
Energy Auction

“Names Parties” Alternative Proposal

Energy Auction Workshop

December 18, 2006

Who are the “Named Parties”?

- ❑ Alliance for Retail Energy Markets
- ❑ Constellation Energy Commodities Group, Inc.
- ❑ Constellation NewEnergy, Inc.
- ❑ Coral Power L.L.C.
- ❑ J. Aron & Company, a subsidiary of the Goldman Sachs Group
- ❑ J.P. Morgan Energy Ventures Corporation
- ❑ Lehman Brothers Commodities Services Inc.
- ❑ Mirant Corporation
- ❑ UBS (authorized their support post filing)
- ❑ Western Power Trading Forum

Named Parties represent broad market expertise

Investors

Developers

Load Serving Entities

Wholesale and Retail Power Marketing

Objective of Named Parties Alternative Proposal

- Build on Framework Established by IOUs
- Ensure that auction achieves primary policy objective:

“to maximize the energy value and minimize the residual cost of the RA capacity.” (D.06-07-029, page 32).

Two Key Features to Named Parties Proposal

1. Auctioned Energy Products for initial auction should include back-to-back tolls, synthetic tolls, novations, and unit contingent day ahead calls
2. Implementation details should be worked out through collaborative working group process
3. Additional products to be discussed for future auction during collaborative process

Proposal #1: Energy Product Definitions

- ❑ Multiple products support increased auction competitiveness
- ❑ Multiple Products also increase auction complexity
- ❑ Balance competitiveness versus complexity by limiting first auction to back-to-back tolls, synthetic tolls, novation, and unit contingent day ahead calls.
- ❑ Increase product offerings as experience is gained.

Proposal #2: Collaborative Working Group Process

- Implementation issues must be resolved for successful auction.

- Collaborative Working Group process can address implementation issues in one of two ways:
 - Collaborative process defines issues, reaches consensus, presents Staff and Commission with specific implementation steps, or
 - Collaborative process defines issues, identifies various solutions, presents solutions to Commission for resolution.

Proposal #2: Collaborative Working Group Process

- Collaborative Group reports monthly to Staff.
- Minimizes resource drain on Staff.
- Named Parties believe that Collaborative Working Group process will resolve most, if not all, issues.
- Collaborative Working Group process becomes forum for future modifications to auction process.

Proposal #2: Collaborative Working Group Issues:

Task #1: Define Pre-bid activities/ requirements

■ Define Energy Products

Ensure that energy delivery obligations match the underlying PPA

Determine frequency of auctions for each product

■ Determine Auction Process

RFP or Descending Clock auction

Verification and testing of process, if necessary

Timing of Auction relative to Commercial Operation

Establish procedures for review prior to new auctions

■ Identify credit application requirements

■ Delineate bid collateral requirements

Proposal #2: Collaborative Working Group Issues:

□ Task #2: Create Pro-forma documents:

- Auction Rules Document

- Executable Contracts

- Use existing models as template (first task will be to determine which model documents to use).

Proposal #2: Collaborative Working Group Issues:

Task #3: Describe Bid Evaluation Process

- Price only evaluation.

- Bids awarded promptly (no longer than 48 hours)
 - To Eliminate “open bid” risk
 - To encourage broader participation

- Successful bid metrics
 - Number of bidders
 - Range of bids
 - Use of reservation price should be avoided

Proposal #2: Collaborative Working Group Issues:

- Task #4: Finalize RAR credit and net cost allocation procedures**
 - Process should be open to all interested parties
 - Methods for determining and allocating costs must be transparent.
 - All revenues from the underlying asset should offset capacity costs
 - Allocation process for RAR credits must be transparent
 - Specific procedures for determining energy revenue offset if there are no auction revenue offsets must be developed
 - Determine whether alternative to spot market valuation of energy are appropriate

Role of the Independent Evaluator

- ❑ Named Parties Proposal contains virtually no post-bid contract negotiation.
- ❑ Thus, role of Independent Evaluator is fundamentally different than RFO process.
- ❑ Independent Evaluator serves as Commission adviser verifying that auction process, as developed through the Collaborative Working Group, and approved by the Commission, is conducted in accordance with those terms.
- ❑ Independent Evaluation likely to be key resource during Collaborative Process.

Commission action needed now:

- ❑ Order that first auctions will include back-to-back tolls, synthetic tolls, novations, and unit contingent day ahead calls.
- ❑ Authorize Collaborative Working Group process to work on tasks identified herein
- ❑ Require Collaborative Working Group to report monthly to Staff.
- ❑ Establish deadline for Collaborative Working Group
- ❑ Hire Independent Evaluator, if not already done.