

The background of the slide is a classical painting depicting Prometheus, a Titan in Greek mythology, being punished by an eagle. Prometheus is shown in a dynamic pose, holding a torch, while the eagle attacks him from behind. The scene is set against a dramatic, cloudy sky. In the lower right corner, there is a detailed illustration of a large industrial dam or power plant structure with multiple windows and a complex framework.

Reducing Bidder "Creativity"

- McCullough Research has gone to a "quantum" approach
- Bidders are invited to provide 10 megawatt blocks with a minimum capacity factor
 - This allows easy comparison between competing bidders
 - The minimum capacity factor allows easy classification of peak and baseload resource
- The "quantum" approach also reduces the need to provide bidders with detailed load information



Information For Bidders

- Bidders tend to request more information than they actually use
- Most pricing is currently based on supplies rather than specific demand characteristics
- Overall loads -- on a monthly or daily basis -- are useful, but not required
- More important information is location, transmission arrangements, and operating requirements





Who Should Be Invited?

- Recently the building management association of San Francisco proposed eliminating brokers from participation because they "lacked experience"
- In reality, the brokers and the utilities are often difficult to distinguish
 - Enron, LG&E, Illinova and others are closely tied to large retail utilities
 - New entrants often are staffed with skilled personnel and bring new solutions to old problems
 - More is often better



Should We Charge A Bidding Fee?

- Bidding fees have ebbed and flowed
- Sacramento Municipal Utility District required a \$50,000 deposit in their Rancho Seco solicitation
- ABAG recently chose to charge a \$1,000 fee for their RFP
- Most industrial RFPs do not require a payment
- Overall, fees may complicate the process with little benefit





Response Evaluation

- Breaking the whole into parts
 - Ancillary Services
 - Defined ancillary services should be taken from the FERC comparability tariff
 - Energy
 - Capacity
- Bids that cannot be reduced to numbers are likely to be unhelpful
- Dealing with deadlines
- Dealing with "welshers"
- Indexed bids



Dealing With Bid Deadlines

- Many bidders now provide a final date for their bid
- Little evolving information actually occurs in the market so this is an artifact rather than real business information
- McCullough Research experience is that bid deadlines are seldom realistic or relevant





Dealing with "Welshers"

- Current practice is for a few bidders to rewrite their bids on the pretext of errors
- We have found that this practice causes more problems than it is worth
 - Other bidders are placed at a disadvantage
 - Bidders with "errors" can repeat the performance later
- McCullough Research recommends a "put up or shut up" rule



Indexed Bids

- While fixed price bids are still in the majority, an increasing share of the market is at indexed prices
- Most sellers are very unsophisticated when it comes to indexing
- Many sellers will index to an inappropriate location (NYMEX COB) regardless of where the real power transaction is taking place



The background of the slide is a composite image. The top half features a classical painting of Thor, a muscular man with a beard and red loincloth, holding a hammer and a lightning bolt. A goat is flying through the air next to him. The bottom half shows a large concrete dam with multiple spillways, set against a backdrop of green hills and a cloudy sky.

Caveat Emptor

- A number of utilities have recently started to use indexes as hidden surcharges
- Pacific, for example, proposes indexing to NYMEX COB futures even though NYMEX contracts are for peak energy only
- Pacific's scheme contains a 2.8 mill hidden surcharge



How Can Vendors Help With Implementation

- The Energy Manager Model
- Timing Municipal Services
- Payment For Success
- Load Research and Equipment Requirements





The Energy Manager Model

- Using Existing Supplier Expertise
- Timing Services
- Payment For Success



Using Existing Supplier Expertise

- Most suppliers currently are affiliated with an existing utility system
- These suppliers have a successful history of billing, distribution, credit, and management issues
- Suppliers also are able to draft personnel to meet needs
- Suppliers are able to measure, estimate, and cost expansion and replacement options



The background of the slide is a classical painting depicting Prometheus, a Titan in Greek mythology, being punished for stealing fire from the gods. He is shown as a muscular man with a beard, bound to a rock by his hands, with an eagle perched on his back. The scene is set against a dramatic, cloudy sky. In the foreground, there is a large, multi-story building with arched windows, possibly a power plant or a government building, with a bridge or walkway leading towards it.

Timing Services

- Many potential customers would like to see full services on the first day but fear the implementation process
- Some new customers fear to "lock in" a relationship with a new supplier
- Suppliers can agree to supply low margin services -- billing and distribution on a temporary basis



Payment For Success

- Since most successful bypass undertakings currently result in rate reductions and continued service by the existing supplier, the Energy Manager model smoothly operates in the compromise outcome
- The Energy Manager can be reimbursed on a success fee basis



Load Research and Equipment Requirements

- Traditionally, end-user service has required an enormous effort to establish the equipment base and the load research to be served
- Suppliers already have the expertise to evaluate the loads and equipment requirements

