

BEFORE THE
STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of
Competitive Resource Acquisition by
Request for Proposals (RFP), WAC 480-107

DOCKET U-161024

NATIONAL GRID'S COMMENTS

State Of WASH
UTIL. AND TRANSP
COMMISSION

11/02/18 09:26

Received
Records Management

I. INTRODUCTION

National Grid USA (“National Grid”) is proud to be involved with the development of the two most promising pumped storage projects in the Pacific Northwest: the Swan Lake North Project in southern Oregon (“Swan Lake”), and the Goldendale Energy Storage Project in southern Washington (“Goldendale”). National Grid is jointly developing these projects with Rye Development, LLC.¹ Both projects will utilize environmentally-friendly “closed-loop” technology, are located near high voltage transmission corridors, and will each be able to provide unmatched flexibility as a resource, serving multiple roles, and providing stacked energy, capacity, and other reliability and economic benefits on a utility and/or regional basis.

National Grid appreciates the opportunity to file these comments (the “Comments”) with the State of Washington Utilities and Transportation Commission (“Commission”) in response to its “Notice of Opportunity to File Written Comments,” which the Commission issued in the above-referenced docket on October 11, 2018 (the “Notice”). This proceeding only recently came to National Grid’s attention during a meeting with Commission Staff and Commissioners. As a result, National Grid recognizes these Comments are technically out of time. However, National Grid requests that these Comments nevertheless be accepted and appreciates the Commission’s understanding in this matter.

Considering the tardiness of these Comments, National Grid has endeavored to focus on issues already raised and/or topics that National Grid believes have not yet been sufficiently discussed or considered in this proceeding. Specifically, these Comments address the following topics: (1) request for proposal (“RFP”) timing and whether longer timeframes (*i.e.*, greater than three years) are needed to accommodate long lead-time resources like pumped storage; (2) RFP exemptions and whether the Commission’s proposed exemptions contained in its draft RFP rules are appropriate for resources like pumped storage; and (3) how utilities should be permitted to participate in certain resource procurement solicitations outside the context of an RFP, such as a “reverse” RFP conducted by a project developer for long lead-time or capital-intensive resources like pumped storage.

¹ Rye Development, LLC shares National Grid’s concerns and fully supports these Comments.

II. RFP TIMING

In its August 24, 2018 “Notice of Opportunity to File Written Comments” issued in this proceeding (“August 24 Notice”), the Commission requested comments on the following question: “Is there a way to ensure long-lead time technologies have an equal opportunity to meet resource needs anticipated ten years out without requiring RFPs at such an early stage?” Additionally, in the draft RFP rules the Commission published on that same date, the Commission left blank the timeframe for when a utility must issue an RFP if its most recently acknowledged integrated resource plan (“IRP”) demonstrates a resource need.

National Grid would like to very briefly commend the Commission and its staff for focusing on this issue, as it is one that has potentially significant effects for long lead-time resources like pumped storage. In particular, National Grid notes that pumped storage projects are largely unable to compete in utility RFPs issued under the Commission’s existing rules. One of the difficulties in competing in these RFPs has been the inability of a utility to adequately evaluate, model, and compare pumped storage projects to other, shorter lead-time projects. Extending the procurement timeframe for which a utility may issue an RFP from the current three years to ten years, as the Commission suggested in its August 24 Notice, would help alleviate one of the many issues facing long-lead time resources when attempting to participate in a utility RFP.

For these reasons, National Grid strongly supports this policy change and believes it is a step in the right direction. However, additional work remains, particularly regarding utilities’ lack of information and ability to adequately model the financial and system benefits of a large energy and capacity resource like pumped storage.

III. RFP EXEMPTIONS

In its August 24 Notice, the Commission also requested information on whether the proposed exemptions contained in its draft RFP rules were “appropriate” and whether “other types of resources would benefit from a threshold.” After reviewing the various comments filed in this proceeding to date, National Grid believes a brief discussion of pumped storage in the context of an RFP exemption is warranted.

As further explained in Section IV below, National Grid believes an additional exemption from the Commission’s RFP requirements would be warranted if a utility participates in a “reverse” RFP to acquire capacity from certain long lead-time resources like pumped storage. National Grid is happy to work further with the Commission on proposed language for an exemption, but in concept, National Grid believes utilities should be eligible for an exemption from the Commission’s RFP requirements if they have an opportunity to acquire a resource that meets all of the following requirements: (1) the utility can demonstrate to the Commission that the resource is a cost-effective means of meeting a demonstrated resource need, identified in the utility’s most recently approved IRP; (2) the resource is procured through a competitive solicitation conducted in accordance with the Commission’s RFP rules; and (3) the resource will aid a utility in meeting its renewable energy requirements, which, in the case of pumped storage, can be accomplished through better integration and storage for additional renewable energy,

thereby maximizing the output of existing renewable resources and allowing for the reliable integration of higher levels of renewable and intermittent resources.

A “reverse” RFP conducted in this manner and to acquire resources with these characteristics should automatically qualify a utility for an exemption of the requirement to issue its own RFP to acquire the same energy or capacity. Alternatively, if the Commission does not agree that an exemption is appropriate for these types of resources, then it could issue a policy statement (or similar proclamation) that a utility may participate in such a “reverse” RFP without conducting its own RFP, subject to whatever conditions the Commission believes are appropriate. As a policy matter, if the utility can demonstrate to the Commission that acquiring a resource (or portion of a significant resource) through a “reverse” RFP meets its needs in the most cost-effective manner, National Grid believes the Commission should be indifferent to who conducts the RFP, so long as it complies with the Commission’s competitiveness, secrecy, openness, transparency, and oversight requirements.

IV. PROCUREMENT OUTSIDE AN RFP – “REVERSE” RFP

As the Commission recognized in its August 24 Notice, there are certain circumstances where a utility may be able to procure low-cost resources outside the context of a utility-conducted RFP, particularly where the resources being acquired do not lend themselves to participation in a traditional RFP. As alluded to above, National Grid believes pumped storage is one such resource. In particular, pumped storage resources are largely unable to participate in existing utility RFPs. Even with modifications to the RFP rules as the Commission is proposing in this proceeding, it remains highly unlikely pumped storage will be able to meaningfully participate and be adequately considered in utility RFPs. As a result, alternative means are needed to allow utilities to consider pumped storage resources.

One such alternative means for utilities to participate in the ownership or output of a pumped storage project would be through a “reverse” RFP. In concept, a “reverse” RFP involves a project developer conducting an RFP to seek solicitations from utilities (or other market participants) to acquire ownership or output (in whole or in part) from a long lead time resource such as a pumped storage project. Such a “reverse” RFP would be conducted in accordance with the Commission’s RFP rules and would be subject to oversight by both the Commission and an independent evaluator. As further explained in the attached “Exhibit 1 – Scope of Work from Bates White,” National Grid has had preliminary discussions with Bates White to conduct the RFP in accordance with prevailing openness, transparency, confidentiality, and secrecy requirements,² while also acting as the independent evaluator to ensure the RFP remains fair and consistent with the Commission’s RFP rules.

A “reverse” RFP has numerous benefits for long lead-time, capital intensive resources like pumped storage. First, it offers an opportunity for the developer to gauge market interest based on pricing terms that may not otherwise be discussed with potential oftakers, due to other hurdles that remain when these resources attempt to participate in traditional RFPs. By allowing

² While the attached scope of work is to conduct a “reverse” RFP in Oregon, National Grid would engage Bates White for the same (or similar) services for a Washington “reverse” RFP, to the extent the Commission agrees with National Grid’s recommendations in these Comments.

utilities or market participants to self-select whether to participate, such a “reverse” RFP is market economics at its finest—to the extent National Grid (or a developer, generally) receives no bids, then the market has determined the resource in question is not of value and the developer will be forced to consider other alternatives. Second, a “reverse” RFP is conducted at minimal cost to utilities, ratepayers, or taxpayers. The developer bears the entire burden of conducting, managing, and financing the “reverse” RFP. The only cost borne by participants are any administrative costs in preparing and submitting a bid.

Third, the “reverse” RFP may spur utilities to consider a cost-effective investment that they may not otherwise seriously consider, particularly for large projects like pumped storage. These resources are often too large for any single oftaker and, as a result, pumped storage resources often face a chicken or the egg problem in that no single utility wants to be the first to participate. However, in a “reverse” RFP scenario, a utility would be entitled to participate at any level at which it feels comfortable. That is, a utility could take some minimum amount of energy or capacity, depending on its demonstrated needs, or it could take a larger share, if the utility believes that would be most cost-effective at meeting its needs. Thus, in this way, it provides utilities with the added flexibility of participating in a project at a level less than the full output, which may better suit a utility’s needs. Similarly, because there are no rules in Washington expressly allowing for utilities to jointly participate to acquire large projects (as have been adopted in Oregon for large energy storage projects of statewide significance), the “reverse” RFP is an alternative means that would allow several utilities to participate in a single, significant resource like pumped storage.

Fourth, the “reverse” RFP has the unique attribute of wholly complying with the Commission’s RFP requirements, except that it is conducted by someone other than the utility. In this way, the Commission should be indifferent to the party conducting the RFP, so long as any regulated participant(s) demonstrates to the Commission that any resource (or partial resource) procured in this manner was acquired in accordance with its RFP rules for openness, transparency, and fairness. Additionally, a utility participating in a “reverse” RFP would also bear the burden of demonstrating to the Commission that such resource most cost-effectively meets the utility’s demonstrated needs, as those needs were identified in the utility’s most recently Commission-approved IRP.

Finally, unlike traditional utility RFPs, the “reverse” RFP also has the benefit of not having any captive customers or negative consequences—that is, to the extent it is unsuccessful for any reason, then the developer has a choice to make on how (or if) it will proceed with development. In any event, any utility (or other market participant) who participates in a “reverse” RFP would have no obligation unless the developer generates enough interest to proceed. In this way, the “reverse” RFP participants are afforded a “free option” on ownership or output of a pumped storage project and are not obligated until the developer has determined that a project will proceed due to sufficient market interest.

V. CONCLUSION

National Grid appreciates the opportunity to file these Comments, despite them being a few days late. While National Grid understands the reasons and value of timely-submitted

comments to the Commission, National Grid believes these Comments offer a unique perspective not yet raised in this proceeding and, therefore, merit careful consideration.

Long lead-time projects like pumped storage are hampered by the Commission's current RFP rules and, while the proposed changes to the RFP rules provide incremental help to these resources, they do not go far enough in addressing many of the barriers that continue to exist to the development of such significant resources. As such, National Grid strongly recommends that the Commission carefully consider its "reverse" RFP idea presented herein.

As explained in these Comments, a "reverse" RFP provides numerous benefits to developers, utilities, and market participants, while also being nearly zero-risk for those same participants and the Commission. Furthermore, a "reverse" RFP is the most cost-effective and efficient process National Grid is aware of to encourage the development of long lead-time resources like pumped storage.

If the Commission or staff has any questions or would like more information on the "reverse" RFP idea, please contact me at the number or email below.

Dated this 2nd day of November, 2018.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Nathan Sandvig". The signature is written in a cursive style and is positioned above a horizontal line.

Nathan Sandvig
Director, U.S. Business Development
National Grid USA
(503) 602-0998
nathan.sandvig@nationalgrid.com

Exhibit 1

Scope of Work from Bates White

**Bates White's Proposed Scope of Work
as Independent Evaluator
for the Competitive Solicitation for Service on the Swan Lake Project
Presented to
Grid America and Rye Development, LLC**

August 30, 2018

Bates White Economic Consulting (Bates White) presents this scope of work to serve as the Independent Evaluator (IE) on Grid America and Rye Development's (collectively, the Developer's) Swan Lake Project (Swan Lake, or the Project), a 400 MW pumped hydro storage project in development in Oregon.

The purpose of our work would be twofold. First, we would assist the Developer in conducting a solicitation for service from the Project using a competitive process that encourages robust participation and fair evaluations. Second, we would provide an independent report on the results in any application to the Oregon Public Utilities Commission to waive the Oregon competitive bidding guidelines (CBG) to allow Oregon jurisdictional utilities to purchase service from the Project. In this role as IE, we would be guided by the Commission's rules and regulations, including the CBG—the principles of which we would use in the design and execution of the competitive solicitation.

Scope of Work

This work would be structured into three phases. Phase one would focus on solicitation design and prep work. Phase two would be the conduct of the solicitation itself. Phase three would be to report on the solicitation results in any application to the Commission to waive the CBG to allow Oregon jurisdictional utilities to purchase service over the Project.

Phase 1: Solicitation Design, Preparation

The first phase would be focused on the solicitation design, schedule, and logistics. During this phase, we would work with the Developer to:

1. Define the product and contract term.
2. Define the bidding process. This would require disclosing to potential buyers how they can bid, clarifying whether the bidders are to submit price-quantity bid curves, to accept pre-determined prices and terms, or some other approach.
3. Determine if there will be a "reserve" price.

4. Determine the firmness of the costs of the project. In any waiver filing before the Commission, it will be desirable to submit a fixed price PPA.
5. Define the evaluation process. It will be important that the evaluation is done in a transparent way—e.g., a comparison of “net benefits” for each bid—to help ensure that bidders know how the evaluation will work.
6. Preview the solicitation to potential buyers.
7. Create RFP documents. The RFP rules will lay out how a bidder participates in the solicitation. The Developer should also create a pro forma PPA which shows the basic terms and conditions under which power will be sold.

Phase 2: Conduct of the Solicitation

Once designed, we would assist the Developer in conducting the solicitation. This phase would include:

1. Announcing the solicitation. This would include instructions on how to participate, the schedule of events, the product(s) offered, etc.
2. Reviewing and answering bidder questions. Potential bidders will likely have a variety of questions regarding the solicitation. Answers to these questions should be made available to all parties.
3. Meetings with potential buyers.
4. Receive and evaluate bids.
5. Notify winning bidder(s) and conduct PPA negotiations.

Phase 3: Provide Independent Report (if necessary)

To the extent that one or more of the winning bidders is a Commission-jurisdictional utility, it is likely that the utility will have to file a request for waiver of the CBG at the Commission.

Bates White, in a report appended to the Developer’s intervention in any related waiver proceeding before the Commission, would independently attest to the results of the competitive solicitation. We would also note the value of the competitive solicitation in vetting the benefits of the Project, since the solicitation would serve as a competitive check on those benefits—if other parties participate and submit similar offers for service on the Project, it is a good indicator of the value of the Project. We would also include comparisons of the PPA price to the prices of existing and alternative resources.