

# Harvard Electricity Policy Group

## Gone With the Wind: What Will Replace the Right of First Refusal?

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# Spectrum of Competitive Models

## FERC Rate Case

- ◆ ISO/RTO determines “specifications” for a transmission project and requests offers
- ◆ Qualified bidders submit proposals
  - Bidders might include cost estimates
- ◆ ISO/RTO evaluates proposals on **qualitative** factors
  - Feasibility, experience, skills, financial capability,
  - May develop pro forma cost estimates
- ◆ Winning bidder proceeds with project and follows standard FERC rate case/cost justification process used by utilities today
  - No caps on costs, but project undergoes standard FERC review

## Binding Bid

- ◆ ISO/RTO determines “specifications” for a transmission project and requests offers
- ◆ Qualified bidders submit binding bids to permit and build projects
- ◆ ISO/RTO selects lowest cost bid
- ◆ Winning bidder proceeds with project and will receive the bid price at completion of the project
  - Bidder assumes all risk for cost overruns



# What Model Should Policy Makers Prefer?

- ◆ Does either model provide customer benefits that exceed the current model?
  - If yes, what are the major sources of this benefit?
- ◆ What “qualifications” are appropriate for bidders under each model?
- ◆ Can a qualitative evaluation be done in a transparent and nondiscriminatory manner?
  - What factors would be used and how would alternatives be objectively compared?
- ◆ Given the nature of cost risk in building transmission, is a “binding bid” model a viable option?
  - How much “risk premium” would a bidder need to include? If significant, how will this provide customer benefit relative to the status quo or a “FERC rate case model”?
  - What would be required to protect customers from a default/bankruptcy/abandoned project?
- ◆ What happens under either model if the winning bidder fails to perform?
  - How is reliability *obtained* given project completion risk?
  - How is reliability *maintained*? What is the winning bidder’s continuing obligation after completing the project?

