



**Southwest Power Pool, Inc.**

**Report and Alternative Proposal to the Board of Directors**

**October 29, 2013**

**Order 1000 Bid Deposit**

**Background**

The Federal Energy Regulatory Commission (FERC) directed SPP to make a further compliance filing to establish a stated dollar amount, or a formula, that a prospective transmission developer must submit with its bid. Staff recommended compliance proposals to the Strategic Planning Committee Task Force on Order 1000 (SPCTF). The SPCTF approved a modified recommendation for the initial bid deposit equaling \$50,000 and forwarded that recommendation to the Regional Tariff Working Group (RTWG) for incorporation into the compliance tariff Filing. The Market and Operations Policy Committee (MOPC) upon consideration further modified the initial bid deposit amount to \$10,000. The Strategic Planning Committee (SPC) debated the modifications made by the MOPC and tasked the staff to develop a formulaic alternative for Board consideration.

**Analysis**

The FERC issued its Order on SPP's Order 1000 Intraregional Compliance Filing on July 18, 2013. Among other items FERC directed SPP to file OATT revisions that establish a precise dollar amount, or a formula, for establishing the dollar amount of the initial fee that a prospective transmission developer must submit with its bid.

The SPCTF approved Staff's proposal to change the reference, "initial fee", to "bid deposit". The proposal would have Bidders submit a per bid deposit which SPP will hold in a segregated interest bearing account in the name of the bidder tied to the bidder's tax identification number. The deposit will "secure" the bidder's share of the costs for SPP to perform the process. Once the process is completed and the bids awarded SPP would calculate the total costs to administer the process and deduct that cost, on a per bid basis, from each bidder's deposit account. Thereafter, all remaining deposits, and interest earned on those deposits, will be returned to the bidders.

Based upon the guidance of the Finance Committee, the bid deposit should be set at a large enough level to truly indicate the seriousness and intent of the bidders to participate in the process without being so large as to significantly limit the financial ability of bidders to participate and further to collect from bidders dollar amounts sufficient enough to cover a sizable amount of the costs associated with administering the RFP process. Accordingly, Staff proposed to the SPCTF an initial bid deposit of \$100,000.

The SPCTF modified the initial bid deposit proposal to \$50,000 on the basis that \$100,000 seemed too high. This modified recommendation was provided to the RTWG for incorporation into the compliance tariff and they adopted it for their compliance recommendation to the MOPC. The MOPC further modified the recommendation of the RTWG regarding the bid deposit amount and changed it to \$10,000 with the rationale that \$50,000 could potentially prohibit participation, especially amongst smaller entities. The SPC debated the MOPC's further modification and did not endorse the lower amount because of the view that the cost of the bidding process is to be borne by the bidders and not SPP's members. Following a robust discussion that included suggestions that the Board would like to consider a formulaic approach staff agreed to develop such an alternative for the Board's consideration.

Staff worked with several members to develop a three-tiered bid deposit. This three-tier approach proposes differing levels of bid deposits based upon the estimated cost of a transmission project. The table below shows the bid deposit amounts.



	<u>Small Proposal</u> ( $< \$10M$ ) or Localized Problem	<u>Medium Proposal</u> ( $< \$10M$ to $\$100M$ ) or 2-3 Zone Problem	<u>Large Proposal</u> ( $> \$100M$ ) or Multi-Zone or Network Problem
Bid Deposit	\$10,000	\$25,000	\$50,000

Using recent history as a basis to categorize levels of transmission costs, most byway projects would be at the lower bid deposit levels while highway projects would logically require higher bid deposits.

The three-tiered bid deposit system uses a simplistic formula that makes it easier for proposers to know what their "up-front" costs will be, it more appropriately allocates the cost of the IEP process by keeping smaller projects from subsidizing the analysis associated with larger projects, makes it easier for smaller entities to participate in the process without significantly limiting their financial ability to participate, ensures that costs associated with the bidding process are paid for by those who are bidding and not by SPP's members and customers, and lastly aligns the expected cost of analysis by the expected level of project complexity.

**Action Requested:** Board consideration as an alternative to fixed \$10,000 bid deposit recommended by the MOPC.