

**PA Retail Markets Investigation
Opt-In Auction Sub-group
Final Report**

November 30, 2011

Opt-In Retail Auction for Pennsylvania Electricity Service

Sub-Group Members

- Listing of members (participating and monitoring)

Background

- Working group high-level principles

List of Open Issues & Options/Party Positions

- Definition of eligible participants and bids
- Auction timing – pilot and full-scale auction
- Auction mechanism
- Other key auction design parameters
- Customer assignment and post-auction follow-up

Outline

Sub-Group Members

Background

Open Issues and Options / Parties' Positions

Appendix – Opt-In Sub Group Initial Report – September 30, 2011

Sub-Group Members

- To be added, divided-up as participating or monitoring, per party preference

Participating	Monitoring
Direct Energy; Dominion Retail; IGS Energy	Citizen Power
FirstEnergy Solutions	Constellation NewEnergy
Met-Ed/Penelec/Penn Power/West Penn (ME/PN/PP/WP)	Constellation Energy
UGI Energy Services (“UGIES”)	Exelon Energy; PULP
PECO; PPL Electric; OCA	OSBA
Duquesne	Duquesne Light Energy

Outline

Sub-Group Members

Background

Open Issues and Options / Parties' Positions

Appendix – Opt-In Sub Group Initial Report – September 30, 2011

Working Group High Level Principles*

Customer eligibility

- Auction will not target those customers who have already switched to competitive suppliers. (However, for clarification, any customer will be eligible if he/she is a default service customer during some determined window).
- Auction will apply to residential and (potentially) small commercial customers and not to medium or large commercial and industrial customers
- Auction will not be used in smaller utilities (Pike County, Citizens, Wellsboro, UGI)

Existing default service supply contracts

- Ideally, for full scale auctions, the enrollment date for switching customers June 1, 2013 to coincide with end of default service plans.
- If pilots take place, pilot auctions could be held earlier to obtain “learnings/best practices” in order to help assure the success of the full-scale opt-in auctions.
- Auction (and, if they are conducted, pilots) will minimize the effect on existing wholesale default service contracts and must coordinate with any approved default service plans.

Auction structure

- Auction product will result in a fixed price service for a fixed period of time (potentially) coupled with a pre-determined “signing bonus” (e.g., \$100) that each EGS agrees to remit to each participating customer
- Auction winners will be determined by the lowest qualifying price sufficient to clear all tranches (with the winning bid required to be at or below the default service price for a period of time)
- The auction will not result in one competitive supplier dominating the market

* These are a summary of the High Level Principles that were included in the initial Sub Group Report (that Report is attached as an appendix hereto). A more complete description of the parties’ positions on open issues is included in the following “Options” section.

Comments to Working Group High Level Principles

DLC - With regard to customer eligibility, DLC does not agree with the language limiting the retail opt-in auction to only default service customers during some determined window.

ME/PN/PP/WP –

Shopping customers should also be eligible.

The enrollment date for switching customers is the first meter read date on or after June 1, 2013.

Stating that auctions will minimize the effect on wholesale contracts is too definitive. Instead, the text should state “.. will attempt to minimize...”

Under “Auction Structure” a signing bonus should not be permitted.

Constellation – Customer should be eligible for the program regardless of whether they are on or off Default Service.

With regard to Existing Default Service Supply Contracts, any Retail Auction should not be held until after the delivery term of the 2-year transition Default Service Plans. At the very least, if a Retail Auction is held during the term of the 2-year transition period, then delivery under the resulting retail contracts should not begin until after the end of the 2-year transition period.

With regard to auction structure, no upfront bonus payments; instead, winners should be determined only by the lowest bid.

Working Group High Level Principles (continued)

Auction will allow maximum flexibility to consumers and afford the same consumer protections they have today

- Participating customer will be free to switch without cancelation or termination to another EGS or to default service during the term (but will not receive any signing bonus if they switch in first 3 months; the bonus is retained by the customer even if the customer switches anytime after 3 months of service).
- Customers will be informed prior to the end of the term that the aggregation (“opt-in”) program is over and the serving EGS will offer a non-aggregation product as EGSs do today (i.e., 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).
- Winning EGS is obligated to accept all customers assigned to them and provide service for the entire 1-year service term. The EGS may not return customers to default service based on the customer’s characteristics, such as income level, usage level, or profitability.
- CAP customers will be eligible to participate depending on EDC-specific policies

Supplier participation requirements

- Bidders may be required to provide additional financial assurances to be eligible to bid

Comments to Working Group High Level Principles

- PPL notes that proposed accelerated switching will change today's consumer protections.
- DLC – with regard to notice, DLC does not agree with the language that a customer should remain with an EGS at an undetermined rate unless the customer takes the necessary affirmative action.
- ME/PN/PP/WP –
 - On the references to signing bonus, it should be clear that there is a “potential” for a signing bonus since not all opt-in auctions will permit a signing bonus.
 - The reference to “1-year” should be deleted since the service term could encompass more than 1-year.
- Constellation – with regard to auction flexibility,
 - o Constellation agrees with the principle that there should be no minimum stay provisions for opt-in customers.
 - o Customers that have opted-into the Retail Auction and have been assigned to a winning retail supplier should be free to switch to and from this retail supplier's service offering as desired on a meter cycle basis without any switching fee.
 - o However, customers that opt-into the Retail Auction should not be allowed to return to Default Service from the utility.
 - o Constellation agrees with the 1-year service term, but would also be amenable to a 2-year service term.

Working Group High Level Principles (continued)

Logistics

- Auction will be overseen and approved by the PAPUC who would hire consultants to provide expertise where needed
- Each EDC will conduct the auction, under PAPUC supervision, recovering costs from EGSs participating in the auction
- Residential customer tranches, with multiple tranches per utility and per customer class, varying in size. Multiple small commercial tranches per utility (if included), dependent on the overall number of customers opting-in.
- Load caps should be imposed (but see, Options, below).
- The goal will be to recover the costs of conducting the auction from the EGSs participating in the auction.
- 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.
- The Program “terms and conditions” and “opt-in procedure” provided to customers shall include the EDC’s logo and the Bidder’s logo and shall contain standardized content, which, for Residential Customers will be prepared by representatives of the EDC, the PUC, the participating EGS(s) and the statutory advocate representing the customer class at issue (e.g., OCA for Residential customers, OSBA for commercial customers, (if applicable)).

Working Group High Level Principles (additional)

Logistics

- EGS can participate in the Residential auction, the Small Business auction, both or none of the auctions
- EGSs are not restricted with respect to otherwise marketing to customers, including opt-in auction customers, once the auction process is completed (but during the service term)
- Each customer participating in the opt-in auction will be served by a single EGS

Comments to Working Group High Level Principles

- PPL – With regard to the third item on the list, PPL does not understand the use of the phrases “per customer class” (“residential” is a class) or “varying in size.”
- PPL – With regard to the sixth item, PPL Electric believes that a list of waivers is necessary before implementation.
- FES – Disagrees that “load caps should be imposed.”

- ME/PN/PP/WP
 - The EDC may hire a consultant instead of the PUC.
 - The opt-in costs may be recovered from customers instead of EGSs.
 - Load caps should not be imposed.

- Constellation – With regard to logistics,
 - Specific customers should be allocated for each “customer tranche,” in advance of the Retail Auction, so that EGSs know exactly the nature of the customer load for which they are bidding.
 - The Group should make clear that any Retail Auction procurement process will be conducted in a fair and transparent method (e.g. using a competitive closed-bid RFP or descending clock auction with the same contract terms for all winners, as the Group has contemplated).
 - Ample data akin to that provided under current Default Service Plan structures should be provided to EGSs well in advance of any Retail Auction; such data should include, but not be limited to, three years of historic hourly load, PLC, NSPL and other similar data for customers who have elected to opt-in.

Outline

Sub-Group Members

Background

Open Issues and Options / Party Position

Appendix – Opt-In Sub Group Initial Report – September 30, 2011

Definition of Eligible Participants and Bids

Options

DE / Dominion Retail / FES / IGS - Eligible participants for the opt-in auctions will be residential and small commercial customers

DLC - Opt-In Auction should apply to Residential customers only

PECO – Participating customers should be those registered with the EDC as default service customers at the date of selection. The date should be specified in the detailed process.

ExGen/Exelon Energy – The opt-in auction may be easier to implement and manage (and therefore be more successful) if it is offered to Residential customers only. In addition, the varying definitions of “small commercial” customers across the EDCs may detract from the standardization that we would prefer for these programs.

ME/PN/PP/WP: Opt-in auction should apply only to residential customers. Opt-in consumer education will not “target” shopping customers. However, shopping customers are allowed to participate in the opt-in auction. Shopping customers will be allowed to go directly from an EGS to the opt-in program (i.e., customer does not need to revert to default service before electing the opt-in program).

PPL Electric – Opt-In Auction could apply to residential and small commercial customers.

Definition of Eligible Participants and Bids

Options

DE / Dominion Retail/ IGS - Eligible participants for the opt-in auctions will be customers who are on default service at the beginning of the enrollment period . The utility should not be able to drop an existing EGS customer during the enrollment period, and the utility should inform the EGS first.

FES - No targeting of customers on competitive service but any customer (even those served by a competitive supplier) can participate if he/she enrolls during the enrollment window

ME/PN/PP/WP: Agree as long as position is limited to “marketing”

PPL Electric - All customers from an eligible class should be eligible to avoid criticism that the auction is discriminatory. Okay to target marketing to non-shoppers, only, but must be clear that, although intended to encourage new shoppers, it does not discriminate against existing shoppers.

Definition of Eligible Participants and Bids

Options (cont'd)

PECO – There are pros and cons with various proposals. Some issues to consider: if the objective here is to increase the customer acceptance rate, perhaps a focus group can be conducted to determine customer preferences between Bonus Payments and Lower Prices. Also, Can the design of the program differ from one EDC to another based on the default service portfolio for the customer group? Is there an acceptable range of term lengths? For example, 2 year maximum? 6 month Minimum? For example, current forward energy and capacity prices vary within the June 1, 2013 and May 31, 2015 period. The DSP programs and Opt In programs should be designed to work in harmony.

Definition of Eligible Participants and Bids

Options (cont'd)

DLC - No targeting of customers on competitive service but any customer (even those served by a competitive supplier) can participate. DLC is not sure about a limited enrollment period as another option would be to allow customers to enroll at any time similar to EDC default service. Some cap on initial auction customer participation should be imposed in order to not unnecessarily raise costs of default service on non-participating customers

UGIES - No targeting of customers on competitive service; target only residential customers and small business customers defined as customers with a registered maximum peak load of 25 kW and below; no targeting of medium or large C&I customers.

Definition of Eligible Participants and Bids

Options

DE / Dominion Retail/ IGS - Opt-In auction will be used to set the fixed price of service to opt-in customers

- Eligible participants will be informed that the fixed price will be guaranteed to be lower than a reference price (projected default service rate) at or below the default service price for the first six months.
- The actual price will be announced to bidders prior to the auction

PECO – Prefers that the participating customer's offer includes all specifics, including the price to be charged. Concerned that the estimated average default price is only an estimate and that there may be some confusion on the estimate vs. actual pricing. Would prefer the reference price to be that which is known such as the filed PTC.

FES – Price should be 1) the lower of the EGS fixed price per kWh offer or the PTC during the entire term or 2) a % off the PTC.

ME/PN/PP/WP: "Fixed price" should be a percent-off PTC for the entire 2-year default service period. Percent-off PTC includes any reconciliation adjustments. No signing bonuses or marketing gimmicks are permitted.

PPL Electric – OK with either fixed price below PTC or % off PTC for an appropriate period.

Definition of Eligible Participants and Bids

Options (continued)

ExGen/Exelon Energy – We have very serious concerns about the complexity associated with trying to use forecasts and administrative algorithms to set a auction-specific price to compare for guaranteed “savings” There is little chance that the forecast will be accurate which will lead to customer confusion, and at worst, the possibility that the auction rate in months 7 – 12 will actually be above the default service PTC. The customer confusion and probable backlash associated with that scenario would be detrimental to the program and to the competitive marketplace in general. In addition, the utilities would likely bear the brunt of the customer dissatisfaction regardless of the fact that they would likely have no involvement in the calculation of the auction PTC. To alleviate this concern, we believe the best approach is to adopt the “6 month” construct. Assuming that the PUC follows through with the proposal to extend DS pricing modifications from quarterly to every 6 months, a promise of a fixed-price guarantee for those 6 months would generally match the products that are currently offered in the market (i.e. a customer that signs a fixed-price deal with an EGS is only guaranteed that their price is below the PTC for the period of transparency afforded by the PTC itself – quarterly now and for a 6-month period in the future.)

ME/PN/PP/WP: “Fixed price” should be a percent-off PTC for the entire 2-year default service period. Percent-off PTC includes any reconciliation adjustments. Auction should occur after the last default service auction so bidders can estimate the PTC for the entire 2-year default service period. Opt-in residential customers will know the exact percent-off PTC during the enrollment period.

Definition of Eligible Participants and Bids

Options

DE - Bonus payment will be set administratively by the PUC, with the fixed price per kWh set at auction:

- Set administratively and announced before the auction enrollment period begins
- Consistent statewide, separate levels for residential and commercial customers
- Residential \$100 to 150; Small Commercial \$175-200
- PUC should allow flexibility in specifying bonus payment prior to the opt-in auction enrollment period, based on market conditions, stakeholder feedback market research

UGIES: No signing bonus/incentive payments; or minimal bonus of \$50 for Residential and \$100 for Small Business customers.

FES – No signing bonus; or minimal bonus of \$50 (res.) \$100 (small business); a drawing (i.e., electric vehicle, energy efficient appliances) would be more effective in attracting customers than incentive payments. Any incentive should be consistent statewide.

Dominion Retail – Bonus: \$75 residential; \$100 commercial; could have higher bonuses in FE territory since those territories are less developed; lesser bonuses in PPL and PECO

ExGen/Exelon Energy – bonus should be paid only after customer remains on opt-in auction product for 6 months

Definition of Eligible Participants and Bids

Bonus payment will be set administratively, with the fixed price per kWh set at auction (cont'd)

PECO – See prior comments options other than the bonus payment and whether there needs to be state-wide consistency in the opt in program vs. something more customized by EDC zone and compatible with the default supply portfolio. Supports market research prior to locking in on a final design.

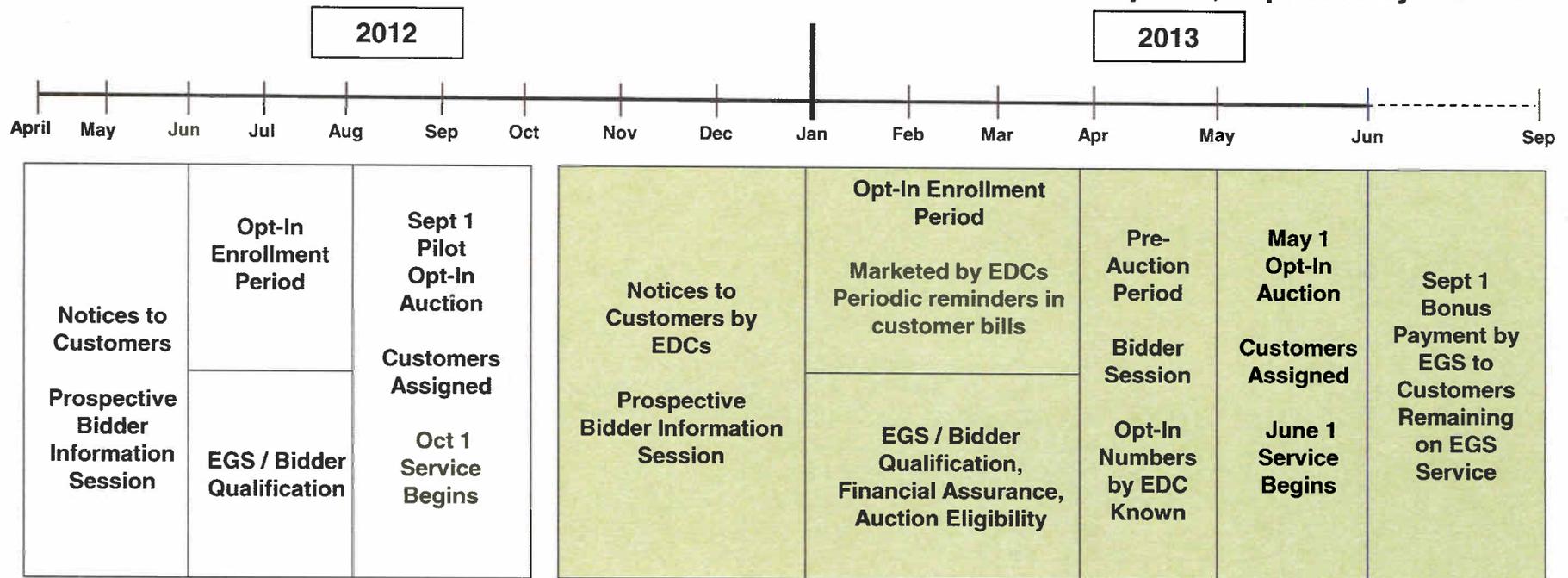
ME/PN/PP/WP: No signing bonuses or marketing gimmicks should be permitted. “Fixed price” should be a percent-off PTC for the entire 2-year default service period. Percent-off PTC includes any reconciliation adjustments.

PPL Electric – Concern that uniform statewide bonus could leave little room for price savings in some territories; esp., if PTC includes refund of prior period overcollection. Countervailing concern that non-uniform bonuses will appear discriminatory. Bonus may not be necessary if fixed price remains below PTC.

Auction Timing – Pilot and Full Scale Auctions

DE / Dominion Retail / IGS Position

- Pilot opt-in auction precedes full-scale auction to test process and parameters
- PUC approval of the full-scale auction as part of EDCs default service plans, expected by 2Q 2012

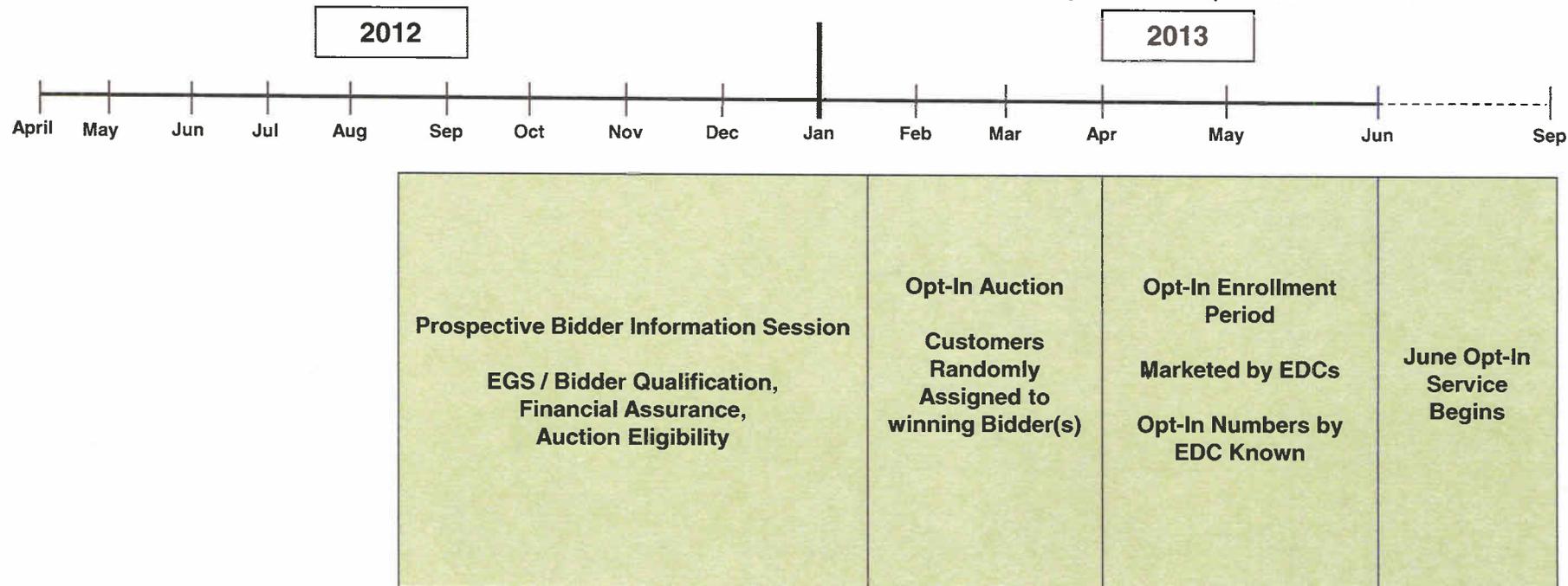


The Exelon Companies do not support timing which switches customers during the first default service plan

Auction Timing – Pilot and Full Scale Auctions

ME/PN/PP/WP

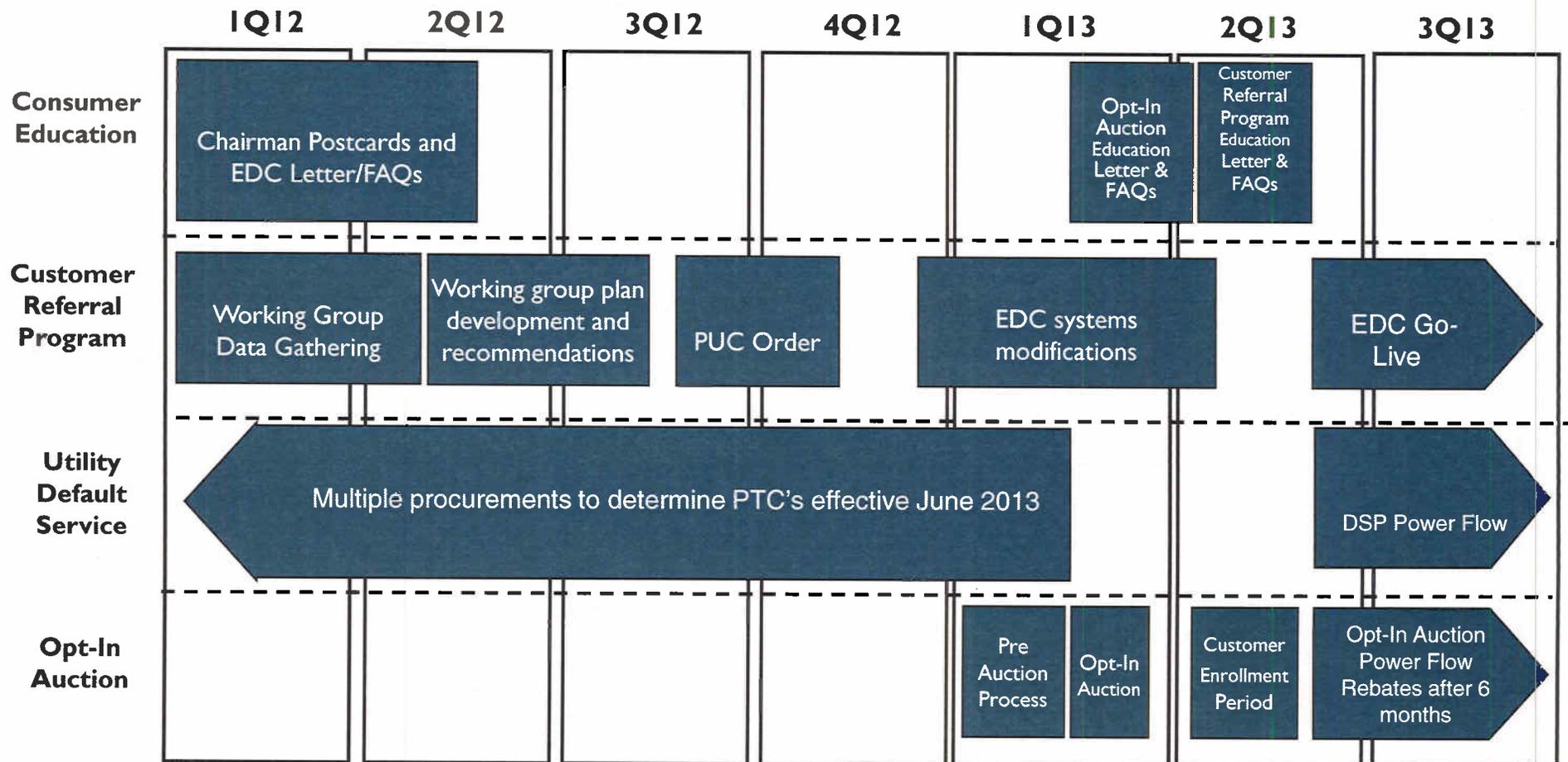
- No pilot opt-in auction
- PUC approval of the full-scale auction as part of EDCs default service plans. Proposed Timeline:



Auction Timing – A Coordinated Approach

FES / PPL Electric Position

- No need for pilot programs
- A holistic approach should be followed to assure success by minimizing customer and supplier confusion
- The Opt-In Auction can not be implemented, or structured, in isolation from other programs. Proposed Timeline:



Timing

Options

DE / Dominion Retail / IGS – To the extent possible, enrollment period would occur prior to wholesale default service procurements for 6/1/13; customers would be offered participation with known switching bonus and promise that commodity price will be at or below a reference price.

FES – No sooner than June 1, 2013 (see prior slide for details).

ME/PN/PP/WP – Auction would occur prior to enrollment.

DLC – No sooner than June 1, 2013 and may be later depending upon outcome in individual POLR cases; Enrollment could be before or after procurement.

PPL Electric – Enrollment period prior to wholesale procurements may be viewed by customers as too long and diminish participation. Doesn't seem consistent with accelerated switching rationale. Also, first delivery to auction participants should be after last full requirements contract made without the possibility of an auction expires (September 1, 2013).

Auction Product

Term of Service

Options

DE / Dominion Retail / IGS

- Bid is fixed price per kWh for 1-year for specified percent of opt-in customers
- Term of service for the full scale auction should coincide, and not overlap, with the PJM capacity year.

ME/PN/PP/WP – 24 month term

DLC / FES– one or two year term

PECO: EGSs should bid a 1 year and a 2 year option; Supports offering the same offer to all participating customers in a class. Prefers that the auction take place BEFORE and so that customers receive a clear price offer. Doesn't prefer the design where the offer asks the customer to opt-in before their price is known. Releases that there are tradeoffs and that there is a 'chicken and egg' problem with which goes first; the DSP RFPOs or the Opt In Auction. Depending on the method selected, someone is taking on the risk of unknown participation rate: either the EGS or the wholesale bidder. Mitigating this risk makes the case for a smaller scale implementation to learn what works and what doesn't work and to thoroughly analysis the process and its impacts on other initiatives.

PPL Electric – Whatever the term is must be meter read to meter read (and not calendar date to calendar date).

Auction Mechanism

Options

DE – Prefers a sealed bid process which is easier to administer, although a descending clock auction mechanism with fixed price determined by auction clearing price (EDC and rate class specific) theoretically provides a lower price to the customer.

Dominion Retail - Sealed Bid Process (PECO MST)

FES - Agree with fixed price or could be %-off PTC descending clock auction (see page 25).

- Suppliers would bid a fixed price per kWh and the volume by customer class that they are willing to serve at that price
- Not necessary to know customer volume in advance of auction since each supplier would bid on volume they're willing to serve at each declining clock price
- Final price would be determined where volumes bid match customer load (balance supply and demand)

PPL Electric – Either auction or sealed bid process acceptable. Should strive for simplicity and least cost.

Auction Mechanism (cont'd)

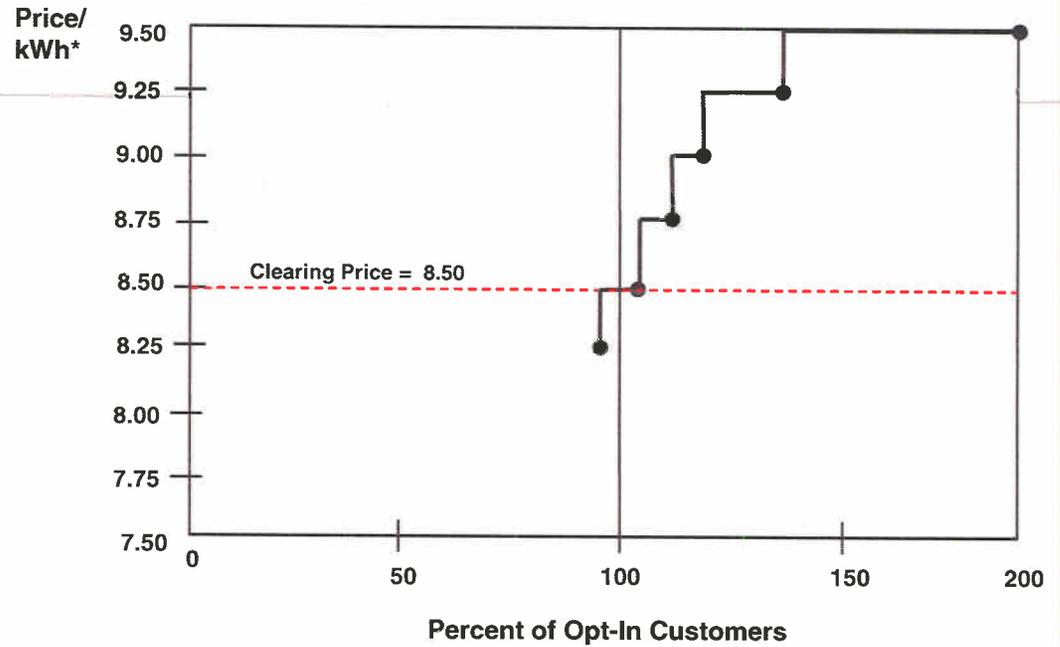
PECO – Doesn't oppose descending clock auction but has conducted clearing price RFPs using sealed bids in the past. This could lower administrative costs to the EGSs.

- If the RFP is based on price, then bidders submit a bid comprised of the “down to” price and the number of customers you'd like to serve at that price or a higher clearing price
- Bidders could submit multiple bids (up to a predetermined limit)
- Bids would be tabulated lowest price to highest, with corresponding cumulative customers, up to the total number of customers to receive offers
- The bid price last in sets the clearing price for all winning bidders
- Winning bidders receive the number of customers bid at their clearing price
- DLC – Would probably favor RFP instead of descending clock auction process especially if administrative costs are less
- ME/PN/PP/WP: No signing bonuses or marketing gimmicks should be permitted; “Fixed price” should be a percent-off PTC for the entire 2-year default service period. Percent-off PTC includes any reconciliation adjustments. The percent-off PTC determined from the largest percent-off PTC sufficient to clear the market.

Descending Clock Auction Mechanism Example

Aggregate Bids By Round			
Round	Price	Total Shares	Status
1	9.50	200	Losing
2	9.25	140	Losing
3	9.00	120	Losing
4	8.75	110	Losing
5	8.50	104	4 Rationed
6	8.25	96	96 Winning

Winning Bidders		
Bidder	Price	Share of Opt-In Customers
1	8.50	34
2	8.50	14 + 1 rationed
3	8.50	30
4	8.50	18+ 3 rationed
Total		100



* Bid increments are shown as uniform for illustration; In practice bid increment will decrease as volume approaches 100 percent of opt-in customers

Bidder 1		
Round	Price	Bid
1	9.50	60
2	9.25	40
3	9.00	40
4	8.75	35
5	8.50	34
6	8.25	34

Bidder 2		
Round	Price	Bid
1	9.50	40
2	9.25	30
3	9.00	20
4	8.75	20
5	8.50	20
6	8.25	14

Bidder 3		
Round	Price	Bid
1	9.50	40
2	9.25	40
3	9.00	35
4	8.75	35
5	8.50	30
6	8.25	30

Bidder 4		
Round	Price	Bid
1	9.50	60
2	9.25	30
3	9.00	25
4	8.75	20
5	8.50	20
6	8.25	18

PECO – Sealed Bid Auction Mechanism Example

Bidder	Quantity Percent of Customers	<u>"Down to"</u> <u>Price</u>	<u>Cumulative</u> <u>Percent</u>		
1	34%	8.2	34%	Winner	
2	15%	8.3	49%	Winner	
3	30%	8.4	79%	Winner	
4	21%	8.5	100%	Winner	CLEARING PRICE
5	10%	8.6	110%		
6	24%	8.7	134%		
7	50%	8.8	184%		

Winning Bidders		
Bidder	Price	Share of Opt-In Customers
1	8.50	34%
2	8.50	15%
3	8.50	30%
4	8.50	21%
Total		100

Other Key Auction Design Elements

Opt-in auction customer participation limits - Pilot

Options

DE / Dominion Retail / IGS – In general, limit pilot auction to 10% to 20% of customers on default service depending on level of retail shopping and absolute number of default service customers (pilot needs to be large enough in scope to test approach / systems) in each utility territory territories. Direct Energy and Dominion Retail would consider considerably smaller pilots in utility territories (e.g. PECO) based on composition of existing wholesale contracts.

- Pilot learnings will be integrated into Full-scale auction implementation

FES - No Pilot; One-time auction with power flow beginning June 2013.

PECO - does not support timing which switches customers during the first default service plan

ExGen/Exelon Energy - still struggling with the idea of holding pilot auctions prior to the 6/1/2013 date. In every legislative and regulatory proceeding in PA and elsewhere, Exelon is consistent in regards to its support of contract sanctity (wholesale and retail) in all cases. It is difficult to conceive of a participation limit for a pilot that would provide indicative results while minimizing existing DSP contract impact. Thus, it is hard for us to imagine a pilot that actually adds value in larger proportion than the harm it might do.

ME/PN/PP/WP: Pilot opt-in auction optional for the EDC, not mandatory. All residential customers are eligible to participate in the full-scale opt-in auction.

PPL Electric – No pilot necessary.

Other Key Auction Design Elements

Opt-in auction customer participation limits – Full Scale Auction

Options

DE / Dominion Retail / IGS - Full-scale opt-in auction: No limit on the number of participants in the full-scale auction, assuming enrollment occurs before the auctions.

FES - Agree with no limit to full-scale auction other than any necessary customer limits set by each EDC to avoid stressing EDC's data processing and enrollment capabilities.

If there is an EDC limit, suggest a subsequent Stage 2 auction for remaining customers

OCA – Full-scale opt-in auction: 10-20% of default customers; first come/first serve; advertising to all default service (in a manner to be determined)

Citizen Power - The opt-in auction customer participation limits for the full scale auction should be between 10 and 20%.

PECO – because of the large number of unknowns, supports a scaled implementation rather than an implementation that targets 100% of the non-shopping population of customers.

PPL Electric – Participation should be open to all eligible customers.

Other Key Auction Design Elements

Opt-in auction customer participation limits – Full Scale Auction

Options

DLC – One-time auction with power flow beginning on or after June 2013 (if program is approved and ready to be implemented) limited to 10% to 20% of customer class POLR load, eligible on a first come/first serve basis; target default service customers but all customers in that class are eligible. Any subsequent auctions would depend on program results.

Other Key Auction Design Elements

Load caps

Options

DE / Dominion Retail / IGS - 25% to 50% cap on the proportion of opt-in customers that any one supplier can be assigned (by EDC and rate class) depending on existing migration levels, absolute number of default service customers and auction participation

FES – No load cap; but if there is going to be requirements, minimum of 3 suppliers participating in the auction (not affiliated with each other)

PECO – There is a natural tradeoff between a load cap and the objective of lowest price to customers. For a phased implementation, perhaps no initial load cap would be better than a load cap.

Exelon generally opposes supplier caps based on the concern that they can prevent the customer from enjoying the absolute lowest cost. If the Commission determines that supplier caps are needed due to a lack of supplier diversity, then they should be sufficiently high enough to offer the best possible prices to the auction customers. As a reference point that could be adopted for the opt-in program, Exelon would like to suggest that the Commission look to the supplier caps implemented in the First Energy Ohio Standard Service Offering (default service) auctions that allow caps of no less than 80% at the Commission's discretion.

ME/PN/PP/WP: No load caps. Restrictions on the competitive outcome of the auction will unnecessarily raise the cost to customers.

Other Key Auction Design Elements

Load caps

Options

DLC – 50% unless 3 or fewer bidders.

PPL Electric – Load caps would make more EGSs visible to customers and send a positive message regarding shopping. Load and financial assurance need to be linked whether there are caps or not.

Other Key Auction Design Elements

Definition of small commercial customers for inclusion in the auction

Options

DE / Dominion Retail / IGS - EDCs propose (subject to PUC approval) definition of eligible small commercial customers

Definition to be based on the smallest commercial class by EDC, or target of 25 kW threshold (whichever is larger); recommend disaggregating to high load-factor and low load-factor sub-segments

UGIES – Small Business should be no more than 25kw and smaller

PECO/DLC – Prevailing definition in default service plans

PPL Electric – Use the level chosen by PUC for the purposes of hourly price default service procurement (100kW?) to eliminate customers who may be in one group for one purpose and another group for another purpose.

FES – Definition of Small commercial class proposed by EDC

PECO – suggests that the definition of small customers from the filed Default Service Plan apply. For example – for PECO, small commercial customers have a 100kW threshold

ME/PN/PP/WP: Small commercial customers are not included in the auction. If small commercial customers are included by PUC order, small commercial customers should be defined by EDC rate schedule.

Other Key Auction Design Elements

Opt-in auction customers' options at the end of the program period

Options

DE - Customer gets a month-to-month variable rate product (with no early cancelation fee) if customer does not affirmatively select a different option. EGS assigned customers in the opt-in auction will be offered a fixed-price offer for extending service with the EGS. Customer must affirmatively choose the fixed-price offering.

OCA - Customer gets a month-to-month with fixed annual rate (with no early cancelation fee) if customer does not affirmatively select a different option. EGS can offer a different product on an affirmative selection basis.

PPL Electric concurs with the OCA position. PPL Electric believes that exposing customer to a variable rate product at the end is inconsistent with objective of overcoming fear of shopping.

FES – At end of term, customers are free to shop with any supplier, but should not return to default service as long as the EGS offers a price that is lower than the PTC. If no action is taken, customer will automatically be renewed at that price with the current EGS.

Dominion - 1 yr fixed price should be the default extension product if a fixed price auction; monthly variable should be default extension product if a matching price auction (variable) is selected

ME/PN/PP/WP: Should be 2-year program

Other Key Auction Design Elements

Opt-in auction customers' options at the end of 1-year program period (cont'd)

PECO – End of term fixed price offering can be for less than one year (e.g.) three months, as long as it is clearly communicated

DLC - At the end of the offer period, EGSs could have the option to continue its discounted price offer and customers could remain with the EGS at the current pricing arrangement. Alternatively, the EGS could choose to no longer continue its price offer, in which case the customer could choose another EGS, choose to stay with its current EGS under different price terms and conditions, or choose to return to default service, but in no instance or at any time should customers be charged more than the default service rate without their affirmative consent.

Citizen Power – Agrees with DLC's position regarding opt-in auction customer's options at the end of the one-year period.

Other Key Auction Design Elements

Auction Design Flexibility

Options

DE - PUC should allow flexibility in specifying customer limits prior to beginning of enrollment period and load caps prior to the auction, depending on market conditions and bidder interest

PECO – This flexibility needs more clarification. For example, how far in advance of the Opt in Auction should all the be known? Also, consider the impact of any uncertainty on default service products. Again, the risk of uncertainty doesn't go away, it just gets shifted between the EGSs and the wholesale suppliers.

DLC – Agree with waiving load caps if few bidders (3 or fewer). Probably do not agree with “flexibility in specifying customer limits prior to enrollment.”

ME/PN/PP/WP: Customer limits and load caps are not necessary.

PPL Electric – Auction design, pricing, communications, waivers of regulations (if necessary) and logistics need to be finalized as a package prior to implementation.

Customer Assignment and Post-Auction Follow-up

Options

DE - At the conclusion of the Opt-In Auction customers are randomly assigned to bidders in proportion to auction winnings, subject to volume limits/caps

- Limits on the proportion of customers in a EDC/rate class that can be served by one EGS, and/or the total number of customers who opt-in is set prior to the auction commencing

ME/PN/PP/WP: Customers randomly assigned in equal proportions based upon the number of winning bidders. No load caps.

Customer Assignment and Post-Auction Follow-up

Options

DE - A bidder who wins 20% of the opt-in customers in a rate class is randomly assigned 20% of the customers from this rate class that have opted in

- Random selection based on number of customers for residential
- For small commercial classes, sub-segments by high-low load and/or load factors may make random assignment more equitable

PECO – Random selection of whomever's not shopping for both R and SCM

FES – Random selection by customer class.

PECO – Random assignments of customers should not be constrained by sub-segments

DLC – Random selection; high/low load factor distinction may not necessarily correlate with cost-of-service and increases costs to administer

ME/PN/PP/WP: Customers randomly assigned in equal proportions based upon the number of winning bidders. No load caps.

PPL Electric – Random assignment, only.

Customer Assignment and Post-Auction Follow-up

Options

DE - EGSs inform assigned opt-in customers of their new generation supplier prior to service date, with ability to select a fixed-price option starting on month 13, and the ability to change suppliers at any time

- Service date bill cycle that begins after (e.g., June 1, 2013 for the full-scale auctions) is common to all EGS bidders who are assigned opt-in customers

FES - When deciding to participate in opt-in program, customers are aware of range of supplier bid prices, savings compared to PTC and any applicable incentive (including drawing prizes), if any.

- Once opt-in period is closed, customers are informed of assigned supplier, and final price

PECO – Service dates must comply with EDC enrollment rules such as switching on the customers' meter-read dates. 12-month term would be 12 billing cycles.

ME/PN/PP/WP: Service period should be the entire 2-year default service period, beginning with the first meter read date on or after June 1, 2013.

Customer Assignment and Post-Auction Follow-up

Options

DE - Assigned Opt-in customers can change supplier at any time, though winning EGSs pay bonus to customers 3 months after service is initiated, if customer remains on that EGS's service at that time

PECO – See prior comments on Bonus Payment

DLC - When deciding to participate in opt-in program, customers are aware of guaranteed savings and any applicable incentive, if any. Participating customers are informed of assigned supplier.

ExGen/Exelon Energy – concerned that this could create a situation where some customers game the auction to receive the signing bonus. As such, we suggest the "wait time" for the signing bonus be extended to 6 months to coincide with what we feel is the appropriate length of time that prices can be guaranteed to be below the DS PTC (assuming the PUC follows through with the Tentative Order contemplation for 6-months price adjustments and reconciliation).

ME/PN/PP/WP: No signing bonuses or marketing gimmicks are permitted.

Other Issues

Enrollment Mailings

Options

DE - EDC will send out the opt-in auction offer to eligible customers (with its logo etc on the copy)

Customer materials will be prepared by EDCs in conjunction with EGSs and OCA/PUC

ME/PN/PP/WP: Opt-in auction should occur before customers receive marketing material to voluntarily join the opt-in group. This allows the customer to know exactly what they are opting-into.

PPL Electric – Cost of developing, printing and mailing will be borne by participating EGSs.

Other Issues

EGS Security

Options

DE – Financial assurance (“FA”) should be amount necessary to cover both performance under energy supply and incentive payments (taking into account any existing FA)

FES - Additional financial assurance, if any, would be limited to amount necessary to cover incentive payments, if any.

PPL Electric – Failure of the EGS will result in customer being returned to default service at then-current default service rate. EDC shall be named beneficiary for financial assurance related to return to default generation supply. Customer shall be entitled to bonus payment if supply is terminated through no fault of the customer. EDC shall also be named beneficiary for assurance related to bonus payments under the expectation that it would be asked to dispense such payments . EGS shall comply with normal financial assurance obligations spelled out in regulations and individual EDC supplier tariffs to the extent they are not already covered by the above assurances.

Outline

Sub-Group Members

Background

Open Issues and Options / Parties' Positions

Appendix – Opt-In Sub Group Initial Report – September 30, 2011

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)¹

September 9, 2011

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 (However, for clarification, any customer will be eligible if he/she is a default service customer during some determined window)
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.

¹ 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.

- B. The auction will not occur in the smaller utility territories (e.g., Pike County, Citizens, Wellsboro, UGI etc.)
- 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 without a cancellation or termination 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.
- d. CAP customers will be eligible to participate in the auction depending on the policies in place for each EDC.

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.

III. 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
 8. Application of auctions to CAP customers.