



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

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Agenda



1. Disclaimer
2. The Deregulated Market: Key Players
3. State of Competition
4. Lessons on Auction Format
5. Conclusions



1 | Disclaimer

Disclaimer



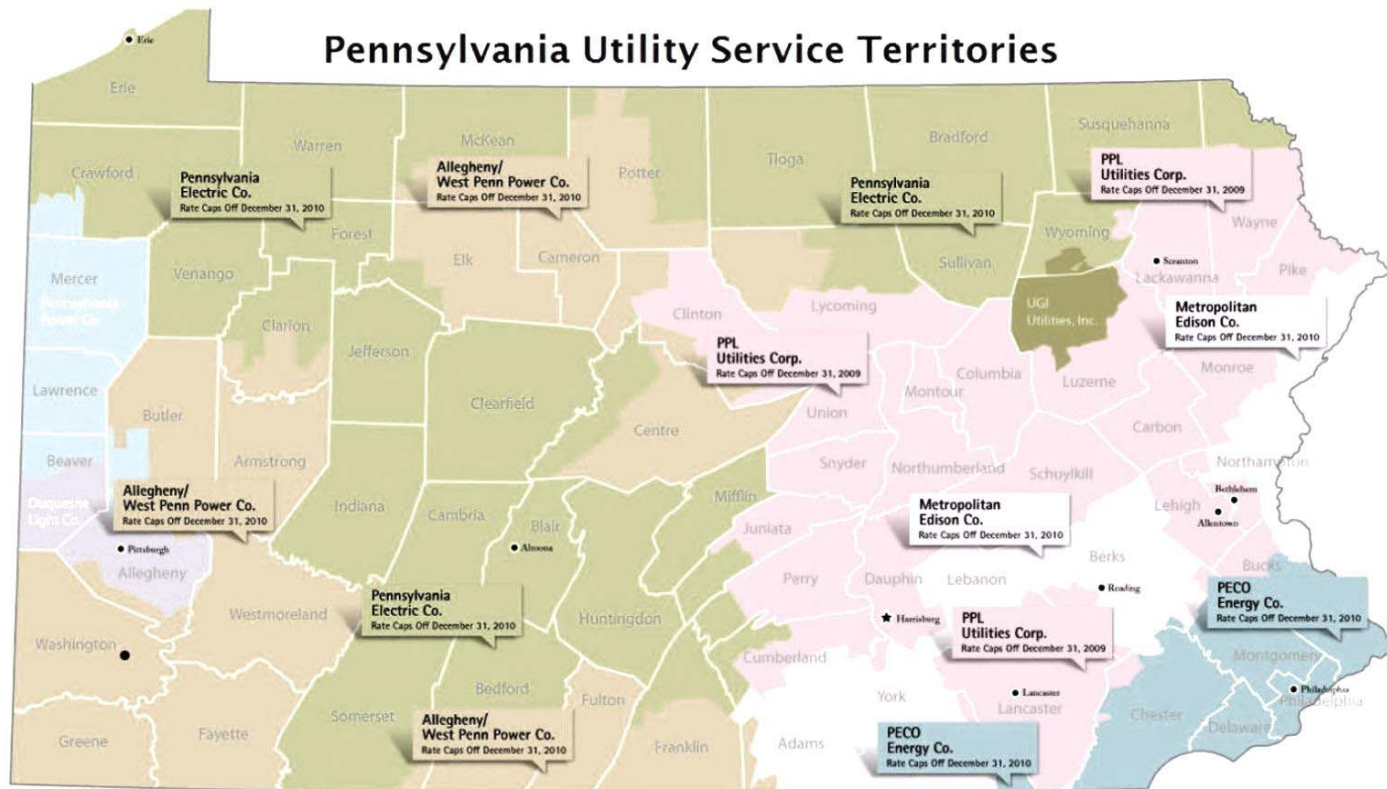
Views are solely the presenter's and do not represent the views of any utility, regulatory commission, supplier or stakeholder.

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)



Source: Electricchoice.com

- Retail Choice



And many more

Source: papowerswitch.com

As the DSP, EDCs Must Procure Supply for Non-shopping Customers

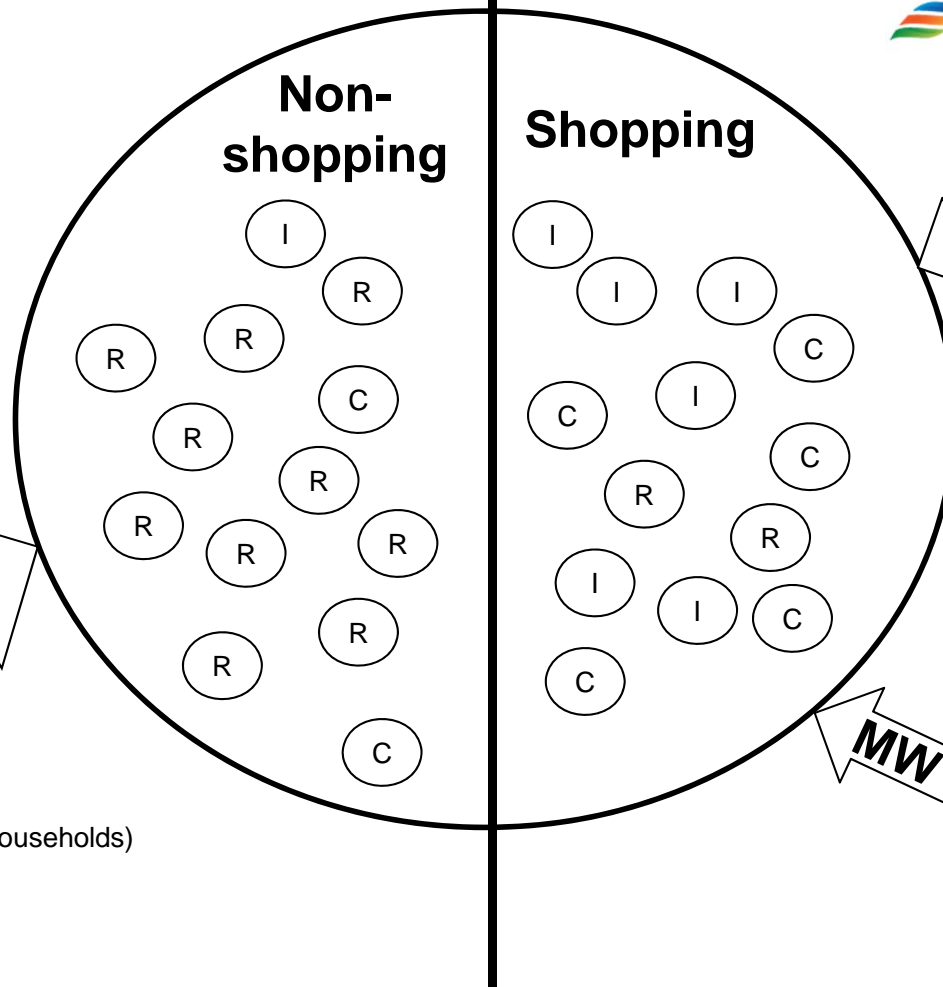


Wholesale
(auction)

Retail
(marketing)

Wholesale
Supplies
(Generators,
Traders, etc.)

Utility
(agent)



- Residential (i.e., Domestic Households)
- Commercial Customers
- Industrial Customers

Source: papowerswitch.com

And many more

Competition Exists in Both the Wholesale and Retail Side of Market

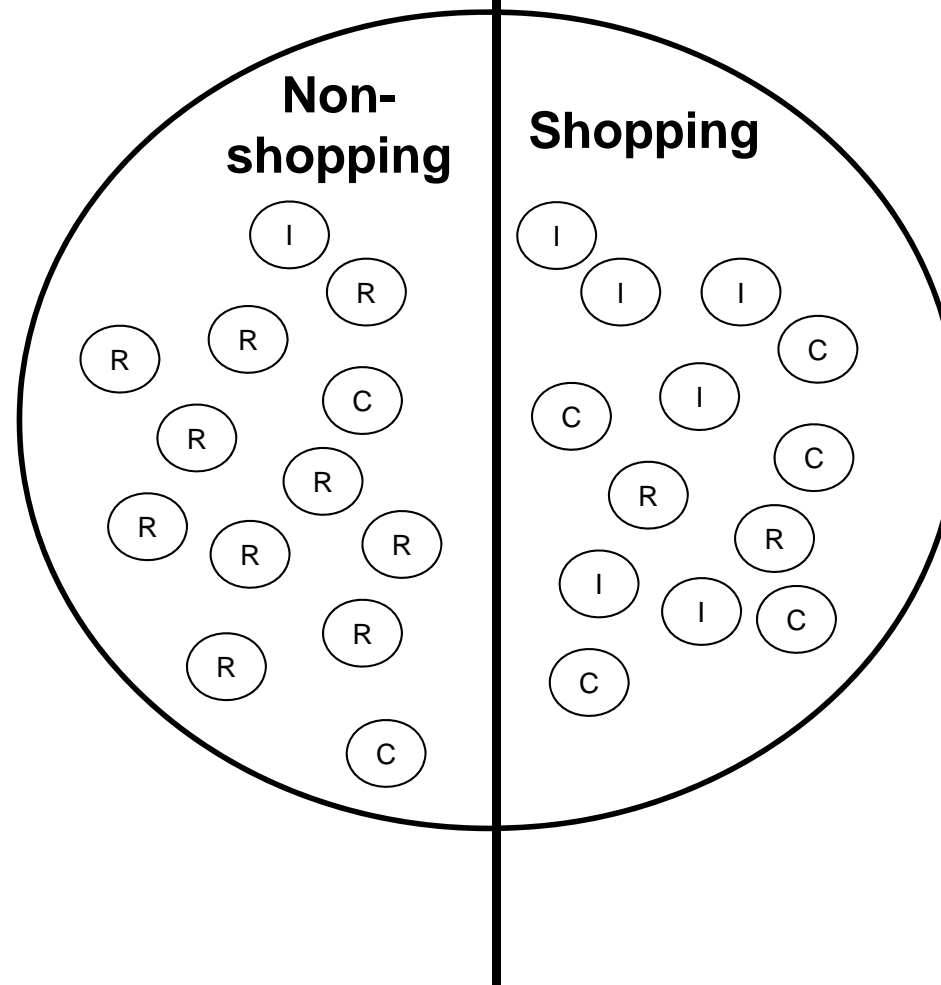


Wholesale
(auction)

Retail
(marketing)

Features:

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



Features:

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

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



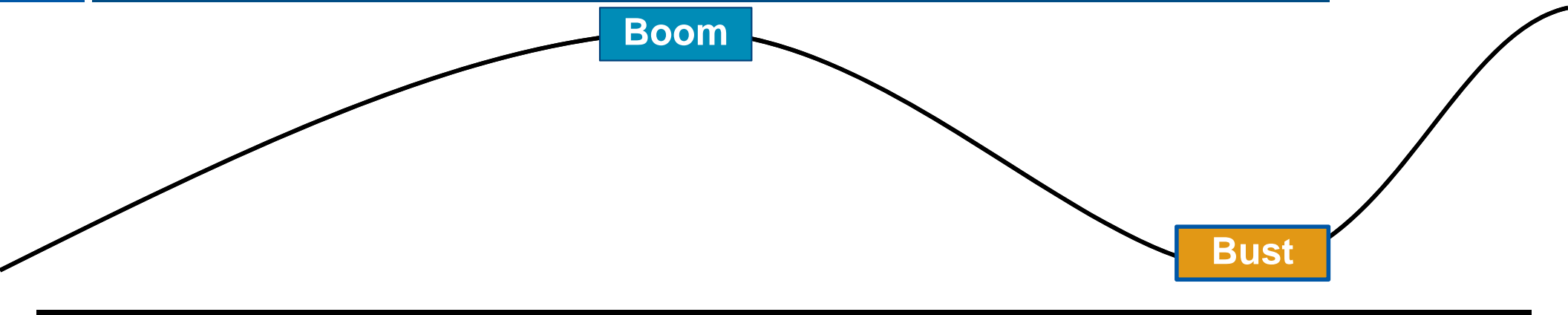
- Third-party manager ensures that if generation affiliate participates, it would not be treated differently from any other bidder
- Default service procurements are regulated to ensure fairness and transparency
 - Rules are transparent
 - Criteria are objective
 - Managed by third party
 - All winners are subject to same contract terms
 - Award based solely on price



3 | State of Competition

DSP Products Distort Retail Markets

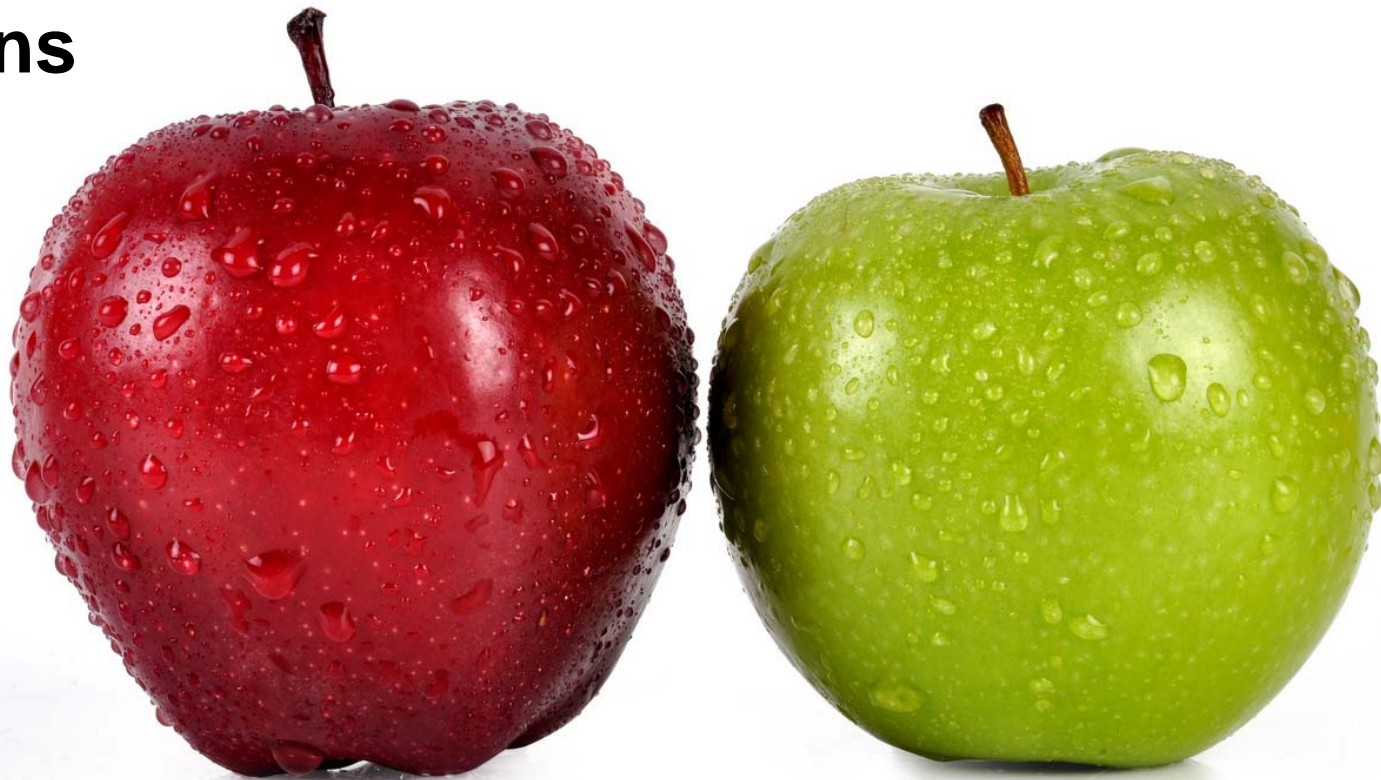
The alleged problem:



- **“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

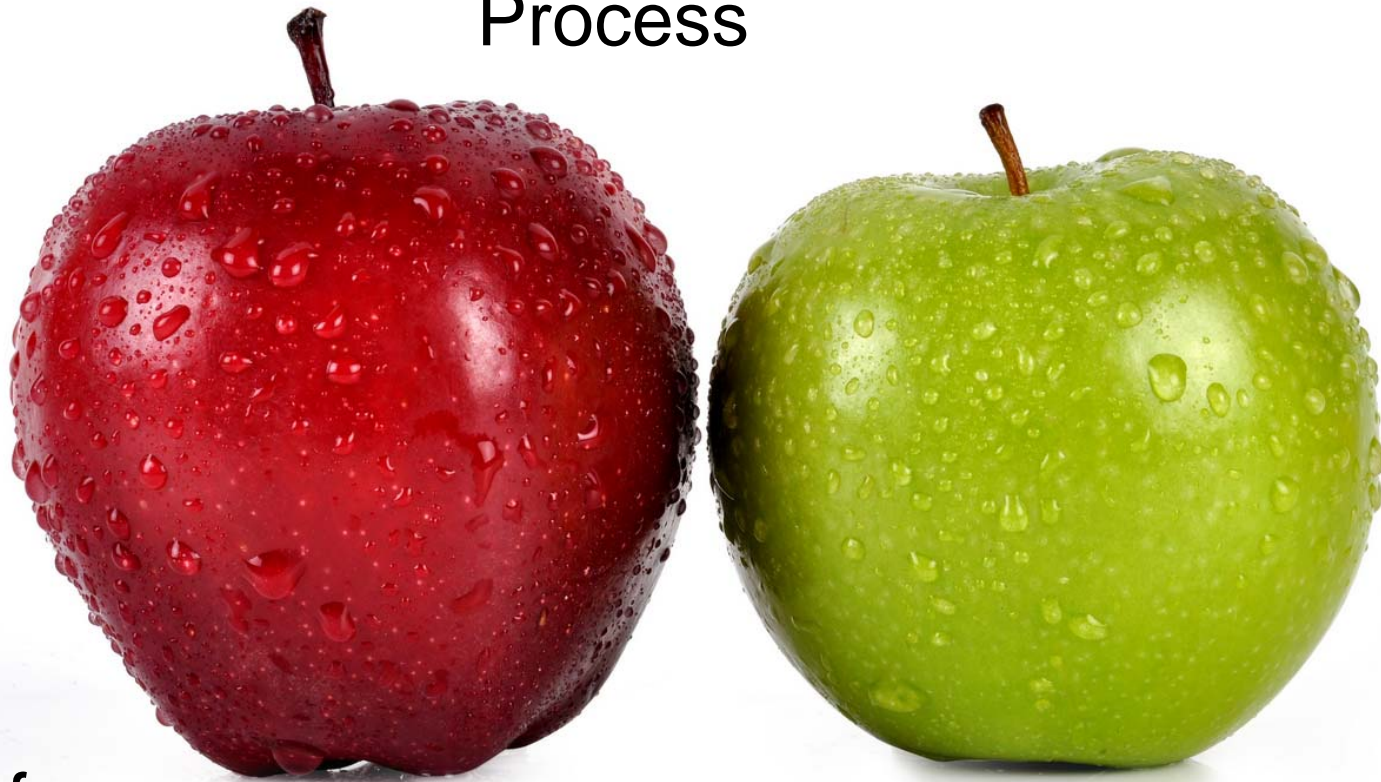
Key Proposed Solutions

- Statewide Procurement

- Harmonized Qualification Process

- Uniform Contract

- Procure closer to supply period



- Common definitions for C&I customers

- Shorter Term Contracts

- Market Reflective PTC

Reforms have been halted at this time ...

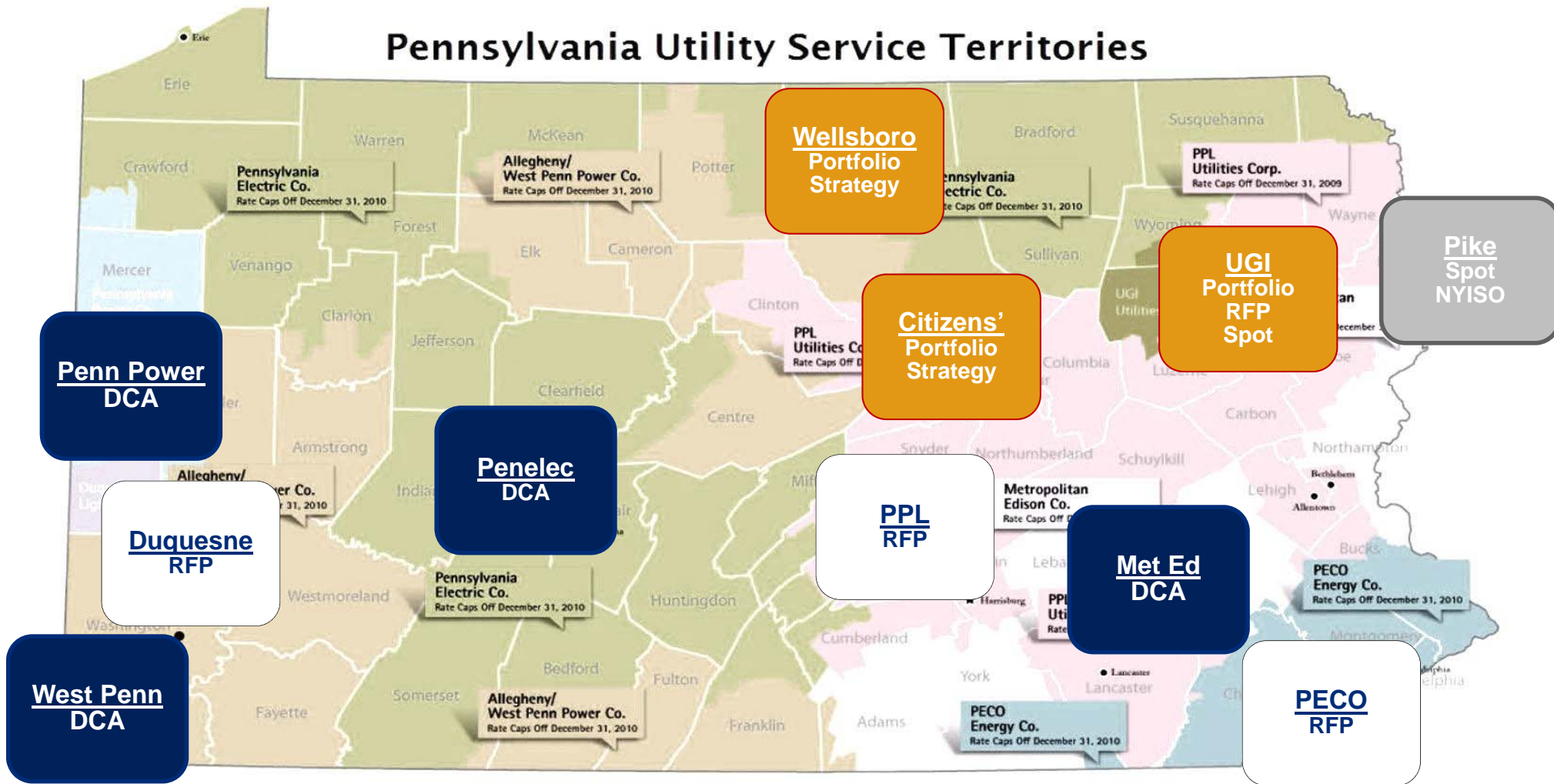


... but leaves some takeaways ...

4 | Lessons Learned on Auction Format

DSPs Have Different Procurement Methods

Pennsylvania Utility Service Territories



DCA: Descending Clock Auction
RFP: Request for Proposals

- **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.

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