

Running A Competitive Bidding Program



Robert McCullough
McCullough Research



Competitive Energy

- California and Everywhere Else
 - The bad news
- Understanding Load data
 - Getting it
 - Distributing it
- Understanding the CPUC's odd ideas about transactions
- Suppliers
 - Where are they?
 - Supplier flight
 - Supplier inexperience
- Closing the transaction



Navy Evacuates Competitive Energy Customers From California



California and Everywhere Else

- The bad news
 - AB-1890 has increased the cost differential between California and the surrounding states
 - Power contracts at 100% load factor are easily negotiated at prices of less than 2 cents everywhere but California
- More bad news
 - Overall savings under AB-1890 are in the 3% to 5% range for large customers
 - Overall savings (outside of California) are in the 40% range for large customers



Understanding Load data

- Getting it
- Distributing it
- Using it



Getting it

- Load data is available from the local utility -- usually on a 15 minute basis
- Fifteen minute data has no earthly use in California power purchasing
- Many suppliers are unable to easily process the fifteen minute data -- we have found that providing "spreadsheet help" turns out to be very important



Distributing it

- Every supplier desperately wants the load data
- except for the broach on-peak, off-peak issues the data is seldom used or even accessed
- Other than competitive issues, it doesn't hurt to let the suppliers fondle the diskettes
- We have found that pretending to send the data is often just as useful to the suppliers as actually receiving it



Using it

- On-peak/off-peak differentials actually exist
- Monthly cost differences actually exist
- Most significant for process industries is -- can the load actually be forecasted? (Many firms' load cannot.)



Understanding the CPUC's odd ideas about transactions

- By making the CTC float with the PX, the CPUC made PX risk part of out of state suppliers and their customers
- Since neither can face the uncertainty, all successful bids are now simply a discount from the base tariff
- In effect, the CPUC has mandated that all transactions in California are effectively financial -- with no physical side at all



Suppliers

- Where are they?
- Supplier flight
- Supplier inexperience



Where are they?

- This was an easier question before AB-1890
- we have seen two or three tiers of out-of-state suppliers with real assets come and then leave
- Actual suppliers -- those with fundamental strengths -- are now a declining minority of bidders
- Most suppliers now act like 12 year old boys at their first dance -- "you mean that I have to talk to the girls?"



Supplier flight

- Fully one half of the successful bidders will flee their winning bid
- Responses range from
 - Elmer Fudd -- "I thought I saw a pudgy cat"
 - Road Runner -- "beep, beep, bzzrp"
 - Mr. Magoo -- "Where is that pesky contract, anyway?"
- Many salesmen do not have signing authority and their bids should be viewed as attractive possibilities rather than binding commitments



Our Favorite Salesman

- When invited to participate in our most recent bid, he responded, "Why should we bother, we never win the bid from you anyway."
- He had forgotten that he had withdrawn the winning bid in the last RFP



Supplier inexperience

- Share the savings
 - Contrary to the public relations of one energetic supplier, these provisions do need clear calculations and an audit opportunity
- Interruptibility
 - One supplier offered to lower the price by a few percent if we accepted interruptibility without being able to explain any of the terms and conditions
- Scheduling
 - Almost none of the suppliers understood the relationship between load factors, economics, and imbalance



Closing the transaction

- Caveat emptor is a common problem in California power contracts
- Many terms and conditions are not clearly stated
- Central issues such as credit support and breach are often not defined

