

To: Members of the Bristol Town Council  
From: Good Energy, Community Electricity Aggregation Consultant  
Date: November 21, 2023  
**RE: Electricity Supplier Selection Process**

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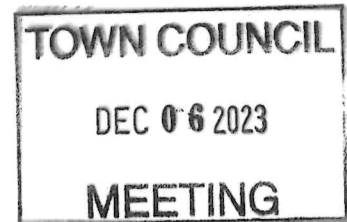
*Outline of Discussion:*

- I. Program Implementation Timeline*
- II. Types of Supply products*
- III. Options to proceed*
- IV. Recommendation*

**I. Program Implementation Timeline**

To set the context for the decision before the Council, here is where Bristol is at in the implementation of a Community Electricity Aggregation (CEA) Program.

- Authorization.
- Selection of Consultant.
- Public Hearing - Draft Plan.
- Council Approval of Plan.
- PUC Review Begins.
- PUC Approval.
- Selection of an electricity supplier.**
- Public education.
- Opt-out period.
- Program launch.



**Below we summarize the two types of products that are currently available to Rhode Island aggregation programs, describe how the existing seven RI aggregations (operating together as a buying group “RI Buying Group”) have procured, and proposed process to identify and select a supplier of either type of product, followed by our recommendation.**

**II. Types of Electricity Supply Products**

There are currently two potential ways for a supplier to serve Rhode Island aggregation programs: a managed product or a fixed product.

- *Managed Load Full Requirements.*

A managed load full requirements electricity supply product (referred to as “managed product”) is currently what is offered by the RI Buying Group and a group of 22 municipalities operating as the Cape Light Compact in Massachusetts.

The product’s primary feature is that electricity purchases are diversified by making multiple purchases on a schedule, and those purchases are then averaged together to reach a final price. A managed product offers tremendous flexibility as the final term and price (in this case either 6 or 12 months) can easily be adjusted. The RI Buying Group, for example, currently sets that price for 6 months at a time, and it intends to transition to offering 12-month prices in the near future.

Another key feature is that the aggregation supplier is not obligated to include the unknown future costs of various electricity components into the price. The supplier provides costs with no markup, and instead adds a transparent, fixed service fee charged per kWh. Your consultant (i.e., Good Energy) reviews and validates the supplier’s costs to ensure the accuracy of the various component prices into what is referred to as the ‘final price build-up’. The service fee compensation incentivizes the supplier to keep prices as low as possible to maintain as much participation as possible. In this way, the managed product aligns the Town and supplier goals to offer the lowest rates to maximize participation.

This purchasing strategy ensures that the program’s price will not be as volatile as purchasing at a single moment and is similar to the strategy of dollar cost averaging used in finance. It provides for maximum flexibility to evaluate conditions and adjust various factors when setting each price, including picking the length of time to set the price for, whether to change the amount of renewable energy, whether to integrate any new program developments or innovations.

- *Fixed Full Requirements.*

A fixed full requirements electricity supply product (referred to as a “fixed product”) is what is usually posted on the state’s Empower RI marketplace<sup>1</sup> and is currently used by

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<sup>1</sup> Available at <<https://www.ri.gov/app/dpuc/empowerri>>

the other Massachusetts aggregation programs outside of Cape Light. This product's primary feature is that it locks in a fixed price at a single point in time. This means that the price is set for the duration of the agreement, which can range from 1-3 years. Because the supplier is setting the price and locking it in for the entire term, it often includes some risk premiums to account for future unknowns during the term of the contract.

This product offers the greatest amount of stability by setting a price for a long duration. However, if market conditions change it is possible for the price in the aggregation program to be higher than what the rest of the market offers. The opposite could occur as well, of course. In either case, there is little to no flexibility in the program as pricing and terms are set at one point in time during the bidding process. In a steadily rising market this strategy can provide value, but a volatile market poses the greatest risk to procuring in this manner.

### III. Options for Bristol to Proceed

The selection of an electricity supplier to serve as a vendor to the Aggregation program is somewhat unique when compared with standard municipal contracting. The most important distinction is that this selection does not commit taxpayer funds, and as such, falls outside the types of transactions governed by the municipal procurement statutes.<sup>2</sup> Additionally, the services provided by an electricity supply vendor are explicitly exempted from that process by statute.<sup>3</sup> **Here we will describe the different process by which the Town could solicit proposals for the supply of either type of product.** Following this Good Energy will provide its recommendation for both type of product and selection process for Bristol to use.

- *Utilize results of previous RI Buying Group bid*

In 2022, Good Energy led a competitive Request for Proposal for the seven municipality buying-group. The evaluation resulted in the cities and towns identifying two finalists. One supplier offered a fixed product, and the other offered a managed product in which the timing and volume of the hedge purchases were customized specifically for the Rhode Island market. The municipalities ultimately chose the managed product, due to its flexibility - which is particularly valuable given the extreme price volatility of recent years. The selected supplier, NextEra Energy Services, began executing the hedging strategy in late 2022, and the programs launched in May 2023.

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<sup>2</sup> Rhode Island General Laws § 45-55 *et. seq.*

<sup>3</sup> Rhode Island General Laws § 45-55-13.2.

There are two logical and justifiable conditions for Bristol to attach to the selection of a supplier that would result in a sole source procurement. First is the decision to offer a managed product. Thus far, there is only one supplier who has offered the product in the market, and there has been no indication that other suppliers have an interest in offering a similar product. Second, and most important, is the decision to integrate the Bristol program within the existing aggregation RI Buying Group to achieve an economy of scale. Only by working with NextEra Energy Services (NextEra) could the Town join the RI Buying Group. This process would involve negotiating terms with NextEra and bringing a proposed contract to the Council for its review and approval.

If terms are acceptable, this process could result in a supplier being under contract as soon as January 2024 allowing a program to launch mid-2024. Based on the existing RI Buying Group agreements, the term of the agreement with NextEra for Bristol would run for four years.

- *Initiate a new bidding process*

A bid process would start with Good Energy preparing and issuing an RFP to the supplier community and soliciting them for proposals. Responses would be evaluated and Good Energy would provide an initial review of the responses. Assuming both managed and fixed products are proposed, the Town would need to determine which to offer to participants.

If it selects a managed product, Good Energy would proceed to contract negotiations that would set terms that would include length of overall agreement, renewable content, procurement schedule, start date, supplier fee, and frequency of price changes. It must be noted that this would not include a firm price for participants, which would only be determined according to the procurement schedule. Good Energy would then recommend a proposed contract to the Council for its approval.

If the Town selects a fixed product, Good Energy would negotiate agreements with all qualified bidders. They will then be required, on a specific date and time, to submit executable bids for different lengths of time. These prices will only be good for a matter of hours, so prior authorization, including setting a cap on what would be considered an acceptable price, would be necessary from the Council. Bids would be opened and one

would be selected if it met the selection criteria, and, if not, all would be rejected and the process can be repeated.

This process would necessarily take more time than joining utilizing the existing RI Group bid, which would delay program launch beyond mid-2024.

#### IV. Recommendation

In evaluating these options with Town staff, Good Energy recommends that Bristol proceed with:

- (1) A managed full requirements product; and
- (2) Utilizing previous RI Buying Group bid to join the seven-municipality buying group

While the fixed full requirements product has a track record of success in Massachusetts, two factors have made that less applicable in Rhode Island: (1) the fact that RI Energy procures through a far more diversified strategy than MA and (2) the tremendous volatility in energy markets, especially in New England. The managed product now has a track record in Rhode Island: the seven municipality buying-group finished its first six-month term in October, delivering \$7 million in savings while avoiding 14 million pounds of carbon emissions via the purchase of additional renewables. For its next six-month term (ending April 2024), the group's price remains below RI Energy.

While no approach can guarantee savings, it is our belief that the managed product will continue to result in the most competitive pricing for program participants over the duration of the agreement. The flexibility in pricing and the hedging schedule reduces the risk of being substantially over- or under- priced, while also making our vendor a partner in success by aligning incentives, and therefore being open to adjustments and innovations.

Joining the seven municipality buying-group would provide access to the managed product customized for RI by NextEra and empower Bristol to enjoy larger economies of scale. Joining by utilizing the results of the existing bid will enable Bristol to join the seven municipality buying-group quickly, enabling the program to launch and deliver program benefits to Bristol residents as soon as possible.