

STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY CONTROL

DPUC Investigation of Measures
To Reduce Federally Mandated
Congestion Charges

Docket No. 05-07-14PH02

October 5, 2006

Connecticut Department of
Public Utility
Control
Request for Proposals
to reduce impact of FMCCs

OCTOBER 5, 2006 ADDENDUM

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1 Introduction and overview

Due to revisions of the contract templates, updated versions of which were released on September 22, 2006 (Generation Contract) and September 29, 2006 (Demand Resource Contract), the DPUC would like to clarify and correct several points in the RFP issued on September 15, 2006. This October 5, 2006 Addendum serves to highlight these clarifications and corrections to the RFP. This document addresses only such clarifications and corrections and, thus, bidders must read this October 5, 2006 Addendum in conjunction with the September 15, 2006 RFP. This October 5, 2006 Addendum is organized thematically, with Section 2 focused on clarifying the definition of Contract Quantity and Section 3 addressing issues related to Demand Resources. Section 4 aggregates several more minor clarifications.

2 Contract Quantity

The Contract Quantity is the contractually binding amount of capacity that the Supplier commits to providing to the Buyer under the contract, and is denoted in MW terms. The Contract Quantity can vary by product or by Contract Year, as discussed below.

The contract allows the Supplier to settle against three different ISO-NE product markets: (1) Capacity for the Forward Capacity Market (FCM), (2) Capacity for the Locational Forward Reserve Market (LFRM), or (3) Energy from the Capacity into the Day-Ahead Energy Market (the Call Option). Each of these “products” has its specific Contract Quantity, as delineated in the contracts: the FCM Contract Quantity, the LFRM Contract Quantity, and the Call Option Contract Quantity (energy). The Contract Quantities for each “product” can differ but the LFRM Contract Quantity and the Call Option Contract Quantity must be equal to or less than the FCM Contract Quantity, which is the basis of the Agreement. When the DPUC uses the term “Contract Quantity,” without specifying which one, it is referring to all relevant product market Contract Quantities that may apply to the project based on its proposal.

The Contract Quantity can vary by Contract Year in two different ways. First, the Bidder can in the Financial Bid Template specify incremental (or decremental) Contract Quantities (for any “product”) based on the technical specifications of the project. For example, energy efficiency projects which tend to grow in Capacity over time might submit an FCM Contract Quantity for 10 MW in Contract Year 1, 15 MW in Contract Year 2, and 20 MW in Contract Year 3. Such specifications are not limited to demand resources. A generator might, in expectation of a major planned outage in a given Contract Year, submit a reduced Contract Quantity for that year in its Financial Bid Template to insure against liquidated damages. The Bidder can also specify an LFRM or Call Option Contract Quantity for only a subset of the years for which it specifies its FCM Contract Quantity.

Second, the Contract Quantity can be amended under certain conditions throughout the Term of the Agreement, as is detailed in Section 3.2 (d) and (e) of the Generation Contract and Section 3.3 (e) and (f) of the Demand Resource Contract. These provisions exist to address the potential situation where a project’s demonstrated capacity is less than its Contract Quantity by more than 2% (due to technical problems or market rules changes), and the Supplier is unable to cure the derating within the allotted cure period (45 calendar days). Should this occur, the Agreement requires the Supplier to pay liquidated damages for the foregone Contract Quantity based on the Replacement Price for such Capacity for the cure period, to reduce the Contract Quantity to its demonstrated capacity through an addendum to the Agreement, and to pay monthly liquidated damages for the foregone Contract Quantity based on the Replacement Price for such Capacity for as long as the Contract Quantity is less than the Original Contract Quantity submitted in the Financial Bid Template.

3 Demand Resources

3.1 Demand Resource contract

In June and July 2006, the DPUC issued draft contract templates for Generation assets, for Demand Response assets, and for Other Demand Resources. Since that time, ISO-New England (ISO-NE) has clarified that it will aggregate all Demand Resources into one category for purposes of the FCM. As such, the DPUC has decided that to be consistent with ISO-NE, it will have one contract template (the Demand Resource Contract) for all demand side assets, classifying both Demand Response assets as well as other conservation and energy efficiency projects and distributed generation resources under one master agreement. The DPUC issued a draft of this new Demand Resource Contract on September 29, 2006, which is available for download from the RFP website (www.connecticut2006rfp.com).

3.2 Eligibility of Demand Resources

Over the summer of 2006, it became clear that ISO-NE intends to enable all Demand Resources to participate in the FCM as supply-side resources. As a result, the DPUC has shifted its views on the eligibility requirements of Demand Resources for the purposes of this RFP.

All Demand Resource projects must demonstrate at the time of Financial Bid Submission that they are eligible to participate (directly, as a supply resource, or indirectly, so that they count as a demand offset) in the ISO-NE Markets according to then-current ISO-NE rules and regulations and/or proposed rules regarding the FCM. The DPUC has a preference for Demand

Resource projects that will be eligible to directly participate in the FCM, and therefore will be able to settle their Annual Contract Price for the FCM against the FCA Capacity Clearing Price. (As such, the Demand Resource Contract remains a Contract for Differences, like the Generation Contract.) However, due to the current status of the market rules regarding Demand Resources in the FCM, certain projects may not be able to conclusively determine whether or not they can directly participate in the ISO-NE capacity markets (during the Transition Period and/or FCM), but may still produce benefits for ratepayers. Thus, so long as the Bidder adequately demonstrates its anticipated realization of benefits (demand reduction), it can participate in this RFP. All Demand Resources must therefore also lay out in their Financial Bid submission how they will contribute to the reduction of peak demand, and how this reduction will be demonstrated in the application of their Measurement and Verification Plan.

Should ISO-NE rules render certain Demand Resources ineligible to participate in the FCM and if such assets are selected as winning bidders in the RFP process, their contract will be amended as long as they continue to be able to reduce demand during peak periods as specified in their Proposal to become a fixed price capacity contract based on the Supplier's Annual Contract Price for the FCM, pursuant Section 3.3 (b) of the Demand Resource Contract.

Likewise, should ISO-NE rules change after December 13, 2006 reduce the amount of Capacity that the Demand Resource can offer into the FCM to a level below the FCM Contract Quantity in its Financial Bid, the Demand Resource's FCM Contract Quantity will be reduced through an addendum to the Agreement but the Supplier will not be liable for liquidated damages, as detailed in Section 3.3 (d) of the Demand Resource Contract.

Note that such treatment will only be applied in the case of ISO-NE rules changes to the eligibility and participation of Demand Resources in the FCM. Any under or non-performance of the project in the FCM that might trigger its disqualification is the sole responsibility of the Supplier.

3.3 ISO-NE rules for Demand Resources

ISO-NE rules for Demand Resource participation in the FCM have not been finalized or approved. Given the timing of this RFP process and the fact that the Demand Resource Contract will be settled against the still evolving FCM, the DPUC designed the Demand Resource contract such that all finalized and approved rules by ISO-NE for Demand Resources will be applied as appropriate in the Demand Resource Contract.

3.4 Proposal deposit and security requirements

The Proposal Security Deposit and Completion and Performance Security requirements listed in the September 15, 2006 RFP were designed when there were two categories of demand side assets - Demand Response and Other Demand Resources. As the revised Demand Response contract and this October 5, 2006 Addendum indicate, there is now only one category of Demand Resource assets. Thus, the DPUC has amended the Proposal Security Deposit and the Completion and Performance Security requirements for Demand Resources as follows:

- The Proposal Security Deposit for Demand Resources is: \$7.5/kW of Base Level FCM Contract Quantity

- The Completion and Performance Security for Demand Resources before Commercial Operation is: \$35/kW of Base Level FCM Contract Quantity
- The Completion and Performance Security for Demand Resources after Commercial Operation is: \$15/kW of Base Level FCM Contract Quantity

Note that the Proposal Security Deposit and the Completion and Performance Security requirements for generation assets remain the same as they were in the RFP of September 15, 2006.

3.5 Penalties in DPUC contract for Demand Resources

There are no liquidated damages for availability in the Demand Resource Contract. However, as described in Section 6.4 (b) of the Demand Resource Contract, there will be true-ups in the monthly settlement process to account for any ISO-NE penalties for inadequate performance by the Supplier. Note that if such penalties are incurred due to ISO-NE rules changes that affect the eligibility or Contract Quantity of the project, the contract will be amended pursuant to Section 3.3 (b) and (d) of the Demand Resource Contract, as discussed earlier in this October 5, 2006 Addendum.

4 Miscellaneous

4.1 Call Option

The Call Option, described in Section 1.3 and 2.4 of the RFP, will settle against the hourly Locational Marginal Price in ISO-NE's Day Ahead Energy Market at the Connecticut Load Zone. The Strike Price of the Call Option, which will be provided by Bidders in their Financial Bid Template, can be denominated in (1) fixed \$/MWh terms, (2) a \$/MWh term that varies by each Contract Year (pre-set by Bidder), or (3) can be set based on a heat rate and a fuel price index. In the last case, the Strike Price will initially be set on the Execution Date of the Contract and will be adjusted on a daily basis thereafter using the closing day price of the fuel price index selected for settlement.

4.2 Distributed Generation

To be consistent with ISO-NE definitions, Distributed Generation assets that are larger than 5.0 MW will be classified as Generation assets for the purpose of this RFP and the resulting Agreement, and winning bidders of such projects under this RFP would be required sign a Generation Contract. Distributed Generation assets that are smaller than 5.0 MW will be classified as Demand Resources and winning bidders of such projects would be required to sign a Demand Resource Contract. Distributed Generation Bidders will be required to provide the level of Proposal Security Deposit and Completion and Performance Security that corresponds to the type of contract they would sign.

4.3 Transition Period Payments

All projects must participate in ISO-NE markets starting on their Commercial Operation Date. To the extent that a winning project is eligible to receive Transition Payments during the Transition Period, the Supplier will be paid according to the terms laid out in Article 6 of both contracts, netting the Annual Contract Price for FCM against the Transition Payments. If the project is not eligible due to ISO-NE market rules to receive Transition Payments, the Buyer will pay the Supplier its Annual Contract Price for FCM throughout the Transition Period in exchange for the Supplier providing the FCM Contract Quantity and meeting all of its obligations under the Agreement. If the project is not eligible to receive Transition Payments due to poor performance or not having met all ISO-NE requirements, this will trigger default provisions in the Contract and require the Supplier to rectify its position or pay liquidated damages to the Buyer.

The ratepayer burden associated with payment of the Transition Payments for incremental capacity that comes on-line prior to the start of the FCM will be taken into account in the cost-benefit analysis, weighted against the potential benefits of reduced ratepayer costs in the LFRM and/or the benefits from the Energy Call Option, if applicable.

4.4 Confidentiality

Any submission made to the DPUC in this procurement process will be made public, posted in Docket No. 05-07-14PH02 on the DPUC's website, and distributed to all registered participants in that docket unless Bidders file a Motion for Protective Order and a proposed protective order and supporting affidavit requesting that the DPUC grant confidential treatment for the specific portions (or all) of the submission that Bidders deem to be proprietary and confidential. The motion should indicate the basis in federal or state law to show that the materials fall within the exceptions of Conn. Gen. Stat. §1-210. The motion and legal argument must be supported by an affidavit from the appropriate person in the company. The information filed under seal should clearly be marked "confidential" on the top of each page. A motion for a submission, whether it be the bidder registration form, the qualification package, or the financial bid, will cover all documents submitted with that submission that Bidders identify in the motion as requiring protected treatment. The motion protects such documents or portions of documents from public disclosure from the moment of submission to the DPUC until a ruling is made by the DPUC approving or denying the motion.

4.5 Project Description Templates and Financial Bid Templates

Project Description Templates and Financial Bid Templates are being revised to reflect the changes described in this October 5, 2006 Addendum and the revised contracts. Revised versions of the templates will be posted on the RFP website by October 13, 2006. From time to time, we may have to make additional revisions to these forms, and will post the revised versions on the RFP website as soon as possible. It is the Bidder's responsibility to check the RFP website regularly for updates.

Note that "To Be Determined" answers in the Qualifications submission and in the Financial Bid submission will not be accepted.