

PA Retail Markets Investigation  
Interim Competition Enhancements  
Opt-In Auction Work Plan Status Report

Sub-Group members: Direct Energy, Dominion Retail, FirstEnergy Solutions, IGS Energy, OCA, PECO, PPL, PULP, FirstEnergy, Duquesne, Citizens Power, Exelon Energy, Constellation NewEnergy, Constellation Energy, OSBA UGI Energy Services (“UGIES”), Duquesne Light Energy.

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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 further develop the issues and potential proposals regarding an opt-in auction. The initial sub-group members met on multiple occasions to discuss issue identification and to discuss issues presented by three proposals to implement an opt-in auction. The sub-group members also began the process of developing high level principles regarding an opt-in auction. Following the first sub-group status report to Staff, additional members joined the sub-group. Discussions continued in the sub-group around development of high level principles and identification of issues related to an opt-in auction.

The following is a listing of the Opt-In Auction high-level principles that have been developed through the work of the sub-group and the areas in need of continuing discussion. The high level principles are to serve as a guide for the design of any opt-in auction proposal if one is to be implemented. Significant concerns have been expressed by some of the sub-group members as to certain details of implementation, as to the form of an opt-in auction proposal designed to meet these principles, and as to whether an opt-in auction proposal can be implemented within the requirements of the law. It should also be noted that concerns have been 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.

The high level principles set forth herein have not necessarily been agreed to by all sub-group members and many issues remain for discussion. The sub-group offers these high level principles and the identified areas for discussion in this status report to facilitate the on-going work regarding an opt-in auction.

II. High Level Opt-In Auction 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.
- B. The auction will not occur in the smaller utility territories (i.e., Pike County, Citizens, Wellsboro, UGI).
- 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 at or below the default service price for a period of time )
  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 per utility, dependent on the overall number of customers opting-in.
- 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 fee 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 (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).
  - 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 customer's 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 at the 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.
3. 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).

### III. Areas for Further Discussion and Specific Concerns

- 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. It does not appear that this is a barrier to implementation (e.g., PPL can handle ≤ 10,000 enrollments per day)
  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. Procedures for end of program: Should participating bidders be required to offer some type of fixed-price offering at the end of the aggregation period (months 13 - 24) if a customer affirmatively agrees to this option?
  5. The type of financial assurances that EGSs participating in the auction should be required to post and the items the assurances should cover.
  6. Coordination with other RMI efforts
  7. The type of promotion that will occur for the auctions (e.g., mass media radio, news vs. direct mail only)
  8. Implementation Issues
  9. Ability of universal service participants and LIHEAP recipients to participate in and benefit from opt-in auction, as well as the information to be provided to those customers

UGIES has also raised the following concerns:

10. Whether the \$100 incentive is appropriately set; seems to represent nearly two years of savings that a choice customer could experience by shopping; could it potentially be an “over incentive” and result in shopping customers breaking existing contracts to participate in the opt-in auction?
11. The appropriate definition of small commercial Customers. Is the Commission’s definition of small commercial more appropriate here? The example provided above of 500kW or less captures sophisticated customers who either are already shopping or likely to have made the affirmative decision to stay with the default supplier.
12. Whether an interim auction could have a negative impact on retail competition in the long-term