

E-002/C-92-899 ORDER REQUIRING BIDDING PROPOSAL

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Complaint
of LS Power Corporation Against
Northern States Power Company

ISSUE DATE: January 12, 1993

DOCKET NO. E-002/C-92-899

In the Matter of an
Investigation into Establishing
a Bidding Process to Select
Resources to Meet the Future
Capacity Needs of Northern
States Power Company

DOCKET NO. E-002/CI-93-6

ORDER REQUIRING BIDDING PROPOSAL

PROCEDURAL HISTORY

On August 7, 1992, LS Power Corporation (LS Power or the Complainant) filed a complaint against Northern States Power Company (NSP or the Company). The complaint alleges that NSP failed to negotiate or enter into a contract for the purchase of power from a cogeneration facility that LS Power is proposing to build in NSP's service territory.

On August 6, 1992, the Commission received a letter from NSP stating the Company's intent to engage in "competitive negotiations" to meet projected resource needs in 1997. LS Power was one of four projects identified in the letter as potential participants in these negotiations.

NSP filed its answer to the complaint on August 27, 1992. LS Power submitted comments on September 8, 1992. The Commission also received comments on that date from the Department of Public Service (Department); AES Plover, Inc.; Rainy River Energy Corporation; the Residential Utilities Division of the Office of the Attorney General (RUD-OAG); and Minnesota Mining and Manufacturing Corporation (3M). The University of Minnesota and the Izaak Walton League submitted comments on September 9, 1992. The Commission met to consider the matter on November 23, 1992. At that meeting, the Commission continued the proceeding pending further written briefing on the issue of which independent power proposals, if any, NSP must recognize as requiring subsequent negotiations, and in what order. The Commission also initiated a separate proceeding related to the Company's bidding proposal.

The Commission sent a notice to the parties setting December 14, 1992 as the deadline to receive the briefs requested at the Commission's November 23 meeting. December 21, 1992 was set as the deadline to receive reply briefs.

FINDINGS AND CONCLUSIONS

Since the Commission has not met to consider the parties' briefs concerning the Company's obligation to purchase from the proposed QFs, the Commission is not yet in a position to resolve LS Power's complaint. The Commission, however, is prepared to move forward with an inquiry into the potential for bidding as a means of meeting NSP's future capacity needs.

The Company has indicated its desire to establish a bidding process to select the resources necessary to provide additional capacity in the future. Short of a complete competitive bidding process, the Company has proposed "competitive negotiations" to resolve LS Power's complaint. These competitive negotiations would be limited to the five developers who have offered to provide some or all of the capacity NSP expects it will need by 1997. The Commission is not yet in a position to decide whether the Company's proposed competitive negotiations process is an appropriate means of dealing with the QF proposals of LS Power and the other developers. That issue will be decided in resolving LS Power's complaint. The Commission, however, is interested in examining the possibility of establishing a formal bidding system to select the resources needed to meet NSP's future capacity requirements.

The Commission will require the Company to file a bidding proposal by February 1, 1993. To assist the Company in developing its proposal, the Commission has asked staff to prepare a list of questions the proposal should address. This list is attached.

ORDER

1. The Company shall, by February 1, 1993, develop and submit a proposal that establishes a system of bidding for use in selecting resources to meet the Company's future capacity needs.
2. Comments responding to the Company's proposal are due no later than March 3, 1993.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)

QUESTIONS TO CONSIDER IN DEVELOPING BIDDING PROPOSAL

1. Does the Company intend to limit bidding to supply-side resources, or will its bidding process encompass demand-side resource options as well? If NSP pursues supply-side bidding alone, does it plan to incorporate demand-side bidding at a later date? If so, when and how would the transition from supply-side to all source bidding occur?
2. Does the Company intend to establish a system of "cluster bidding," which initially groups bids by technology or resource type (e.g., demand-side, supply-side, renewable, nonrenewable) before allowing winning bids from each cluster to compete against one another?
3. What is the appropriate role of the Commission, other state agencies, consumer organizations and environmental groups in the bidding process? Should the Commission establish appeal procedures to challenge the results of a particular bidding process?
4. What factors will the Company consider in evaluating bids and what relative weight will be given to each of these factors? Please discuss, at a minimum, the following factors: price, reliability, fuel

diversity,
dispatchability,
environmental
externalities, and new
technology.

5. Will the criteria for evaluating bids be explained to participants at the beginning of the process? In what manner will the Company provide this information?
6. How will the bidding process work in combination with resource planning, the conservation improvement program (CIP), financial incentives, and the statutes and rules applicable to cogeneration and small power production? Will the bidding process replace any existing processes or require changes in existing rules or statutes?
7. How might the state siting and certificate of need processes affect competitive bidding? What steps, if any, are needed to ensure that the goals of the siting and certificate of need processes do not conflict with the aims of competitive bidding?
8. Will qualifying facilities (QFs), independent power producers (IPPs), exempt wholesale generators (EWGs), and NSP's subsidiaries be allowed to compete in the bidding process? Will QFs be given any special consideration? What safeguards, if any, should

be incorporated into the bidding process to address situations where the Company submits a bid?

9. What aspects of the National Energy Policy Act of 1992 are relevant to the Company's bidding proposal?
10. Would the Company's bidding process be used only to secure needed capacity or would it also be used to establish a benchmark for avoided cost? How would competitive bidding affect NSP's avoided cost determination for QF contracts?
11. What transmission access issues must be addressed in the competitive bidding process? How does NSP plan to address these issues?
12. Should the Commission evaluate NSP's proposal alone or should it consider bidding more generally in a generic proceeding or rulemaking?
13. Should the Commission initiate contested case proceedings to consider the Company's proposal? If not, should the Commission use a collaborative approach, informal discussion groups, or basic notice and comment procedures?
14. What other issues should be addressed in establishing a bidding process?