

ENERGY AND TECHNOLOGY COMMITTEE

SENATE BILL No. 22: AAC A PROCUREMENT AUCTION FOR ELECTRIC GENERATION

FEBRUARY 26, 2008

The Department of Public Utility Control supports this raised bill and adds the following comments to further clarify the language submitted in SB No.22. This bill would require the Department, for calendar years 2009 and 2010, to procure up to 20 % of standard service contracts through a reverse auction in addition to the other existing approaches the Department is authorized to employ to meet the needs of electric customers. After which, the Department is required to conduct an analysis and report to the legislature on the advantages and disadvantages of such an approach.

Since the Department began administering Standard Offer and through the transition to Standard Service, we have tried a variety of different techniques and approaches for procuring electricity on behalf of customers. The Department has employed long and short contracts, RFPs, and laddered contracts to name a few, and we maintain that there can still be improvements that can be made. The evolving and dynamic nature of the wholesale electric markets requires that purchasers, including the Department and utilities, constantly seek new and innovative ways to secure the best price possible.

The Department considers the online reverse auction concept worthy of careful examination and implementation on a trial basis. The Department is mindful of OPM's recent successful auction to acquire state retail load in the amount of approximately 100 MW. The Governor's bill would require that the Department conduct a similar auction for approximately 20 % of the needed 4400 MW of wholesale contracts for state customers or 880 MW. The Department recognizes that the difference in quantity, quality and complexity between the state's electric needs and customers served by Standard Service may impact auction dynamics and, as a result, prices obtained at auction. Regardless, there is certainly a potential for cost savings in market prices for Standard Service customers through an auction process that merits further exploration.

To that end, we have already begun a dialogue with LDCs, OCC and various parties involved with procurement of Standard Service to position ourselves to conduct an online reverse auction in the future. It is fair to say that all of the interested parties, including the Department need to further understand the OPM process and the facts concerning reverse auctions more carefully and be provided an opportunity to explore this approach in detail. The Department intends to hold a technical meeting under its existing powers, to engage parties, including OPM, in a more in-depth discussion on the matter in the near future.

Thank you for the opportunity to offer these comments in support of SB 22 and I am happy to take any questions you may have.