Auctions in Energy Policy: An example from the U.S.

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1. Disclaimer

2. The Deregulated Market: Key Players

3. State of Competition

4. Lessons on Auction Format

5. Conclusions
1 Disclaimer
Views are solely the presenter’s and do not represent the views of any utility, regulatory commission, supplier or stakeholder.
2 The Deregulated Market: Key Players
Under Deregulations, Consumers Have a Choice Regarding Generation

- Split Generation & Distribution functions
- EDC is regulated
- EDC becomes default service provider (DSP)

Pennsylvania Utility Service Territories

- Retail Choice

Source: Electricchoice.com

Source: papowerswitch.com
As the DSP, EDCs Must Procure Supply for Non-shopping Customers

Wholesale (auction)

Retail (marketing)

Wholesale Supplies (Generators, Traders, etc.)

Non-shopping

Shopping

MW

Utility (agent)

MW

MW

MW

Source: papowerswitch.com

And many more

R Residential (i.e., Domestic Households)
C Commercial Customers
I Industrial Customers
Competition Exists in Both the Wholesale and Retail Side of Market

**Wholesale (auction)**

- Procurements are regulated
- Products are standard
- Many sellers bidding price down
- Suppliers are responsible for migration risks

**Retail (marketing)**

- No assured cost recovery
- A variety of products offered
- Compete based on value-added
- Suppliers are responsible for customer acquisition

**Features:**

- Procurements are regulated
- Products are standard
- Many sellers bidding price down
- Suppliers are responsible for migration risks

**Non-shopping**

- I
- R
- C
- I
- R
- C

**Shopping**

- I
- R
- C
- I
- R
- C
- I
- R
- C
- I
- R
- C
Regulatory Process Considers

- Types of products acquired to supply default service customers (Full Requirements, Block, Load Following Energy, Spot)
- Procurement Groups (how we define Small Commercial vs. Large Industrial)
- Auction Format (DCA vs. RFP)
- Laddering structure (% of supply being replaced each auction)
- Frequency of procurements (2x, 3x or 4x annually)
- Qualification Requirements
- Credit requirements and Contract Terms
- Load caps
Process is Fair and Transparent

- Third-party manager ensures that if generation affiliate participates, it would not be treated differently from any other bidder

- Default service procurements are regulated to ensure fairness and transparency
  - Rules are transparent
  - Criteria are objective
  - Managed by third party
  - All winners are subject to same contract terms
  - Award based solely on price
3 State of Competition
DSP Products Distort Retail Markets

The alleged problem:

- **“Boom”** scenarios are those in which the DSP’s Price to Compare (PTC) is inflated when compared to market price indicators at the time.

- **“Bust”** situations are those in which the DSP’s PTC is lower than market price indicators.

Key Proposed Solutions Focus on Comparability

Proposals aimed at making the DSP products more reflective of the prevailing market conditions and harmonizing the procurement process across DSPs
Key Proposed Solutions

- Statewide Procurement
- Harmonized Qualification Process
- Uniform Contract
- Common definitions for C&I customers
- Procure closer to supply period
- Shorter Term Contracts
- Market Reflective PTC
Reforms have been halted at this time ...

... but leaves some takeaways ...
4 Lessons Learned on Auction Format
DSPs Have Different Procurement Methods

DCA: Descending Clock Auction
RFP: Request for Proposals
DCA in Brief

- **Multi-product design**
  - Tranches for all DSPs are procured at once
  - Products should broadly be substitutes

- **Multi-round design**
  - Suppliers state how many tranches they want to supply at prices suggested by the Auction Manager
  - Prices tick down if there is excess supply
  - Suppliers could switch their bids from one DSP to another

- **Format is inherently flexible**
DCA Has Specific Advantages as a Statewide Process

- Aggregate market feedback lessens uncertainty for bidders and reduces mistakes
  - Favors market-reflective pricing

- Bidders can switch and thus reallocate across DSPs in response to relative prices
  - Favors efficient pricing
  - Not possible with RFPs

Advantages tied to the multiple round nature of DCA cannot be replicated in a coordinated RFP context
5 Conclusion
Conclusion

- Auctions are powerful tools to harness competition
- Auctions must consider policy goals as well as the market design
- Choice of auction format depends on the situation
Thank You.

Contact

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