

US Power Auctions

A Sampling...

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History of US Power Auctions

- Electronic Bulletin Boards (e.g. Western US, Florida)
- California
- Independent System Operators (ISOs)– auctions for FERC-specified products
 - Tight Power Pools– NY, PJM, NEPOOL
 - Others– Texas, MISO, ...
- Regional Transmission Organizations

History (cont'd)

- In general, a growing capability, as administratively-provided products have moved into auction formats
- Strong regional variation
- Liquidity concerns
- Role of Enron
- RFPs vs. Auctions

Retrospective

- Goal– Create the potential for competition
 - Open access
 - Functional separation
- Functional Separation (State initiatives)
 - Regulatory Settlements (e.g. PECO)
 - Portfolio shifts– Divestitures, Acquisitions
 - Energy and Ancillary Service Auctions, largely offered through ISOs/RTOs
 - Merger Accommodations

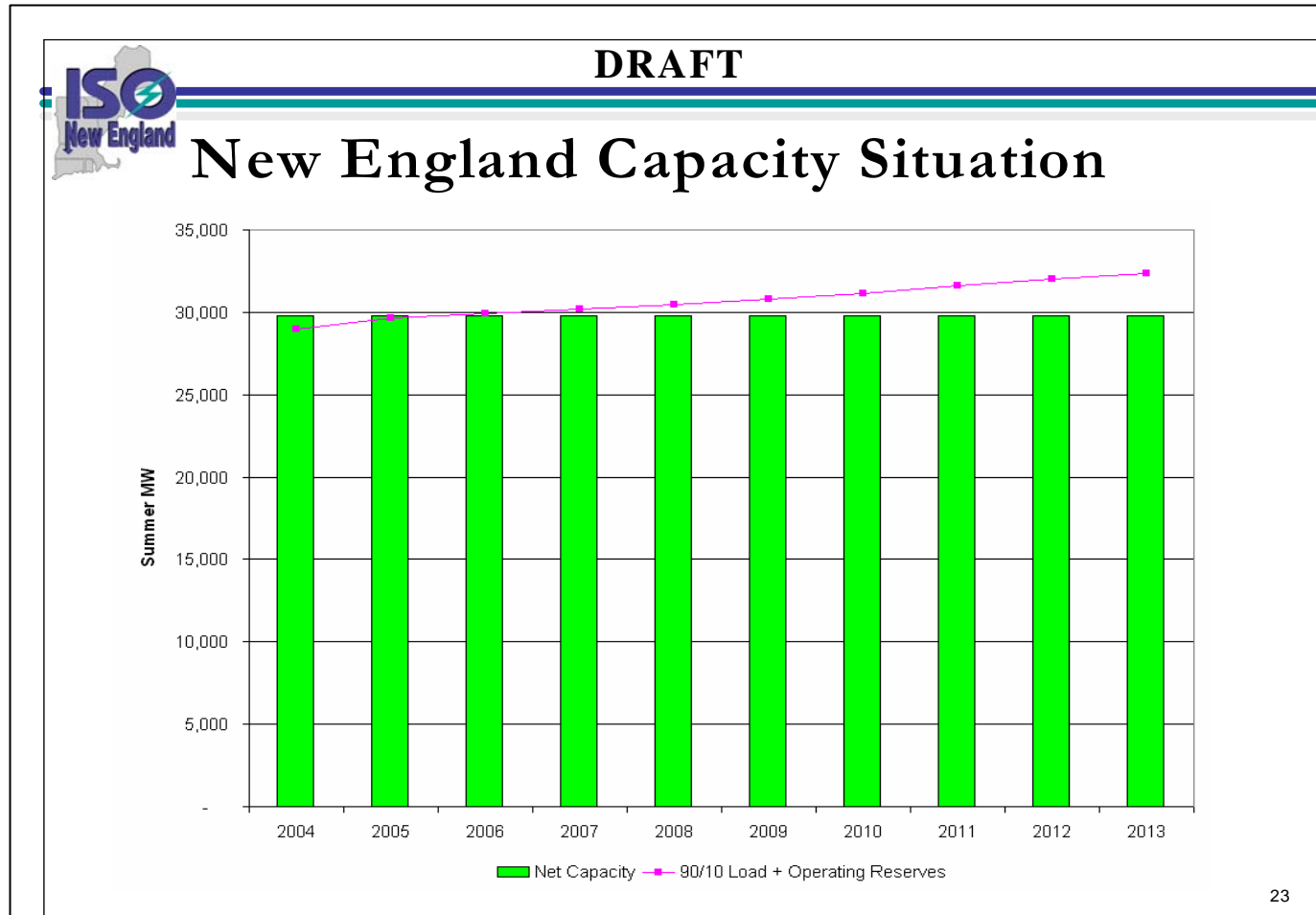
Theme: Good outcomes require careful planning– 2 examples

- Example 1: Capacity auction in New England
- Example 2: Asset divestiture-- Pepco

Example 1: New England Capacity Auction

- Motivation
- Process
- Outcome

Capacity Auction-- Motivation



Capacity Auction-- Process

- December 2002– FERC orders locational capacity market to be part of Standard Market Design
- March 2004 deadline from FERC–
Response = LICAP filing
- June 2005- ALJ acceptance
- November, 2005-March, 2006 Settlement discussions and filing
- June 2006– FERC order accepting settlement

Auctions are not novel to ISO New England

- Currently conducted host of ISO-mediated auctions:
 - Day ahead energy (real and virtual)– hourly prices and quantities
 - Real-time dispatch market –settled hourly, for each five minute interval
 - Transmission rights– monthly, 6 month, annual (path specific)

Capacity Auction– Outcome

- Soon-to-be conducted host of ISO-mediated auctions:
 - Forward Capacity Auction– annually, for 3 years hence
 - Reconfiguration Auctions
 - Annual, 3 per year
 - Seasonal, 2 per year
 - Monthly, One per month

Capacity Auctions

- FCM a Very Significant break-through
 - Formal recognition that energy and capacity are not the same
 - Deals with the political unacceptability (in New England) of energy-only solutions
 - Many compromises, but essentially a positive approach

Forward Capacity Market

- Some distinctive features
 - Locational; Qualification Process
 - All Resources (Supply, Demand; Intermittent)
 - Different treatment of existing and new capacity
 - Performance Requirement
 - Modified Shortage Hours Approach
 - Avoid Double Payment (PER)
 - Provisions concerning Market Power

Forward Capacity Market Timetable

- Transition Payments begin 12/2006
- Market Rules and Manuals 2/2007
- First Auction 2/2008
- Auction Payments begin June, 2010

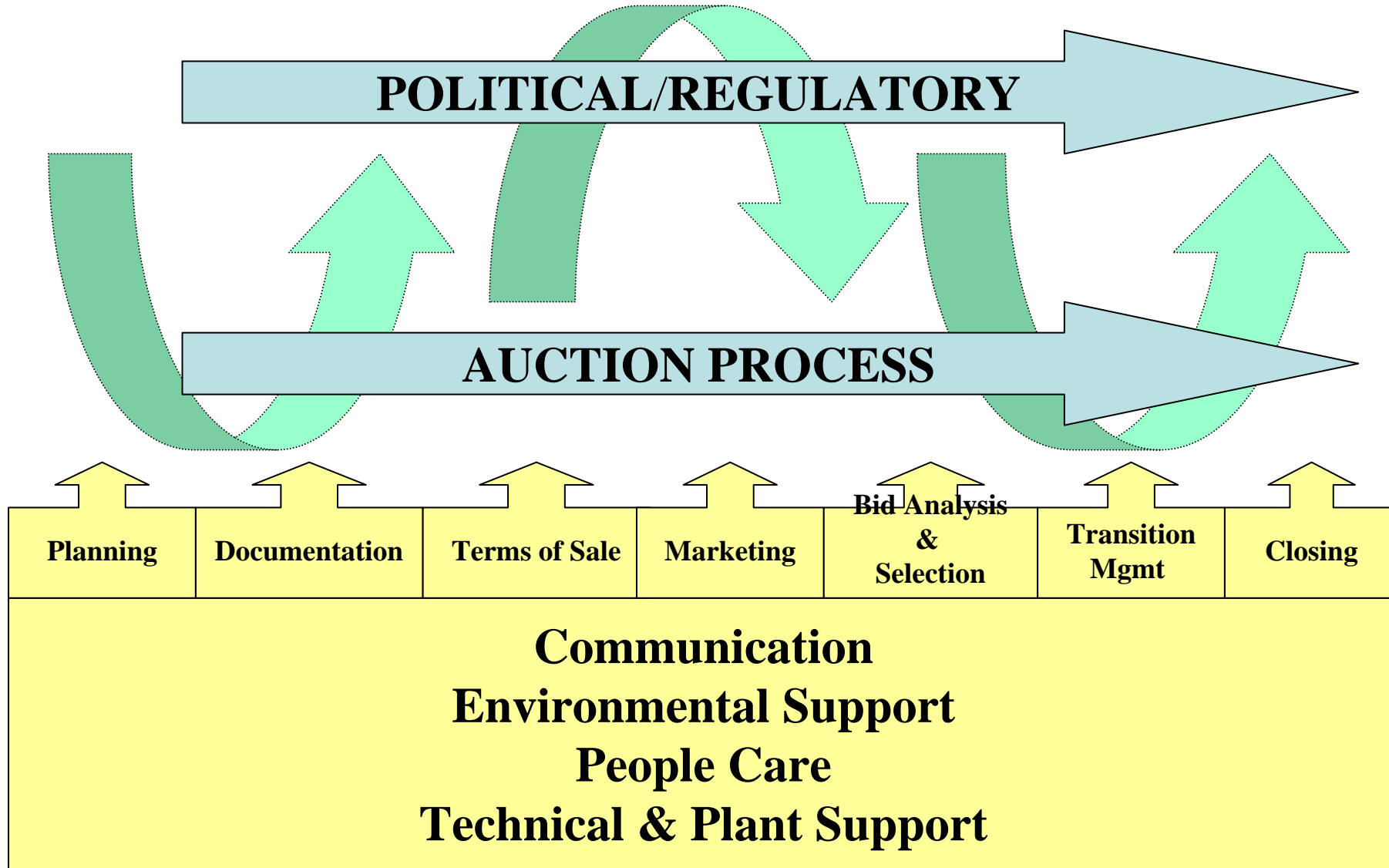
Example 2: Asset Divestiture

- History in the US—
 - Individual Plants
 - Portfolios— PGE to NEES, Other California, Commonwealth Edison, New England, New York, PJM
 - ‘Last’ Mixed Fossil Portfolio Sale— Pepco to Mirant and OE

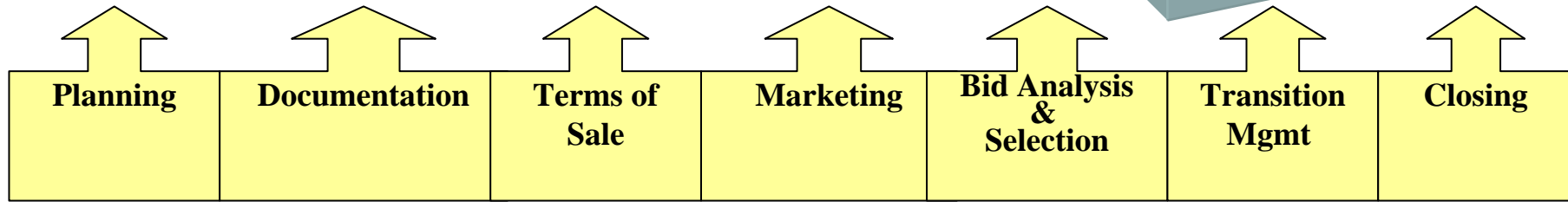
Pepco Sale to Mirant and OE

- Motivation
- Process
- Outcome

DIVESTITURE PROCESS



AUCTION PROCESS



- Goals and Objectives
- Future Industry Framework
- Market Structure
- Asset Structure
- Divestiture Process

- Identify and Assemble Documents
- CD-ROMs
- Bidder Q&A

- P&S
- P&S Attachments, e.g., Asset boundaries, Environmental, Labor, Transition Contracts

- Early Interest Letter
- Confidentiality Agreement
- Qualifications
- Offering Memorandum
- Direct Marketing

- Bid Review
- Bidder Handlers

- Retail Access Program
- Standard Offer Service**
- Regulatory Support
- Market Power Monitoring
- Employee Transition
- Transaction Support

- Bid Review
- Finalize P&S
- Develop Transition Programs
- Closing Process**

Communication
Environmental Support
****People Care**
Technical & Plant Support

Pepco Generation Divestiture-- Outcome

- Closed in 2000/2001 in two principal parts
- Conemaugh to OE~ \$152.5 M for 166 MW
- Rest of Portfolio (Panda, 5320 MW fossil, Transition Power Agreement)
~\$2.65B for 5320 MW fossil plus contracts
- Highest \$/kW for mixed fossil portfolio in US