobs Act and new solar panel tariffs

Emerging complementary solutions:

- **Portfolios of supply- and demand-side resources** can result in greater resource diversity, lower costs, lower risk, and market transformation.
- **Greater transparency in utility modeling** – allowing stakeholders to use the model and provide comments on utility assumptions can yield a more robust solution set.
- **Reexamining utility incentives** to build and own generation at the expense of demand-side resources, including performance-based ratemaking.
- How do new wholesale market rules for DER participation, and distribution planning impact the **inclusion of load flexibility** in utility planning and procurement for bulk system resources?

QUESTIONS + CONTACT

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Making the Most of Michigan's Energy Future

Dean Koujak

MPSC

Michigan Public Service Commission

Guidehouse

The Independent Evaluator's Perspective on Independent Procurement Oversight

Presented by Dean Koujak

February 18, 2021

Dean Koujak

Director at Guidehouse, Inc.

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Energy, Sustainability and Infrastructure
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Functional Expertise

17+ years of experience that includes:

- Competitive electricity markets
- Procurement: Generation, Transmission, EE and DR
- Financial modelling
- Utility operations and strategic planning
- Regulatory, legal, and expert testimony

- Dean Koujak, a Director in Guidehouse's (formerly Navigant) Energy, Sustainability, and Infrastructure Practice, provides advisory services to utilities and other stakeholders in the electric power industry. With more than 17 years of industry experience, he has advised on several key decisions in power procurement, large scale renewable development, renewable portfolio standards compliance, Utility Strategy, transmission infrastructure planning, grid modernization, non-wires solutions, RTO markets (NYISO/PJM/ISO-NE), energy efficiency program implementation, utility contract negotiations, procurement standards and compliance, electric resource planning, M&A and industry litigation.
- Over time, he has enabled electric utilities to successfully plan, evaluate, select, and contract over 6,000 MW of capacity from thermal, renewable, storage and demand response projects. He has supported and been engaged on competitive power procurement and electric market matters in the
- U.S. and Canada. Dean is a qualified procurement monitor and has served in a variety of capacities in this regard including as an independent evaluator, independent monitor, and independent observer.
- Dean received a BS in Engineering Management from NYIT, an MBA from SUNY-Stony Brook, and
- a JD from Hofstra University.

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Background

When independent oversight is needed in power procurement

- Independent Oversight have been required in certain procurements dating back to 1980s; and has had wider spread adoption as a consequence of *Boston Edison Co. ex rel. Edgar Elec. Energy Co*.
- Most often, independent parties are required to be involved where there is potential for an affiliate transaction
- Where there is the possibility of an affiliate transaction, the procurements must pass the following standards:
  - Transparency: The procurement should be open to competition and fair
  - Definition: Procurements should be clearly defined as to what is sought, the specifications desired, and evaluation criteria
  - Evaluation: Standardized, well-developed process that is consistently and even-handedly applied to all bids relying on the material presented in the bid
  - Oversight: Overseeing adherence to the above standards, an independent party is involved to ensure that these standards are met

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Roles of Independent Oversight

Two main approaches

- **Independent Administrators – Scope**

– Oversee the Utility's development of the RFP, evaluation criteria and related documentation

• – Key document: Evaluation process guide and

• documentation

– Manage all communications with bidders

– Receive, directly, proposals and associated documentation from bidders

– Evaluate, independently, the proposals on qualitative and quantitative criteria

– Receive "blind" input from the Utility throughout the process

– Independently select bidders based on the process

• outlined in the evaluation process manual

– Information regarding the successful bidders are provided to the Utility to proceed to contract negotiations

- **Independent Monitor/Observer – Scope**

– Oversee the Utility's development of the RFP, evaluation criteria and related documentation; key considerations:

  – Ensure structure and design of the RFP is open and fair

  – Ensure the evaluation rubric has been fully developed and

  • well defined prior to bid receipt

– Review proposals received, alongside the Utility

– Monitor communications between the Utility and Bidders

– Review qualitative scores with Utility SMEs to ensure

• consistency and fairness

– Review quantitative evaluation results and any exceptions noted

– Request additional actions as necessary to ensure consistent scoring

– Issue comprehensive report on the overall conduct and fairness of the RFP process

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Independent Oversight Roles Compared

Pros and Cons of the two main approaches to oversight

Independent Administrator Approach

Pros

- Optically more transparent
- Satisfies regulatory criteria

Cons

- May not be suitable for complex RFPs/evaluations
- May lack subject matter expertise at the local level
- The process is more “mechanical” and has less analytical rigor
- Process does not allow for contract modifications; not compatible for large-scale solicitations where contract exceptions may be required

Independent Administrators may be used where the product is more focused and defined (commodity-like); may not be suitable for more complex evaluation processes or for resources that are critical.

Independent Monitor Approach

Pros

- Satisfies regulatory criteria
- Focuses the third-party oversight on areas of concern and ensuring consistency
- Leverages Utility SMEs
- Allows for complex evaluation of resource options with analytical rigor

Cons

- Utility involvement in process has the appearance of being not as transparent as the Independent Administrator

Independent Monitors allow for a Utility-led process whereby the expertise and capabilities of the Utility are leveraged with the Independent Monitor focused on ensuring fairness and consistency, providing feedback when necessary to ensure compliance.

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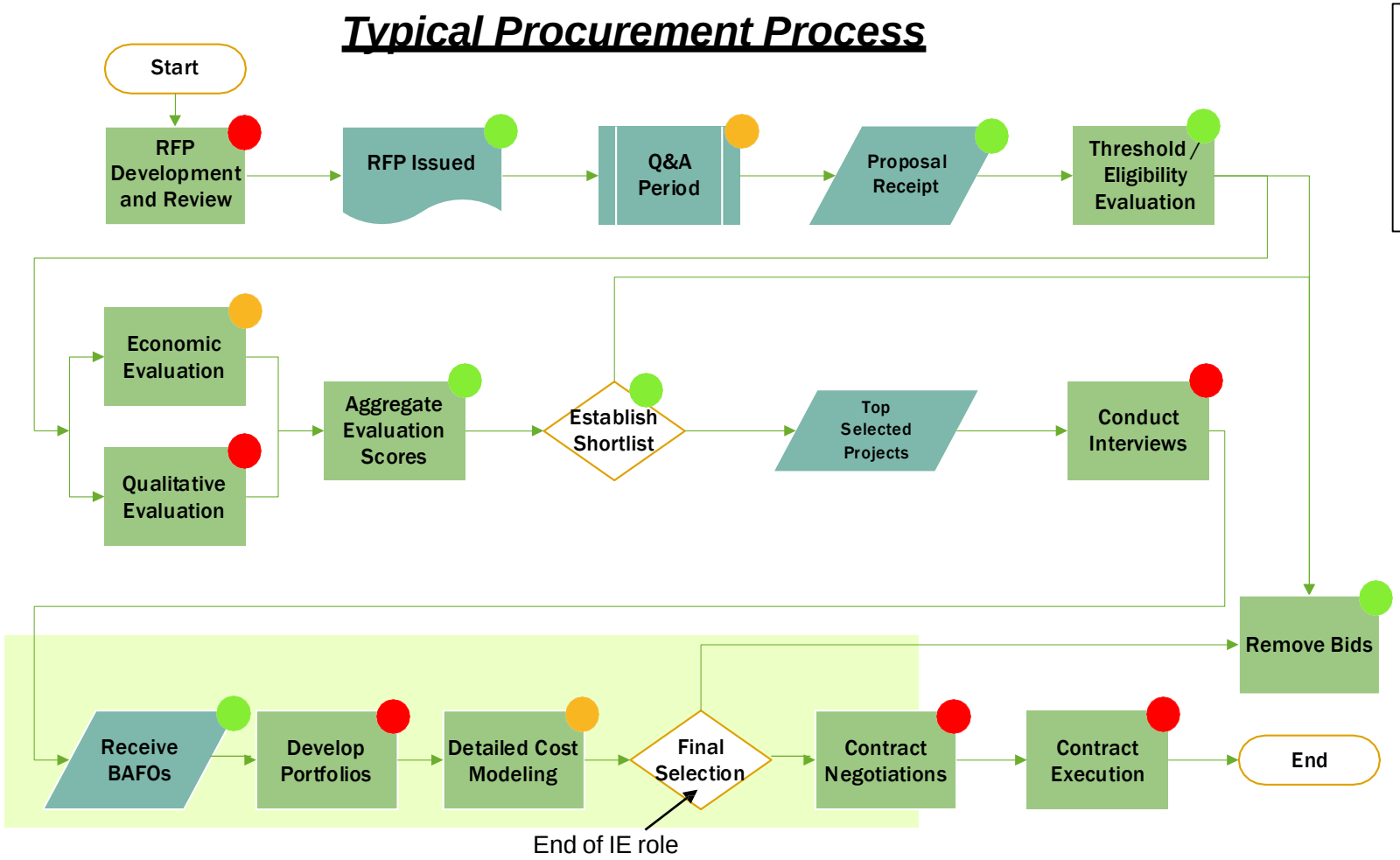
Typical RFP Process

Certain tasks are challenging for a third-party to conduct



Legend

- Task may be managed by a Third Party
- Task is difficult to execute independently; requires Utility involvement
- Task is very difficult to execute without Utility involvement.

The qualitative evaluation includes a review of items such as:

- Site control and easements
- Environmental impacts
- Permitting
- Interconnection
- Contract exceptions
- Community support and engagement

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Perspectives on approaches to oversight

Context varies significantly across jurisdictions

- Terms and definition of the role differs significantly across jurisdictions.
- The Independent Administrator can work for certain types of solicitations:
  - Narrowly tailored to specific products or technologies
  - Clear thresholds without many local constraints
  - Price is the predominant factor for consideration
  - Smaller scale or non-critical assets
- Where the resources are more complex in nature, meeting a more critical resource need or a larger-scale resource, additional analytical rigor and regional knowledge is advantageous to thoroughly evaluate proposals.
  - Leveraging the Utility's knowledge and capabilities to undertake the evaluation is advantageous.
- ***To ensure a fair, consistent and thorough evaluation, focusing third party oversight on ensuring consistency across the evaluation process has resulted in a better overall quality outcome while leveraging Utility's expertise and insights, particularly on the regional level.***

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Question Session

Led by Michael O'Boyle (Energy Innovations)

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Discussion

Discussion

- When is it necessary to have an IA/IE
  - All solicitations
  - When the PPAs are evaluated against BTAs/Company-owned/Affiliates
  - Does Staff's thorough review resolve some of the concern
  - Required when solicitation is utilized for avoided cost
- All source concerns
  - How to compare different types of resources on equal footing
  - Is all source "light" still all source

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Next Steps

Next Meeting to be held in March

Send any comments to Harlowj@Michigan.gov by March 3

Next Steps

- Presentations on value added criteria / bonus scoring
- FERC Order 872
  - Order in U-20852 January 21, 2021

  “The MI Power Grid competitive procurement workgroup shall continue its efforts to develop a framework for competitive solicitations in compliance with the standards set out in Qualifying Facility Rates and Requirements Implementation Issues Under the Public Utility Regulatory Policies Act of 1978, 172 FERC ¶ 61,041 (2020) and Qualifying Facility Rates and Requirements Implementation Issues Under the Public Utility Regulatory Policies Act of 1978, 173 FERC ¶ 61,158 (2020).”

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Adjourn