

## Doing One's Bidding: The SMART Way

The use of competitive bidding to satisfy the need for new power-generating capacity is on the verge of a major comeback.

From 1984 to 1995, competitive bidding was in its heyday. There were 164 separate solicitations in 37 states, for a total of 42,849 megawatts (MW), with bids received for more than 10 times that amount and bids accepted for 22,814 MW. Utilities employed many different types of bids and evaluation criteria.

Competitive bidding took a nosedive in the mid to late 1990s, though it did not entirely die out. It was often cumbersome to implement, requiring a complete resource plan, followed by RFP development, solicitation, negotiations, and contracts. Also, utilities no longer wanted to sign long-term contracts. More competitive wholesale markets in many regions created a surplus that favored short-term transactions and economic dispatch over formal solicitations.

But wait. The U.S. Federal Energy Regulatory Commission's (FERC) recent Notice of Proposed Rulemaking (NOPR) on Standard Market Design could signal a reignition of the competitive bidding flame, which could become a conflagration.

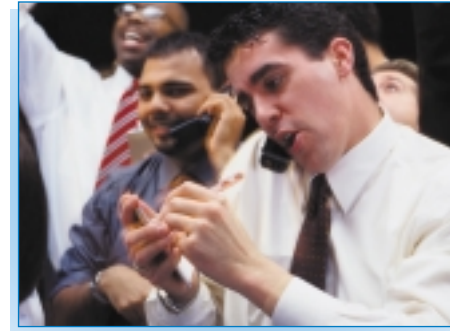
This presents a major opportunity for buyers and sellers of power, if they are well positioned and know how to play the game.

### What's changing?

- The surplus is shrinking. Due to capacity surplus and corporate financial distress, some regions will need capacity in 2005 and 2006. The backlog under develop-

ment fell from 305,000 MW in April 2001 to 181,000 in October 2002, and a further 71,000 MW were tabled or canceled.

- State restructuring has ground to a halt, and states that have not restructured will continue to require a means such as competitive bidding to select new capacity resources.
- Independent power producers and utility contracts of 3-5 years will expire over the next few years.
- Load growth adds the need for 15,000-20,000 MW per year.
- The advent of Standard Market Design (SMD).



### What difference will standard market design make? A big one.

First, SMD will require a regional reserve margin of at least 12 percent and create a need for Regional Transmission Organizations (RTOs) to implement procedures for identifying which capacity to add. Second, the proposal rule indicates that RTOs must "inform the...state regulatory authority if the load-serving entity fails to submit a satisfactory plan for adequate future resources." This includes municipals and cooperatives, which could stimulate a new interest in bidding by these utilities. Further, the proposal rule requires that RTOs select projects with the best combination of features like cost, reliability, environmental effects, and service life—very much like the old competitive bidding criteria. Finally, FERC authorizes RTOs to

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conduct regional resource planning, use competitive bidding to fill resource gaps, and to combine proposals to ensure the lowest costs.

Bidding in the future will not be the same, since regional planning and SMD will require new approaches. ICF Consulting calls this new approach the “Standard Market Allocation of Resources Technique” (SMART). To be SMART, bidding will have several first-time features:

- It will *evaluate the tradeoffs between all resources*, including transmission, generation, and load management.
- It may be *conducted by new entities*, such as RTOs.
- It will need to be *time-efficient*. Unless planning and bidding can be completed in 9-12 months, bidders run the risk of missing the market.

- It will *require new (and standard) evaluation criteria* (dealing with credit-worthiness and regional interconnection) to streamline the evaluation process.

Thus, the key questions in the foreseeable future are not whether there will be competitive bidding, but rather who will carry out the solicitations, who will participate as bidders, and on what terms. FERC, RTOs, and state regulators will have to wrestle with these central questions. In the end, we will achieve a more vibrant and competitive wholesale market if bidding becomes SMART.

An expanded version of this article was published in the December 2002 issue of *Public Utilities Fortnightly* and can be viewed at [www.icfconsulting.com/smart\\_bidding](http://www.icfconsulting.com/smart_bidding). For more information on ICF Consulting’s energy capabilities, visit [www.icfconsulting.com/energy](http://www.icfconsulting.com/energy).