

VITOL INC.
INV 2023-001
DOE SET 1 QUESTIONS

Date Request Received: 7/7/23
Request No. DOE INV 2023-001

Date of Response: 7/28/23
Contact: Joe Wadsworth
Head of Energy Market
Affairs
jxw@vitol.com

REQUEST: (13) Auction structures can create different outcomes. What, in your opinion, are the relative advantages of sealed bid, descending clock, and reverse auctions as they apply to default energy service procurement?

RESPONSE: In default service energy procurements, there are two kinds of bid structures that are typically utilized: sealed bids (prevalent in New England and Maryland) and descending clock reverse auctions (used in New Jersey, Ohio, and some Pennsylvania utility territories). Having participated in many default service procurements for a number of years across ISO New England and PJM states, we find that descending clock reverse auctions provide greater transparency to bidders and utilities to identify where the market is truly pricing products and associated risks by showing a live price and asking bidders whether or not they can commit to serving load at that level. As the price drops, bidders make calculated assessments of their ability to serve load at the going price by simultaneously obtaining price signals from the bilaterally traded markets. Because of the auction price transparency and the live interaction with the bilaterally traded markets, we feel that the descending clock auction produces the most competitively priced product for end-use customers since the auction clears at the lowest possible level where suppliers are willing to serve load.

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REQUEST: (14) Please explain how your company decides whether to submit a response to a New Hampshire Utility default service RFP. Including, but not limited to:

- a) If your company decides to submit a bid, what information is used to assemble the bids?
- b) Does a utility's debt and credit worthiness impact bids?
- c) How does your company evaluate tranche size and quantity?
- d) How would your company view a subset of tranches that utilized self-supply? How would this impact your bids/participation?
- e) How impactful are economies of scale in procurement bids? Does the size of the procurement impact your ability to create bids?
- f) Do out-of-market conditions, such as the Reliability Must Run contract with Mystic, create additional risks that impact your bids? How could that risk be mitigated?

RESPONSE: A variety of factors go into our decision as to whether or not we participate in a default service RFP, including then-current market conditions (intra-day power price volatility, availability of risk management tools such as options, risk of rapid customer migration into/out of the default service product pool, and out-of-market cost obligations).

- a) Developing bids for supplying default service customers is a complex process that requires utilizing a wide variety of information. Typically, the information includes, but isn't necessarily limited to, components such as:

- the utility’s customer data (e.g. hourly usage data, daily capacity tag values, migration data reports, and customer counts),
 - municipal aggregation data,
 - forward energy prices,
 - capacity prices,
 - congestion prices,
 - ancillary services prices,
 - transmission costs,
 - out-of-market costs,
 - administrative costs,
 - weather data, and
 - length of time to approve procurement awards.
- b) Utility credit/debt ratings are considered as part of the bidding decision, but given the shorter term of transactions, these do not typically play a primary role in decisions on whether or not to bid. However, if a utility is in a tenuous ratings position, it could adversely affect our willingness to participate.
- c) Tranches should be of a large enough size to be transactable with available market products, but not so large as to cause distortions in the market at the time of execution. Tranches that average in the 5-50 MW range are comfortably sized for the market. If an auction/RFP in New England seeks supply of more than approximately 250MW-300MW for one period (for example, average total load up for bid for a 6-month period in one RFP), it can impact the dynamics of the bilaterally traded markets, as this is a large quantity to trade at once in the relatively small New England energy market. Utilizing a laddered procurement strategy will likely help in procuring large quantities of default service supply without distorting the bilateral markets.
- d) Our assumption is that “self-supply” means that the utility goes directly to the ISO New England markets to procure a portion of default service load (as opposed to full coverage by wholesale suppliers). As such, this should not impact bidders adversely, unless the self-supply is such that it makes the default service tranches too small for market transactions. The utility and PUC should be aware of course that self-supply volumes will be subject to the volatility of real-time market prices and any distortions which occur

during the service period (e.g. extreme/unexpected weather, power plant outages, global energy supply shocks, etc.) will be borne by end-use customers.

- e) Please refer to our response in part (c).
- f) Out-of-market cost components, such as the Mystic Cost of Service (“COS”) charge, are problematic as they are difficult to predict and price on a forward basis. Specifically, monthly costs for the COS contract are volatile and have ranged from approximately \$0.25/MWh to approximately \$14.50/MWh. Because there is very little transparent forward information about the operations under the COS contract, monthly cost obligations for load services are unpredictable, which makes pricing this obligation into default service bids extremely challenging and fraught with risk. In our opinion, default service bidders will likely include a high premium to account for this unhedgeable and volatile risk, which likely increases prices for end-use customers. Removing these types of out-of-market costs from the default service obligation and passing them directly to end-use customers would ensure that customers pay the cost of these programs without any mark-up in the form of risk premium. There is no competitive benefit to customers by including these costs in default service supply procurements.

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REQUEST: (15) As a supplier, what percentage of your load is the New Hampshire market?

RESPONSE: We currently do not serve load in New Hampshire. Unhedgeable risks, such as the lack of certainty regarding municipal aggregation customer switching to and from default service and the unpredictability of the Mystic COS contract costs, have discouraged our participation in recent procurements.

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REQUEST: (16) How might the implementation of laddering procurements, where multiple overlapping procurements with varying parameters occur, impact your bid?

RESPONSE: The laddering of procurements would not impact our bidding except in the case that tranche size became too small to hedge in the bilateral markets or the tenor structure of the laddering does not conform with how energy products are traded in the bilateral markets (e.g. splitting the months of January and February into separate procurements does not align with the packaged trading of these months in the bilateral markets, creating risk that's difficult to hedge). In fact, we encourage the use of laddered procurements as a general risk mitigation strategy to benefit end-use customers, since for example, it would lessen the influence that an extraordinary event coinciding with a single supply procurement would have on the price that consumers pay for electricity.

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REQUEST: (17) Currently, New Hampshire utilities solicit bids for full requirements load following service for six-month contracts. How would a longer contract period impact your bid(s)?

RESPONSE: Please see our response to Request 21.

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Contact: Joe Wadsworth
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REQUEST: (18) Would regulatory provisions that limit the frequency of customers switching to and from default service impact your bid?

RESPONSE: The implementation of clear regulatory provisions that define limits on customer switching (e.g. preventing the parking of customers on default service temporarily to wait out high-priced periods) is valuable in providing greater load quantity certainty to default service suppliers for constructing their bids, ultimately leading to more competitively priced supply for end-use customers. We recommend regulatory provisions that clearly define the conditions and limitations for customer switching with respect to municipal aggregations to provide better clarity and certainty to default service suppliers for understanding and valuing migration risk related to municipal aggregation. Without, these provisions, the high risk of migration in and out of municipal aggregation programs could result in significant premiums added to default service bids in order to cover the financial exposure that default suppliers face. While we support states' accommodating municipal aggregation, there needs to be a balance between allowing municipal aggregation switching flexibility and default service product stability. Having clearly defined rules that govern municipal aggregation customer switching that are harmonized with default service programs will greatly help in striking this balance.

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REQUEST: (19) How does your company evaluate the risk of having a contract *not* approved by the Public Utilities Commission?

RESPONSE: We are less likely to bid in jurisdictions where the Public Utility Commission has not approved the results of a default service procurement, as it creates the risk of liquidating a hedge position at a loss, especially in markets where prices are volatile. When a supplier is informed of being a winning bidder, the supplier typically goes to market to procure expected supply volumes for the term of the transaction. If the Public Utility Commission then cancels the results of the procurement, a winning supplier must then liquidate its hedges in the market. If market prices have moved against the supplier, the supplier will be forced to take a loss on the sale. In addition to market losses, the supplier will also be forced to absorb transaction fees on both the purchase and the sale of its hedge volumes.

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REQUEST: (20) What wholesale market products are not included in real time energy prices?

RESPONSE: For this question, we assume the DOE wants to learn what products besides real time energy make up the overall requirements and price of delivering energy to end-use customers but are not included in the real time price for energy. These additional products generally include the following:

- Capacity,
- Ancillary services,
- Congestion,
- Transmission,
- Out-of-market obligations (e.g. Net Commitment Period Compensation, Mystic Cost of Service contract), and
- Administrative costs as defined by ISO New England's tariff.

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REQUEST: (21) In your opinion, how frequently should procurements occur? For example, should there be one procurement covering the whole year, multiple procurements covering different seasons, or some combination thereof?

RESPONSE: Based on our experience in other jurisdictions that utilize competitive default supply procurements, quarterly procurements seeking a portion of total load for specified periods work well, particularly for small customer classes. Since calendar year energy products trade more liquidly in the bilateral markets for New England, we support having quarterly procurements for January through December load supply, particularly for small consumer classes, to smooth out market price fluctuations and diminish the impact of exposure to an acute market disruption that can skew a single procurement result but not reflect longer term market conditions. This will also eliminate unnecessary added risk costs that raise prices for consumers by aligning the procurement period with the tenors of products traded in the bilateral markets and preventing the separation of months that trade as a package (e.g. January and February, July and August).

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REQUEST: (22) Please describe why a procurement result can differ from real time prices.

RESPONSE: Please see our responses to Request 14 a. and 14 f. and Request 20.

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REQUEST: (23) Please describe the role of a third-party procurement manager in other jurisdictions in which you operate and explain how such an entity would interact with the procurement process in New Hampshire.

RESPONSE: In jurisdictions such as New Jersey, the third-party procurement manager serves as the liaison between bidders and the utilities and regulators for the entire default service procurement process. The procurement manager has several responsibilities, including hosting information and training sessions, relaying questions from suppliers to the utility, providing organized data to suppliers, managing the registration and creditworthiness process, managing and operating the auction process, and executing post-auction contracting and financial performance assurance functions. While the process may at times have some drawbacks (e.g. occasional delays in obtaining data or answers to questions since communications go through the procurement manager and not directly to the utility or regulator), it is overall an efficient, stable, and repeatable process. If New Hampshire opts to hire a third-party procurement manager, we recommend the same role as described above, with an improvement of allowing suppliers to communicate directly with the utilities and the procurement manager, particularly for technical and data-related questions, in order to facilitate efficient information exchange.