

PA Retail Markets Investigation  
Interim Competition Enhancements  
Opt-In Auction Straw Person Status Report

Sub-group Members (Direct Energy, Dominion Retail, FirstEnergy Solutions,  
IGS Energy, OCA, PECO, PPL)<sup>1</sup>

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I. Summary:

As part of the PAPUC Order concluding Phase I and the launching of Phase II of the Retail Markets Investigation, the PAPUC identified the opt-in auction as an interim competition enhancement measure deserving further review by PAPUC Staff and interested party sub-groups. Staff and the sub-groups were asked to develop a proposal for issue identification and resolution, including whether the opt-in auction could be implemented through regulatory or legislative means. Members of the sub-group have met on multiple occasions to discuss issue identification and to discuss three proposals to implement an opt-in auction. The sub-group is making progress but has not yet reached consensus on all of the issues.

The following is a listing of the Opt-In Auction high-level principles on which the sub-group has reached agreement. Following is a separate section that lists topics for continuing discussion by the sub-group.. It should be noted that some concerns were raised by some of the sub-group members that an interim auction may not be needed, that it could have a negative impact on the industry, and that there may be a lack of interest by consumers if not properly structured.

II. Opt-In Auction Consensus Principles

A. Customer Eligibility

1. The auction will not be targeted to those customers who have already switched to competitive suppliers
2. The auction will apply to residential and small commercial customers.
3. The auction will not apply to large commercial and industrial customers.
4. The definition of small commercial Customers will be based on utility-specific rate classes, e.g., for PPL, the cut-off will be 500kw or less.

B. The auction will not occur in the smaller utility territories (e.g., Pike County, Citizens, Wellsboro, etc.)

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<sup>1</sup> OSBA was invited to and agreed to participate but due to the weather emergency they were unable to review and/or provide input into this document.

C. Existing Default Service Supply Contracts

1. The opt-in auction must be structured to minimize the effect on existing wholesale default service contracts
2. The opt-in auction effective enrollment date could occur in late 2012, but no later than June 1, 2013 when existing default service plans end.
  - a. The best way to minimize the effect on existing wholesale default service contracts is to conduct the auctions for service starting on June 1, 2013.
  - b. The Opt-In Auction must properly coordinate with any approved default service plans.
  - c. “Pilot” opt-in auctions could be held in several EDC service territories prior to June 1, 2013 to obtain “learnings/best practices” in order to help assure the success of the full-scale opt-in auction program. Pilots will be designed to minimize inappropriate effects on wholesale supply contracts.

D. Auction Structure

1. The auction product will result in a fixed price service for a one year term coupled with a predetermined “signing bonus” (e.g., \$100) that each EGS will agree to remit to each participating customer.
2. The auction winners will be determined by the lowest price sufficient to clear all tranches (with the winning bid required to be below the existing default service price)
3. The auction will not result in one competitive supplier dominating the market
  - a. Residential customer tranches, with multiple tranches per utility and per customer class, varying in size . Multiple small commercial tranches.
  - b. Load caps should be imposed..

E. Auction and Post-Auction Service Terms

1. The auction will allow maximum flexibility to consumers and affords them the same consumer protections they have today.
  - a. A participating customer will be free to switch to another EGS or to default service during the auction service term but the preset signing bonus would only be paid to a customer who had not

switched away from the winning EGS bidder within the first 3 months of service (the bonus is retained by the customer even if the customer switches anytime after 3 months of service).

- b. After the 1-year auction is over, customers will be informed prior to the end of the term that the aggregation program is over and the serving EGS may offer a non-aggregation product in the same way as EGSs do today (notice to customers with customers being served by that EGS unless the customer takes the necessary affirmative action to switch to default or a different supplier)..
- c. A winning EGS is obligated to accept all customers assigned to them and provide service for the entire auction service term. The EGS may not return customers to default service based on the customers characteristics, such as income level, usage level, or profitability.

#### F. Auction Participant Requirements

- 1. Auction bidders may be required to provide additional financial assurance to be eligible to participate

#### G. Auction Logistics

- 1. The auction will be overseen and approved by the PAPUC who would hire consultants to provide expertise where needed.
  - a. Each EDC will conduct the auction, under the supervision and direction of the PAPUC.
  - b. The goal will be to recover the costs of conducting the auction from the EGSs participating in the auction.
- 2. The preliminary view is that none of the opt-in auction proposals being considered requires changes in existing law to implement; some waivers of PAPUC regulations may be necessary but creating a comprehensive list should be deferred until the “implementation” phase.

#### II. Areas For Further Discussion

– While substantial progress has been made in a number of areas, the sub-group believes that additional discussion in an attempt to achieve consensus on several issues would be beneficial (this list is not exhaustive).

1. Impact on EDCs ability to process large blocks of shopping customers at one time.
2. Scale: the number of customers selected to receive offers in each EDC.
3. Potential effect of the Opt-In Auction on default service prices for certain EDCs.
4. The type of financial assurances that EGSs participating in the auction should be required to post and the items the assurances should cover.
5. Coordination with other RMI efforts
6. The type of promotion that will occur for the auctions (e.g., mass media (radio, news) vs. . direct mail only)
7. Implementation Issues