

R-3644-2007

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Agenda

- Key Characteristics of 2007 RFPs
- Other Alternatives
- Recommended Changes to Increase Benefits to Consumers

Régie de l'énergie
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Choice of Delivery Points

- Bidders were entitled to take delivery at points on the borders with New Brunswick, New England or New York or internal to the Québec system
- Other alternatives:
 - Include ability to take delivery at the Ontario border as an option

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Redirection Rights

- Redirection of deliveries was offered in some of the RFPs on different conditions at different times
 - In all cases where it was offered, HQD expected a significant payment for the service and made no commitment to provide the service when requested
- Other Alternatives
 - Offer redirection rights at all times, on a best efforts basis
 - Charge only a nominal fee (~\$1/MWh) consistent with an administrative task

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Duration of Offers

- With two exceptions, all offers were for purchase of a monthly block
- Other Alternatives:
 - A multi-month package could be attractive, although slightly more difficult to evaluate
 - It is probably not appropriate to offer less than monthly blocks through an RFP, except perhaps a balance of month package if conditions change mid-month

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Optionality

- No optionality was offered in the RFPs
- Providing optionality could represent additional “products” that HQD could make available
- Other Alternatives:
 - For example in the April RFP for May deliveries, HQD could also accept offers for an option on June deliveries setting a “strike” price at the current forward price for those deliveries
 - A buyer would pay for the first right to this energy
 - Prior to the time for HQD to decide on June deliveries in response to the May RFP, holders of the option would have to agree to accept delivery at the previous “strike” price or give up their option

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Packaging of Energy

- Offered only a firm energy product of varying durations
- Included Liquidated Damages provisions
- Other Alternatives:
 - NYISO and ISO-NE have forms of capacity markets
 - If HQD were to offer their energy on a firm basis it would allow successful purchasers to bid into the capacity markets and gain higher revenues
 - HQD could expect to receive higher revenues as a result
 - Some additional risk since they would not be able to interrupt deliveries
 - They would be able to offer the capacity option in some months but not others to manage this risk
 - They also would not to have offer all of the available surplus as a capacity product
 - This could present difficulties with respect to timing but allowing multi-month bids could solve this problem
 - New York and several New England states also have markets for Renewable Energy Credits (RECs)
 - HQD's purchases of wind power should qualify them to trade RECs.
 - If in the RFP they were to offer a package of energy and RECs, they might get more attractive bids.

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Conclusions

- Selling surplus into the market is the correct approach to dealing with surplus energy
- Use of bilateral negotiations, in addition to an RFP would be appropriate
 - In addition to greater flexibility, the process of negotiating bilateral contracts provides insight into the market to assist in evaluating the RFP responses
- HQD should offer all three products that had been offered at various times during 2007 and consider the addition of a weekend package
 - This provides maximum flexibility to the customer

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Conclusions cont'd

- Timing of issuing the RFPs should be standardized as well as the timeframe for responses.
 - Responses as late as possible on Thursdays is likely the best to allow the market to use information from the U.S. EIA weekly update on gas storages
- Maximizing deliverability of the energy will be important in maximizing the price for HQD.
 - As in 2007 HQD should agree to deliver to all available border points including investigation of delivery to the Ontario border as an option
 - Improving redirection options should be a priority:
 - Redirection rights should be offered at all times on a best efforts basis
 - The charge for redirection should only be a nominal fee (~\$1/MWh) consistent with the cost of performing an administrative task, not with an additional profit source

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Conclusions cont'd

- Additional options with respect to the duration of the contract should be investigated
 - A multi-month option in the RFP could be attractive
 - A duration of less than one month is probably not appropriate to offer through an RFP except perhaps a balance of month package offered mid-month under changed conditions
 - Shorter durations might be made available in bilateral negotiations
- Providing optionality might represent additional valuable "products" to the market
 - Consideration of these products should be done in consultation with potential customers

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Conclusions cont'd

- Packaging of the energy in different ways should also be investigated
 - Packaging as capacity and packaging with renewable energy credits represent viable possibilities
 - These should be investigated with potential clients to determine their economic and logistical viability