

**Bidding Rules for Auctions  
to Procure Default Service Products  
Under Default Service Program DSP-IX  
for Duquesne Light Company**

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## 1. INTRODUCTION

These Bidding Rules apply to the provider of last resort (“POLR”) or Default Service auctions for The Duquesne Light Company (hereafter referred to as “Duquesne” or “the Company”) to procure supply for the provision of Default Service products for all of their customers that take retail generation service from the Company.

Bidders also need to be familiar with other documents for the auctions including the Default Service Supplier Master Agreement (“SMA”), the Part 1 Application, and the Part 2 Application. Bidders also should visit the Information Website regularly for up-to-date information including information specific to each auction.

The URL for the Information Website is [www.DuquesneDSP.com](http://www.DuquesneDSP.com). The Information Website provides relevant data, the schedule and key dates for participating in the auction process, frequently asked questions, and other information.

Unless noted otherwise, all capitalized terms in this document are defined in the SMA available on the Information Website.

If there are any inconsistencies between this document and the prevailing Supplier Master Agreement the prevailing Supplier Master Agreement governs.

Unless noted otherwise, “days” in this document refer to business days and times refer to prevailing Eastern Time.

Examples in this document are illustrative only.

These Bidding Rules may be modified from time to time by the Independent Market Monitor in order to: (i) facilitate a more competitive auction process, (ii) make any necessary corrections and/or clarifications, (iii) account for any change in auction products, (iv) conform to any change in state or federal law or rule, and (v) apply any change deemed necessary at the discretion of the Independent Market Monitor. Such modifications will be carried out in consultation with the Company but without prior consent from the Pennsylvania Public Utilities Commission (“PA PUC” or “Commission”) or any past, current, or potential bidder and will be posted to the Information Website.

### 1.1 Independent Market Monitor

The Independent Market Monitor is CRA International, Inc. d/b/a Charles River Associates, Inc. The Independent Market Monitor can be contacted by sending an email to [DuquesneDSP@crai.com](mailto:DuquesneDSP@crai.com). The full contact information for the Independent Market Monitor is as follows:

Attn: Robert Lee Vice President / Independent Market Monitor  
CRA International, Inc.  
200 Clarendon Street, T-9  
Boston, MA 02116-5092  
Phone: 617.425.3365  
[DuquesneDSP@crai.com](mailto:DuquesneDSP@crai.com).

## **2. THE PRODUCTS BEING PROCURED**

This section summarizes the common elements of the products to be procured in the auctions. The Information Website provides details about the products to be procured in a specific auction, including the delivery periods and the number of tranches.

### **2.1 Default Service Load**

Default Service (“DS”) Load will be the Company’s aggregate requirements to serve their DS Customers. For purposes of these Bidding Rules, a “Default Service Customer” is a retail customer of a Company taking Default Service.

### **2.2 Full Requirements Service**

As used in this document, Full Requirements Service is intended to be synonymous with the requirements associated with DS Load as defined in the Supplier Master Agreement. The auctions are designed to procure Full Requirements Service for Default Service Customers of the Company. Winning bidders will assume all responsibilities of a PJM Load Serving Entity (“LSE”) and will be responsible for supplying all obligations associated with Full Requirements Service.

Full Requirements Service includes Energy, Capacity, transmission, Ancillary Services, Alternative Energy Credits for compliance with the AEPS Act, transmission and distribution system losses, congestion management costs, and such other products and services that are required except for distribution service.

The Company will provide distribution services and will be responsible for Network Integrated Transmission Service (“NITS”) charges and for other non-market-based FERC approved transmission charges for shopping and non-shopping load.

The obligations of winning bidders are defined in the Supplier Master Agreement.

### **2.3 Tranches**

For each product, DS Load will be divided into units called tranches, with each tranche representing a defined percentage of DS Load. For example, if there are 25 tranches for a given customer class, then each tranche equals one divided by twenty-five, or four percent of that class’s load. This includes four percent (4%) of the actual hourly energy required for DS Load for the applicable delivery period as well as four percent (4%) of the PJM capacity requirement for the applicable delivery period.

The number of tranches intended to be procured for each product in the auction is referred to as the “tranche target” for that product. The Independent Market Monitor may reduce the tranche target(s) prior to the auction if indications of interest in the auction are such that doing so is required to promote more competitive bidding.

### **3. PRICES PAID TO DS SUPPLIERS**

The payment to DS Suppliers for tranches won will be a function of the auction prices.

As described in the SMA, the Company will prepare a statement of amounts due to the DS Supplier that includes the following.

- For Fixed Price Transactions, this statement will show the aggregate amounts due based on the DS Fixed Price multiplied by the hourly Energy requirements of DS Supply used to determine the PMEA multiplied by the DS Fixed Percentage as shown in Appendix C of the SMA for each hour of the Billing Month. An additional line item (payment or credit), with detailed description of Capacity Proxy Price transaction mechanism is added to the SMA, See Appendix F, "Supplement".
- For Hourly Price Transactions, this statement will show the aggregate amounts due based on the DS Fixed Price Adder For Hourly Price Service multiplied by the hourly Energy requirements of DS Supply used to determine the PMEA multiplied by the DS Fixed Percentage as shown in Appendix C for each hour of the Billing Month, plus the DS Variable Payments used to determine the PMEA for each hour of the Billing Month.

### **4. PRIOR TO THE START OF BIDDING**

#### **4.1 Information Provided to Bidders**

The Company will make available certain information to suppliers in advance of qualification. This information will be posted on the Information Website.

##### **4.1.1 Data**

The Company will provide:

- Historical load data for the most recent three-year period available.
- Historical hourly load data for total retail load and DS Load.
- Historical switching statistics and historical load profiles.

##### **4.1.2 Minimum and Maximum Starting Prices**

The Independent Market Monitor will announce a minimum starting price and a maximum starting price for each product in the auction. The minimum and maximum starting prices establish the range for the possible round 1 prices for the auction.

### 4.1.3 Tranche Targets

No later than eight (8) days prior to the Part 1 Application Due Date, the Independent Market Monitor will announce for each product in the auction:

- The tranche target or the number of tranches being procured.

## 4.2 Qualification Process

There are two steps or parts to the application process to become eligible to bid in an auction. In Part 1, prospective bidders apply to become Qualified Bidders. In Part 2, each Qualified Bidder provides certifications and its indicative offer and pre-bid security in order to become a Registered Bidder. Only Registered Bidders can bid in the auction.

If a prospective bidder completes the Part 1 Application and becomes a Qualified Bidder for an auction in a calendar year, the bidder does not need to complete the Part 1 Application again for any subsequent auction scheduled in the same calendar year — unless the bidder's situation has changed sufficiently to warrant modifying its prior Part 1 Application.

In any case, the Qualified Bidder still needs to complete a Part 2 Application for each auction separately even if the bidder completed a Part 2 Application for a prior auction.

A prospective bidder is obligated to inform the Independent Market Monitor of any change in its status related to the information the prospective bidder previously provided in its Part 1 Application or its Part 2 Application.

### 4.2.1 Part 1 Application: Certifications and Other Qualified Bidder Requirements

In the Part 1 Application process, prospective bidders will be required to:

- Submit an application from a person with the power to bind the bidder.
- Agree to comply with all rules of the auction.
- Agree that if they become winning bidders, they will execute the Supplier Master Agreement with the Company following the close of the auction.
- Confirm either that they are a PJM market participant and Load Serving Entity in PJM, or that there exist no impediments to them becoming a PJM market participant and Load Serving Entity in PJM by the start of the applicable delivery period.
- Agree that if they become winning bidders, they will comply with the creditworthiness requirements set forth in the Supplier Master Agreement.
- Certify that if they qualify to participate, they will not disclose information regarding the list of Qualified Bidders or confidential information that may be obtained during the bidding process about Qualified Bidders.

- Certify that if they qualify to participate, they will not substitute another entity in their place, transfer their rights to another entity, or otherwise assign their status as Qualified Bidders to another entity.
- If the applicant would like to propose changes to the Pre-Bid Security Letter of Credit submit those changes in an electronic, red-lined version. The Company is not obligated to accept any changes.

Part 1 Applications must be submitted to the Independent Market Monitor no later than 12:00 pm noon prevailing Eastern Time on the Part 1 Application Due Date. Prospective bidders will be notified by the Independent Market Monitor no later than three (3) days after the Part 1 Application Due Date whether they succeeded in becoming a Qualified Bidder.

A prospective bidder that has qualified during the Part 1 Application process becomes a Qualified Bidder. The Independent Market Monitor will send a list of all Qualified Bidders to relevant parties that have undertaken to maintain the confidentiality of the list of Qualified Bidders. The relevant parties that will receive this list of Qualified Bidders are as follows:

- Each Qualified Bidder.
- Other parties as necessary to oversee the proper conduct of the auction, including representatives from the Company and the Commission.

All parties receiving a list of Qualified Bidders will be subject to the confidentiality requirements as specified below and in the Communications Protocols.

#### 4.2.2 Part 2 Application: Certifications, Indicative Offer, and Pre-Bid Security

For each auction, Qualified Bidders must successfully complete the Part 2 Application process in order to become a Registered Bidder that can bid in the auction. Only Qualified Bidders may submit a Part 2 Application.

Part 2 Applications must be submitted to the Independent Market Monitor no later than 12:00 pm noon prevailing Eastern Time on the Part 2 Application Due Date. Qualified Bidders will be notified by the Independent Market Monitor whether they succeeded in the Part 2 Application process no later than three (3) days after the Part 2 Application Due Date.

##### Certifications

In the Part 2 Application, each Qualified Bidder will make a number of certifications to ensure the confidentiality of information regarding the auction, and in regards to associations with other Qualified Bidders to ensure that they are participating independently of other Qualified Bidders. More details on the certifications can be found in the section, "Confidential Information, Certifications, and Sanctions," later in this document.

The competitiveness of the auction and the ability of the auction to produce competitive prices may be harmed by the coordinated or collusive behavior that associations among bidders may facilitate. As the Independent Market Monitor relies on a number of factors to assess and promote competitive bidding, including the number of independent competitors, providing inaccurate information or insufficient



disclosure of associations in the Part 2 Application is prohibited. More details on rules and protocols for participation by associated bidders can be found in the section, "Bidder Associations," later in this document.

### Indicative Offer

With its Part 2 Application, a Qualified Bidder will be required to submit an indicative offer and to post pre-bid security sufficient for this indicative offer. A Qualified Bidder's indicative offer specifies two (2) numbers of tranches for each product in the auction. For each product, the first number represents the number of tranches that the Qualified Bidder is willing to serve at the minimum starting price for the product and the second number represents the number of tranches that the Qualified Bidder is willing to serve at the maximum starting price for the product. For each product, the number of tranches specified in the indicative offer at the minimum starting price cannot exceed the number of tranches specified at the maximum starting price.

Indicative offers are important in two respects. First, the Independent Market Monitor may use the indicative offers to inform the setting of the starting price for each product (i.e., round 1 announced price). Second, the total number of tranches indicated by the Qualified Bidder at the maximum starting prices is used to determine the Qualified Bidder's initial eligibility (i.e., the maximum total number of tranches the Qualified Bidder can bid across all products in round 1 of the auction): the Qualified Bidder's initial eligibility is set to the sum of the number of tranches at the maximum starting prices across all products in the Qualified Bidder's indicative offer. During the auction, bidders are free to switch their tranches among products in response to changes in announced prices (subject to any bidding restrictions). However, a bidder will never be able to bid a total number of tranches across all products that exceeds the bidder's initial eligibility. Thus, the number of tranches for each product at the maximum starting prices in the Qualified Bidder's indicative offer does not limit the number of tranches the Qualified Bidder can bid on a particular product, but the total number of tranches at the maximum starting prices across all products in the indicative offer must be equal to the Qualified Bidder's desired initial eligibility across all products.

Any restriction on the Qualified Bidder's initial eligibility also will restrict the Qualified Bidder's indicative offer commensurately. A Qualified Bidder's initial eligibility is restricted to be no higher than any applicable load cap.

### Restrictions on the Indicative Offer: Load Cap

A load cap is specified for each customer class and delivery period. For a particular customer class and delivery period, no bidder may serve more tranches than the load cap for that customer class and delivery period. Thus, in the auction, each Qualified Bidder will be subject to the load caps which limit the number of tranches the bidder can bid on and win in the auction for a particular customer class and delivery period. Note that the load cap in an auction for a particular customer class and delivery period may vary by bidder because some bidders already may be committed to serving some of the load for the customer class and delivery period. The Calendar Web page on the Information Website shows the load caps that will be in effect.

### Pre-Bid Security

Each Qualified Bidder must post pre-bid security sufficient for its indicative offer at the maximum starting prices. Each Qualified Bidder must post pre-bid security in an amount specified in the Part 2 Application for all products included in the bidder's indicative offer at the maximum starting prices. Either cash (electronic wire transfer) or a Pre-Bid Security Letter of Credit will be accepted as pre-bid security. The standard form of the Pre-Bid Security Letter of Credit will be posted to the Information Website.

If a draft Pre-Bid Security Letter of Credit submitted by the prospective bidder with the Part 1 Application does not conform to the standard form, the prospective bidder shall indicate clearly any and all modifications in electronic, redlined format from the standard form. Proposed modifications must be received by the Independent Market Monitor no later than 12:00 pm noon prevailing Eastern Time on the Part 1 Application Due Date. The Company will assess, in their sole and exclusive discretion, whether such modifications are acceptable. The prospective bidder, in its Part 2 Application, must provide either cash or the required executed Pre-Bid Security Letter of Credit that uses either the standard form or incorporates only those modifications to the standard form accepted by the Company upon review of the bidder's Part 1 Application.

The following is an example calculation of the pre-bid security.

#### **Example 1. Pre-Bid Security**

A Qualified Bidder submits an indicative offer of 5 tranches for Product-1 at the minimum starting price and 10 tranches for Product-1 at the maximum starting price, 3 tranches for Product-2 at the minimum starting price and 6 tranches for Product-2 at the maximum starting price, and 2 tranches for Product-3 at the minimum starting price and 4 tranches for Product-3 at the maximum starting price. The Qualified Bidder must submit with this indicative offer of 20 tranches at the maximum starting prices cash or a Pre-Bid Security Letter of Credit of \$250,000 per tranche. The Qualified Bidder thus posts cash or a Pre-Bid Security Letter of Credit of \$5 million (20 tranches X 250,000 per tranche).

For a Part 2 Application to be accepted, it must be complete and it must include the Qualified Bidder's indicative offer and pre-bid security (either a Pre-Bid Security Letter of Credit or cash). After its Part 2 Application is accepted, a Qualified Bidder becomes a Registered Bidder. The Independent Market Monitor will send each Registered Bidder a summary of its indicative offer, pre-bid security amount, and the Registered Bidder's initial eligibility.

The Independent Market Monitor also will send simultaneously to each Registered Bidder, and to those other parties as necessary to oversee the proper conduct of the auction, a list of Registered Bidders, and the total initial eligibility aggregated across all Registered Bidders. The list of Registered Bidders and the total initial eligibility will not be released publicly. Qualified Bidders, in their Part 2 Applications, will have undertaken to maintain the confidentiality of the list of Registered Bidders and the total initial eligibility, and to destroy documents including electronic files with this information provided by the Independent Market Monitor within five (5) days following the conclusion of the auction, as explained further in the Part 2 Application.

Pre-bid security will remain in full force, at a minimum, until five (5) calendar days after the conclusion of the auction. Subsequently, a bidder's pre-bid security will be cancelled and returned as follows:

- As soon as practical if the bidder has won no tranches.
- After the bidder has signed the Supplier Master Agreement and has complied with all creditworthiness requirements of the Supplier Master Agreement for the tranches that it has won.

The Company can collect on the financial guarantees of bidders that win tranches but that fail to sign the Supplier Master Agreement or fail to comply with the creditworthiness requirements immediately following the close of the auction.

### **4.3 Starting Prices (Round 1 Prices)**

No later than three (3) days before bidding starts for an auction, the Independent Market Monitor will inform all Registered Bidders of the starting price for each product in the auction, which are the announced prices that will be in effect for round 1. For each product, the starting price will be no higher than the maximum starting price and no lower than the minimum starting price for the product. The Independent Market Monitor will set the starting prices.

### **4.4 Extraordinary Events**

The Independent Market Monitor, in consultation with the Company, may determine that, due to extraordinary events, the minimum starting prices and the maximum starting prices require revision. In this event, the schedule for the auction process also may be revised. If the indicative offers have already been received, the Independent Market Monitor will request that the Registered Bidders (or the Qualified Bidders if the Part 2 Application process had not been completed) revise their indicative offers on the basis of the revised minimum starting prices and the revised maximum starting prices.

For such a revision to be necessary, an extraordinary event must occur between the time at which the minimum starting prices and the maximum starting prices are announced and the day on which bidding starts. An extraordinary event must be agreed to by the Company and the Independent Market Monitor. Such events could include, but are not limited to, the advent of war, the disruption of a major supply source for potentially extended periods, or other events that could significantly affect the cost of supply.

If an extraordinary event occurs during that time, the Independent Market Monitor in consultation with the Company will determine revised minimum starting prices and revised maximum starting prices. New indicative offers based on these prices will be required from bidders. To the extent practicable, the determination of new minimum and maximum starting prices, the submission of new indicative offers, and if necessary the announcement of new starting prices, will be carried out so as to afford bidders sufficient time. If an extraordinary event occurs during that time that causes a possible change in the schedule, the Independent Market Monitor in consultation with the Company will determine a revised schedule.

## **5. BIDDING FORMAT**

In order to participate in the auction, bidders must have been successful in the Part 1 Application process and the Part 2 Application process. Only Registered Bidders are permitted to participate in the auction. Registered Bidders will bid in the auction by accessing the Independent Market Monitor's secure Bidding Website.

### **5.1 Descending-Price Clock Format**

The auction format is a simultaneous, multiple-round, descending-price clock format for "N" rounds. The number of rounds "N" for the auction is not pre-determined. Instead, it is determined by the closing rule for the auction. All products are bid on simultaneously in the auction during bidding rounds. Prices are announced for the products prior to each bidding round, and during a bidding round, a bidder submits for each product the number of tranches it would supply at the product's announced price. If the total number of tranches bid on a product exceeds the product's tranche target — i.e., the product is over-subscribed — the announced price for the product will be reduced for the next round. Announced prices will tend to decline round by round until the number of tranches bid falls sufficiently so that no product is over-subscribed, there is no excess supply, and the auction closes.

An important rule is that a bidder cannot reduce the number of tranches it bids on a product if the product's announced price does not fall from one round to the next, the bidder can only maintain or increase the number of tranches it bids on the product (subject to other rules).

#### **5.1.1 Rounds**

Each bidding round has a specified start time and a specified end time. These start and end times are enforced by the Bidding Website. Prior to the start of the auction, the initial schedule of rounds will be available on the Bidding Website. As the auction progresses, the Independent Market Monitor will keep bidders informed of the start and end times of subsequent rounds through the Bidding Website. The Independent Market Monitor retains the option of pausing a round, delaying the start or end of a round, or otherwise adjusting the round times. The Independent Market Monitor will inform bidders through the Bidding Website if it exercises this discretion to change the start time or end time of a round.

Bidders submit bids only during a round. When a round ends, the bids submitted during that round are processed and results of that round are reported to all bidders as explained in the section "Reporting Round Results" below. Each bidder then prepares to submit a bid for the next round if the auction remains open.

#### **5.1.2 The Announced Prices and a Bid**

Prior to the start of each round, the Independent Market Monitor announces the price that will be in effect for each product for the round. The announced prices are specified in dollars per MWh or \$/MWh. The price announced by the Independent Market Monitor for a product applies to all of the product's tranches. Each bidder decides how many tranches it is willing and able to supply for each product at the product's announced price. A bid by a bidder is, for each product, the number of tranches that the bidder is willing to supply at that announced price for the product. All bids are irrevocable and binding upon the bidders.

At sufficiently high announced prices there will be excess supply for a product causing it to be over-subscribed; that is, the number of tranches bid on the product will exceed the product's tranche target. Excess supply for a product is measured as the total number of tranches bid across all bidders on the product in the round minus the product's tranche target.

### 5.1.3 Reservation Prices and Starting Prices

There are reservation prices for the auction. The reservation price for a product is the price above which tranches for the product will not be purchased. If, at the conclusion of the auction, the reservation price for a product has not been met, no tranches for that product will be awarded. At the conclusion of the auction, the Independent Market Monitor will inform bidders through the Bidding Website if the reservation price for a product has not been met.

Starting prices for the auction are determined after reservation prices are determined. The starting price for a product will be no lower than the reservation price for the product. The starting price may be the same as or higher than the reservation price for the product. The Independent Market Monitor will not announce the reservation prices to bidders.

### 5.1.4 Restrictions on What a Bidder Can Bid

The total number of tranches a bidder bids across all products in a round cannot exceed the bidder's eligibility for that round. That is, a bidder's eligibility to bid in a round is the maximum number of tranches it is allowed to bid across all products in that round. A bidder's eligibility for a round simply is the number of tranches the bidder bid across all products in the preceding round. Thus, a bidder cannot increase its eligibility from round to round; its eligibility can only stay the same or decrease from round to round.

A bidder is not allowed to bid more tranches on a product in a round than the product's tranche target.

A bidder is not allowed to bid a number of tranches that would violate its load caps.

If the announced price for a product has been reduced from one round to the next round, the bidder can reduce the number of tranches it bid on that product.

If the announced price for a product has not been reduced from one round to the next round, the bidder cannot reduce the number of tranches it bid on that product.

Subject to the rules above, in each round a bidder is free to bid its tranches of eligibility across products however it would like to. Thus, subject to the rules above, bidders are free to reduce the tranches they bid and/or to switch tranches across products from round to round in response to changes in the announced prices for the products.

As discussed above, a bidder's initial eligibility is its eligibility for round 1 of the auction and is determined by the total number of tranches across products at the maximum starting prices in the bidder's indicative offer. During the course of the auction, the bidder's eligibility will decline or remain unchanged depending on the total number of tranches bid by the bidder across all products in each round of the auction.

If a bidder's eligibility falls to zero tranches, it will not be allowed to bid in any more rounds of the auction.

### 5.1.5 Multiple Bids by a Bidder

Because a bidder may decide to change a bid it submitted previously within the current open round, a bidder is allowed to make multiple bid submissions in a round as long as the round remains open for bidding, with each new confirmed bid fully replacing any prior bids it submitted in the round. If a bidder submits multiple bids in a round, the only bid considered in the round for that bidder is the last confirmed bid it submitted in the round.

### 5.1.6 Default Bid

After the end of a round, a default bid is submitted automatically on behalf of a bidder if the bidder:

- Entered the round with positive eligibility, and
- Did not submit a confirmed bid in the round.

If the announced price for a product declined from the prior round, then zero tranches will be the default bid for that product.

If the announced price for a product did not decline from the prior round, then the number of tranches that the bidder bid on the product in the prior round as determined by the end-of-round ("EOR") procedure following the prior round will be the default bid for the product.

Each bidder is solely responsible for ensuring it submits a confirmed bid prior to the end of the round in order to avoid a default bid of being submitted on the bidder's behalf.

### 5.1.7 The EOR Procedure

At the end of each round, the EOR procedure is used to process the confirmed bids submitted during the round. The EOR procedure includes the following steps.

- (a) The supply for each product is measured by summing up — across the confirmed bids for all bidders — the number of tranches bid for each product.
- (b) The subscription level for each product is measured by comparing the supply for the product to the tranche target for the product. A product is over-subscribed, subscribed, or under-subscribed if supply (i.e., the number of tranches bid) is greater than, equal to, or less than the product's tranche target, respectively.
- (c) If a product has become under-subscribed in a round after being over-subscribed or subscribed the preceding round, then tranches will be rolled back to the point that the product is subscribed. That is, at least some of the tranches that were bid on the product in the preceding round but were not bid on the product in this round will be deemed to still be bid on the product. The price at which a rolled-back tranche is deemed to have been bid is the announced price at which the bidder had bid the tranche. There is a priority for selecting tranches to roll back: tranches that otherwise would no longer be bid on any product in the auction and therefore would be reductions in bidders' eligibilities are rolled back first (referred to as "eligibility reduction tranches"), and then if needed, tranches that were switched from being bid on the product to being bid on another product are selected next for rollbacks (referred to as "switched tranches"). Eligibility reduction tranches are selected for rollback proportionally tranche by tranche, not bidder by bidder. Likewise, switched tranches are selected for rollback proportionally tranche by tranche, not bidder by bidder. More precisely, because integer tranches are needed, the actual selection mechanism uses a random number generator to select rollbacks tranche by tranche (first for eligibility reduction tranches and then for switched tranches), but on average the selection process results in proportional rollbacks (with priority given to rolling back eligibility reduction tranches first and then switched tranches second). All tranches that are rolled back maintain their eligibility for the bidder. Any bidder subjected to a rollback will be notified through the Bidding Website that a rollback has taken place and will be informed about the number of tranches deemed bid on each product and the price at which those tranches have been deemed bid.

For example, suppose a bidder bids five tranches on a product and no tranches on other products in round 8, and the price for that product is reduced for round 9 and the bidder bids only 1 tranche on the product and no tranches on other products for round 9. Absent any EOR rollbacks following round 9, the bidder's eligibility would fall from 5 tranches to 1 tranche. But during the EOR procedure, suppose two of the bidder's 4 "eligibility reduction tranches" are rolled back on the product, so after the EOR procedure the bidder is deemed to have bid 3 tranches on the product — one at the announced price of the round just ended and two at the announced price of the preceding round — and therefore the bidder is deemed to have 3 tranches of eligibility for round 10.

- (d) “Free eligibility tranches” are determined as follows. A product’s “bid stack” is a list of the tranches currently deemed bid on the product and the price at which each tranche was bid for the product. Because of rollbacks, a product’s bid stack could have tranches bid at two different prices: some tranches bid at the earlier, higher announced price and some tranches bid at the current, lower announced price. Any new tranche bid on such a product necessarily will be bid at the current, lower announced price. This new tranche will displace a tranche in the product’s bid stack at the earlier, higher announced price. The displaced tranche becomes a “free eligibility tranche”. The free eligibility tranche counts as eligibility for the bidder and the bidder can bid the tranche on any product next round, or the bidder can choose not to bid the tranche at all. But if the bidder does not bid the free eligibility tranche next round, the tranche will be withdrawn from the auction permanently and will reduce the bidder’s eligibility by one tranche after the next round.
- (e) In some cases, the Independent Market Monitor may reduce the tranche targets. The criteria that could lead to such a reduction will be determined prior to the auction but will not be announced to bidders. Once certain pre-specified criteria related to excess supply and related to the reservation price have been met, the discretion to reduce a product’s tranche target because of insufficient supply will be eliminated. Thus, any tranche target reduction would more likely occur in the earlier rounds of the auction. If the Independent Market Monitor reduces the tranche target for a product, bidders will be informed of the revised tranche target. Any bidder that would otherwise have eligibility exceeding the new tranche targets will have its eligibility reduced so as not to exceed the new tranche targets.
- (f) A determination is made as to whether the auction has concluded. The auction concludes if either case (1) or case (2) holds as follows:
- (1) If no product is over-subscribed and no bidder has free eligibility tranches, then the auction has concluded. Note that it is possible for the auction to continue with no reductions in announced prices: if no product is over-subscribed there will be no reductions in announced prices but if there are free eligibility tranches (which “expire” after one round), the auction will remain open for one more round (subject to case (2) described next), allowing bidders with free eligibility to bid those tranches.
- (2) If this is the Nth consecutive round in which no product is over-subscribed, and the number of tranches of free eligibility across all bidders as a percentage of the sum of the tranche targets across all products is less than or equal to X percent, then the auction has concluded. The parameter values for N and X will be determined before the auction and disclosed to bidders. The likelihood that this case (2) would occur in a particular auction is expected to be low.
- (g) If the auction has concluded, the winning tranches, winning bidders, and winning prices are determined as described below.
- (h) If the auction has not concluded, then each bidder’s eligibility is determined for the next round and the price decrement (if any) is determined for each product for the next round.

### 5.1.8 Price Decrements

The announced prices will decrease round by round by a price decrement for over-subscribed products. Pre-specified price guidelines are used to determine the price decrements. Generally the price



decrement for a product will be larger during the earlier rounds in the auction and when the excess supply for the product is greater. The price decrement is expected to be between 0.5 percent and 5 percent of the announced price for the most recently completed round.

The Independent Market Monitor reserves the right to override the price decrement guidelines. The exercise of that right is expected to occur rarely and only if doing so is believed to facilitate timely progression of the bidding process.

## **5.2 Determination of Winning Tranches, Winning Bidders, and Winning Prices**

At the close of the auction, the winning tranches, winning bidders, and winning prices will be determined as follows.

As a result of the EOR procedure as described above, there are two possible scenarios for a product at the close of the auction.

### **5.2.1 Bid Stack for a Product has All Tranches at the Same Price**

In this scenario, there are no rolled-back tranches in the product's bid stack: all tranches in the bid stack were bid at the last announced price, including any tranches bid on the product in the last round of the auction as determined by the EOR procedure. That announced price is the product's clearing price, and all tranches in the product's bid stack are winning tranches if the clearing price satisfies the product's reservation price. Bidders who bid those tranches are winning bidders for those tranches, and all bidders with winning tranches on a product are paid the same price — i.e., the clearing price — for each winning tranche on the product. Note that this scenario includes the case in which a product was over-subscribed at some point in the auction and later became subscribed, as well as the case in which a product was always under-subscribed in the auction (i.e., it was never subscribed or over-subscribed in the auction).

### **5.2.2 Bid Stack for a Product has Tranches at Two Different Prices**

In this scenario, there are rolled-back tranches in the product's bid stack: some tranches in the bid stack were bid at the last announced price (including any tranches bid on the product in the last round of the auction as determined by the EOR procedure), and some tranches in the bid stack were bid at the next most recent announced price. In this case, the product's clearing price is the next most recent announced price — which necessarily is higher than the last announced price for the product. All tranches in the product's bid stack are winning tranches if the clearing price satisfies the product's reservation price. Bidders who bid those tranches are winning bidders for those tranches, and all bidders with winning tranches on a product are paid the same price — i.e., the clearing price — for each winning tranche on the product.

## **5.3 Example of Round by Round Bidding**

Appendix A provides an illustrative example of round by round bidding.

## 5.4 Reporting Round Results

During a round, a bidder can see the current status of the auction and the status of the current round, including the announced price for each product as well as the bidder's own bidding status. A bidder will not see information about other bidders.

Between rounds the Bidding Website will report the results for the most recently completed round. Results for all prior rounds also will be accessible. The round results for each completed round in the auction will show:

- The announced price for each product and a range of total supply across all bidders and all products (that is, a range that includes the total number of tranches bid). The range of total supply will be defined by two different integers. Actual total supply will not be reported but will be at least as high as the lower of the two integers and no higher than the higher of the two integers. There is an exception to reporting total supply as a range of two integers: if and when total supply has declined below a pre-determined level, total supply will be reported simply as being below that level. The reporting ranges will be made available to bidders in advance of each auction.
- For each bidder, that bidder's bid for the round — i.e., the number of tranches bid on each product — and the bidder's eligibility for the next round. (Each bidder does not see information about other bidders.)
- The announced price for each product for the next round if the auction will continue with the next round.

## 5.5 Frequency of Rounds

The early rounds of bidding may be longer in duration than later rounds. The duration of a bidding round will be at least five (5) minutes.

The time between early rounds of bidding may be longer in duration than for later rounds. The time between bidding rounds will be at least five (5) minutes.

The schedule of rounds and any changes to the schedule will be made available to bidders through the Bidding Website.

## 5.6 Auction Pause Declared by Independent Market Monitor

At any time during the auction, the Independent Market Monitor may decide to pause the auction. This is not expected to happen often and it may not happen at all. If the Independent Market Monitor pauses the auction or changes the round schedule in any way, bidders will be notified.

## **6. AFTER THE AUCTION CLOSES**

The results of the auction are tentative until the Commission approves or rejects the auction results.

### **6.1 Notification of Results**

At the close of the auction, the Independent Market Monitor will notify the Company, the Commission, and the bidders as follows:

- The Independent Market Monitor will notify the Company and the Commission of the identities of the winning bidders, the number of tranches won by each winning bidder, the prices for the tranches won, and other aggregated information on the bidding process.
- The Independent Market Monitor will notify each winning bidder of how many tranches the bidder has won and at what prices. The Independent Market Monitor also will notify the unsuccessful bidders that they have not won any tranches.

The names of the winning bidders, the number of tranches won by each bidder, and the winning prices will remain confidential until released publicly by the Commission or as required by law.

The auction results are tentative subject to Commission approval.

After the conclusion of the auction and provision of the auction results to the Commission by the Independent Market Monitor, the Commission will approve or reject the auction results.

### **6.2 Execution of Supplier Master Agreement**

The winning bidders and Duquesne will execute the SMA following the Commission's approval of the auction results. Each winning bidder must demonstrate compliance with the creditworthiness requirements set forth in the SMA.

### **6.3 Sanctions for Failure to Execute the Supplier Master Agreement**

A winning bidder's pre-bid security posted with its Part 2 Application may be forfeited if the winning bidder does not execute the SMA within three (3) business days following the Commission's approval of the auction result, if it fails to demonstrate compliance with the creditworthiness requirements set forth in the SMA, or if it fails to agree to any of the terms of the SMA. In addition, the winning bidder will be liable for damages incurred by the Company, which will be determined in accordance with the terms of the SMA as though the winning bidder were a defaulting party to the SMA.

## **7. USE OF THE BIDDING WEBSITE**

Bidders will bid in the auction by accessing the Independent Market Monitor's secure Bidding Website. An Authorized Representative of a bidder will access the Bidding Website using their own Web browser. The URL address for the Bidding Website, as well as user names and passwords, will be provided to Registered Bidders prior to the start of the auction.

The Bidding Website allows a Registered Bidder to submit and confirm bids, to verify its status, to view results from prior rounds, to view the schedule of rounds, and to view messages from the Independent Market Monitor.

## **7.1 Importance of Confirmed Bids**

Submitting a bid on the Bidding Website involves three steps:

- (1) Web page for entry and submission of the bid quantities. The bidder enters its desired bid and then submits the bid in order to proceed to the next step.
- (1) Web page for validation of the bid. The bidder is asked to review the bid it submitted in the first step before proceeding to the confirmation step.
- (2) Web page showing confirmation of the bid. The bidder receives a unique confirmation ID for the bid and the time-stamp at which the bid was recorded by the Bidding Website server.

It is important to note that a bid is not accepted and recorded as an accepted bid until and unless the bidder reaches the third step in which the bid confirmation Web page displays the unique confirmation ID and time-stamp for the bid.

## **7.2 Requirements for Using the Bidding Website**

Access to the Bidding Website requires all of the following:

- User name and password provided by the Independent Market Monitor.
- Access to the Internet.
- Compatible Web browser.
- Status as a Registered Bidder.

A bidder loses access to the Bidding Website after it no longer is possible to win tranches in the auction.

## **7.3 Messaging**

The Bidding Website displays messages from the Independent Market Monitor. These messages from the Independent Market Monitor are displayed for all bidders with access to the Bidding Website.

## **8. BACKUP BIDDING PROCEDURE**

In case a bidder has technical difficulties, and as a result is not able to submit a bid via the Bidding Website in a round, a backup bidding procedure will be provided as follows. The bidder uses the Backup Bidding Fax Number to submit its bid via facsimile. It is recommended that the bidder call the Help Desk and inform the operator that it has submitted a bid using the backup bidding procedure. Reasonable efforts will be made to contact the bidder if the backup bid is not received via facsimile in the time expected. Once the backup bid is received via facsimile, a member of the Independent Market Monitor team will attempt to enter the bid on the Bidding Website on behalf of the bidder.

Prior to the auction, bidders will be provided with the Backup Bidding Fax Number and with forms to use for faxing a bid using the backup bidding procedure.

Bidders must be aware and understand that there is no guarantee or other assurance that if it submits a bid using the backup bidding procedure that its bid will be submitted and confirmed on its behalf by the Independent Market Monitor team consistent with the intentions of the bidder and in time before the round ends.

If a backup bid submitted by a bidder is not accepted and confirmed by the Bidding Website because the round has ended, a default bid will be entered for the bidder as described above in the sections on default bids.

If a backup bid submitted by a bidder is not accepted and confirmed by the Bidding Website for other reasons (e.g., the number of tranches bid is greater than a bidder's eligibility or violates the bidder's load caps), the Independent Market Monitor team will use reasonable efforts to inform the bidder that a new bid must be submitted.

If a backup bid submitted by a bidder is confirmed by the Bidding Website, the Independent Market Monitor team will contact the bidder by faxing confirmation of the accepted bid to the bidder.

Bidders use the backup bidding procedure at their own risk. In all cases involving backup bids, the Independent Market Monitor team does not accept any responsibility, obligation, or liability for errors, omissions, timeliness, or otherwise, related to whether a backup bid is entered into and confirmed by the Bidding Website on behalf of the bidder or as intended by the bidder.

## **9. WHO TO CONTACT IN CASE OF PROBLEMS DURING THE AUCTION**

A bidder should contact the Help Desk if it has questions or problems. The phone number for the Help Desk will be provided to bidders prior to the start of the auction.

## **10. COMMUNICATIONS PROTOCOLS**

The communications protocols described here are intended to promote a fair, open, transparent, objective, and non-discriminatory auction. These protocols also are intended to protect proprietary information of participants and information that, should it be released, would be detrimental to the outcome of the auction process or future solicitations.

### **10.1 The Companies and Affiliates**

#### **10.1.1 Communications with Bidders**

The Company has limited communications with bidders prior to the selection of winning bids. When the Independent Auction Monitor informs the Company about the prices and tranches of the winning bids and the identity of winning bidders in accordance with Section 7.1 of the Bidding Rules, representatives from the Company then will communicate with the winning bidders in order to execute the necessary documents.

If a bidder attempts to contact the Company regarding the auction process by phone call, email, fax, or other means, the Company will direct the bidder to the Information Website and/or to the Independent Auction Monitor.

#### **10.1.2 Part 1 Application Process**

For the Part 1 Application process, the Independent Auction Monitor will need to provide the names of applicants to the Company's credit department for purposes of confirming the applicants' credit requirements.

#### **10.1.3 Part 2 Application Process**

For the Part 2 Application process, the Independent Auction Monitor will need to provide the aggregate eligibility and other information from the Part 2 Applications to the Company with the names of applicants redacted.

### **10.2 General Public and Media**

While bidding is in progress, there is to be no communication with the media or the public. After the auction process is completed, results are determined, and bidders have been notified, all media inquiries will be forwarded to the Company.

#### **10.2.1 The Information Website**

The central source of information made available publicly and to bidders is the Information Website. The Independent Auction Monitor will manage the information flow on the Information Website and will be designated on the Website as the contact for any questions or inquiries from parties. Any party will have access to the public sections of the Information Website.

### 10.2.2 Frequently Asked Questions

Among other information and resources on the Information Website, there will be an FAQ (frequently asked questions) section with posted questions and answers. As inquiries are received, they will be converted into an FAQ and posted on the Information Website without revealing the identity of the party posing the inquiry.

Inquiries to be answered by the Company will be forwarded by the Independent Auction Monitor to the Company. Inquiries to be answered by the Independent Auction Monitor will be forwarded to the Company with a draft response. Any inquiry or draft response forwarded by the Independent Auction Monitor to the Company will not identify the party posing the inquiry. Both the Company and the Independent Auction Monitor will review any inquiry and response before the FAQ is posted to the Information Website.

### 10.2.3 Registered Users

If a party wishes to receive notices and updates regarding public information and new postings to the Information Website, then the party can register through the Information Website to become a Registered User.

Any information the Independent Auction Monitor has concerning the auction process that is relevant and that can be disclosed publicly will be made available equally to all Registered Users in a timely manner. The method of such communication likely will be via the Information Website and/or emails to Registered Users using the BCC email field so identification of Registered Users is not disclosed to other Registered Users.

### 10.2.4 Press Releases

The Company and/or the Independent Auction Monitor may issue one or more press releases or may place news items in the trade press with the intent to disseminate information about the auction process in an efficient, fair, and timely manner.

### 10.2.5 Answering Inquiries from the General Public or Media

Inquiries from the general public or the media to the Independent Auction Monitor will be directed to the Information Website.

## 10.3 Bidders

### 10.3.1 Communications among Bidders

Bidders are prohibited from communicating with each other in ways that would compromise the integrity and competitiveness of the auction process. Sanctions will be applied if these rules are violated.

### 10.3.2 Communications between the Independent Auction Monitor and Bidders

The central source of information made available to bidders is the Information Website. The Website facilitates making information available equally to bidders in a timely manner.

Bidders are encouraged to become Registered Users of the Information Website to receive ongoing information about the auction process. As discussed above, once registered through the Information Website, Registered Users will receive notifications from the Independent Auction Monitor about updates to the auction process and to the Information Website.

If the Independent Auction Monitor receives an inquiry from a party and prepares a response that would be relevant for other parties, the Independent Auction Monitor will ensure the information will be made available equally to all Registered Users in a timely manner and will post the information on the Information Website and/or will email the Registered Users without revealing the identity of parties.

In addition to posting information to the Information Website, the Independent Auction Monitor may contact bidders directly in order to seek or provide information about the auction process in a way that does not advantage any bidder.

Any communications from the Independent Auction Monitor to a bidder will not reveal the identity of other bidders.

### 10.3.3 Bidding Process

During the auction, the Independent Auction Monitor, the Commission, and Companies' personnel may monitor the bidding process.

The Independent Auction Monitor will ensure the bids submitted by bidders conform to the rules of the auction process.

The Bidding Rules and pre-determined bid selection criteria will be applied to determine which bids, if any, are winning bids.

### 10.3.4 Limitations on Disclosures by Bidders

Bidders are not allowed to disclose they are participating in the Default Service Auction, and winning bidders are not allowed to disclose that they have won any tranches in the Auction until the Commission publicly reports the results of the Auction. Such limitation on public disclosure by bidders is waived if disclosure is required by law.

## 10.4 The Commission

### 10.4.1 Communications with the Independent Auction Monitor

During the bidding process, the identity of bidders, prices, and the number of tranches bid will be kept confidential. This information may be released to the Commission after the auction results are finalized.



## 10.4.2 Communications with the Companies

The Commission may communicate with the Company regarding the auction process. However, the Company will not disclose any proprietary information until after the final round of the auction is completed and bidders are informed of the results of the auction.

## 10.4.3 Information on Auction Participation

In order to maintain confidential and proprietary information provided by bidders as part of the auction process, the identity of all bidders that submitted Part 1 and/or Part 2 Applications in the auction and the indicative offers will be kept confidential until released publicly by the Commission. The Commission may elect to keep these data confidential at its sole discretion.

## 10.4.4 Round-by-Round Bids

Round-by-round bids by bidders will be kept confidential pursuant to the confidentiality provisions of the Bidding Rules and the SMA for as long as the Company continues to procure Default Service.

# 11. CONFIDENTIAL INFORMATION, CERTIFICATIONS, AND SANCTIONS

## 11.1 Confidential Information

Confidential Information relative to bidding strategy means information relating to a bidder's bid(s) in the auction, whether in writing or verbally, which if it were to be made public likely would have an effect on any of the bids that another bidder would be willing to submit. Confidential Information relative to bidding strategy includes (but is not limited to): a bidder's strategy; a bidder's indicative offer; the quantities that a bidder wishes to supply; the bidder's estimation of the value of a tranche; the bidder's estimation of the risks associated with serving the load for the auction; and a bidder's contractual arrangements for purchasing power to serve such load were the bidder to win tranches in the auction.

Confidential Information regarding the auction means information that is not released publicly by the Commission, the Company or the Independent Market Monitor and that a bidder acquires as a result of participating in the auction, whether in writing or verbally, which if it were to be made public could impair the integrity of current or future competitive bidding processes, impair the ability of the Company to hold future competitive bidding processes, or harm consumers, bidders or applicants. Confidential Information regarding the auction includes (but is not limited to): the list of Qualified Bidders, the list of Registered Bidders, the initial eligibility, the status of a bidder's participation, and all non-public reports of results and announcements made by the Independent Market Monitor to any or all bidders in this auction.

Confidential Information may not receive continued confidential or protected treatment should: (a) a bidder publicly disclose Confidential Information relating solely to that bidder; or (b) public disclosure is required or compelled by the Commission, a court or otherwise by law. The Independent Market Monitor, the Commission, and the Company shall not be liable for such public disclosures or, so long as reasonable measures have been taken to keep such information confidential, any other public disclosure of Confidential Information. By participating in this auction process, each bidder acknowledges and agrees to the confidentiality provisions set forth herein, as well as any limitations thereto.

In addition, the bidder agrees the bidder's data and information submitted in this auction process will be disclosed if required by any federal, state or local agency (including, without limitation, the Commission) or by a court of competent jurisdiction. However, the Company will endeavor to notify the bidder in advance of such disclosure. In any event, neither the Company nor the Independent Market Monitor, nor any of their employees or agents, will be responsible to the bidders or any other party, or liable for any disclosure of such designated materials before, during or subsequent to this auction. Notwithstanding the above, the Company and the Independent Market Monitor reserve the right to use and communicate publicly and/or to third parties any and all information/data submitted as part of this auction process in any proceedings before FERC, the Commission, and any other regulatory body and the courts, if necessary, without the prior consent/approval of, or notice to, any such bidder.

## **11.2 Certifications and Disclosures to Be Made**

A prospective bidder will be required to make the certifications listed in the Part 1 and Part 2 Applications and to disclose certain information. For example:

- A prospective bidder will be required to certify in its Part 1 Application that, should it qualify to participate, it will not disclose information regarding the list of Qualified Bidders.
- A prospective bidder will be required to certify that it accepts the terms of the Supplier Master Agreement and, should it win tranches, it will sign the applicable Supplier Master Agreement and comply with all creditworthiness requirements by the stated deadline.
- A prospective bidder will be required in its Part 1 Application to disclose any bidding agreement or any other arrangement in which the prospective bidder may have entered and that is related to its participation in the auction. A prospective bidder that has entered into such an agreement or arrangement must name the entities with which the prospective bidder has entered into a bidding agreement, a joint venture for the purpose of participating in the auction, a bidding consortium, or any other arrangement pertaining to participating in the auction. A bidding consortium is a group of separate businesses or business people joining together to submit joint bids in the auction.
- Each Qualified Bidder will be asked to certify in its Part 2 Application that it will undertake steps to appropriately restrict its disclosure of Confidential Information relative to its bidding strategy and Confidential Information regarding the auction.
- A Qualified Bidder will be asked to certify in its Part 2 Application that it has not and will not come to any agreement with another Qualified Bidder with respect to bidding in the auction, except as disclosed and approved by the Independent Market Monitor in its Part 1 Application.
- Before obtaining sealed documentation necessary to participate in the auction, Registered Bidders will be required to certify that they will continue to maintain the confidentiality of any information that they will have acquired through their participation in the auction.

## **11.3 Actions to be taken if Certifications Cannot Be Made**

If a bidder cannot make all the certifications, the Independent Market Monitor will decide within five (5) days following the deadline to submit the Part 2 Application on a course of action on a case-by-case basis. To decide on this course of action, the Independent Market Monitor may make additional inquiries and information requests to understand the reason for the inability of the bidder to make the certification.

If Qualified Bidders do not comply with additional information requests by the Independent Market Monitor regarding certifications required in the Part 2 Application, the Independent Market Monitor may reject the application.

## **11.4 Sanctions for Failure to Comply**

Sanctions may be imposed on a bidder for failing to properly disclose information relevant to determining associations, for coordinating with another bidder, for failure to abide by any of the certifications made in its Part 1 Application or Part 2 Application, for releasing Confidential Information or disclosing information during the auction (aside from only specific exceptions provided with respect to entities explicitly named in the Part 1 Application as entities that are part of a bidding agreement or other arrangement), and in general for failing to abide by any of the Communications Protocols.

Such sanctions can include, but are not limited to, any one or more of the following:

- Termination of the Supplier Master Agreement.
- The loss of all rights to provide supply for the Company to serve any load won by such bidder.
- The forfeiture of letters of credit, financial guarantees, and other fees posted or paid.
- Action (including prosecution) under applicable state and/or federal laws.
- Attorneys' fees and court costs incurred in any litigation that arises out of the bidder's improper disclosure.
- Debarment from participation in future competitive bidding processes.
- Other sanctions that may be appropriate.

Should such an event occur, the Independent Market Monitor will make a recommendation to the Company regarding sanctions. The imposition of such sanctions will be at the discretion of the Company.

## **12. BIDDER ASSOCIATIONS**

A Qualified Bidder is associated with another Qualified Bidder if the two bidders have ties that could allow them to act in concert or that could prevent them from competing actively against each other.

The competitiveness of the auction and the ability of the auction to produce competitive prices may be harmed by the coordinated or collusive behavior that associations among bidders may facilitate. As a result, the Independent Market Monitor has developed standards that apply when associated parties apply to participate in a Default Service auction. The following sections outline the specific protocols that will be followed when associated entities submit Part 1 and/or Part 2 Applications to participate in a Default Service auction for the Company.

### **12.1 Procedure Followed by the Independent Market Monitor**

Potential associations among participants may come to the attention of the Independent Market Monitor at different points in the bidder qualification application process. In order to improve the process efficiency and minimize the risk of disclosure of potentially confidential information, the Independent Market Monitor will approach each case as described below.

### 12.1.1 Following the Receipt of the Part 1 Applications

Potential associations among applicants may become apparent after the Part 1 Applications are submitted but before Qualified Bidders are required to disclose such associations as part of their Part 2 Applications. The Independent Market Monitor will take no action related to potential associations until each party submits their completed Part 1 Application. In cases where there is an apparent relationship among applicants, the Independent Market Monitor will initiate a request for additional information regarding the relationship among the potentially associated parties, the structure of their organization, and the independence of the respective bidding teams.

In such cases, the Independent Market Monitor will notify representatives of the Company and Commission Staff that there is a potential association among applicants.

In addition, as outlined in the Part 2 Application, the Independent Market Monitor reserves the right to request additional information from each party including, but not necessarily limited to:

- (a) Information on how the entity maintains its independence from the associated party including any available supporting documentation such as a Corporate Separation Agreements, Codes of Conduct, and/or organization charts.
- (b) A list of individuals within the organization who have played or will play a material role in the auction.
- (c) Information regarding the nature of any work done in conjunction with or on behalf of the associated party.
- (d) Information describing the organizational structure of the associate(s), identifying common management and oversight among the associated entities as well as the management involved in or responsible for bid approval.
- (e) The internal process or protocol related to determining indicative offers submitted as part of the Part 2 Application.
- (f) Disclosure of whether the entity is bidding on behalf of itself or acting as an agent for other entities.

Any responses to the above will be treated as confidential if labeled as such.

### 12.1.2 Following the Receipt of the Part 2 Applications

In some cases, the potential relationship among Qualified Bidders will not be known to the Independent Market Monitor until the Qualified Bidders submit final certifications along with their Part 2 Applications. In such cases, the Independent Market Monitor will initiate the steps outlined above, upon receipt of the completed Part 2 Applications.

After the Independent Market Monitor has requested and received additional information from each associated bidder, the Independent Market Monitor will work with representatives of the Company and Commission Staff to determine:

- (a) Whether each of the associated bidders will be allowed to participate independently in the auction; and
- (b) Any restrictions that may be applied as a result of the participation by associated bidders.

Any restrictions will be based on the information provided by the associated bidders as part of the Part 1 Application, the Part 2 Application, and the additional information that was provided at the request of the Independent Market Monitor.

## **12.2 Remedies and Actions Related to Participation by Associated Bidders**

This section summarizes the potential restrictions that will be considered by the Independent Market Monitor, the Company and Commission Staff in relationship to associated participation. Restrictions on participation may include, but may not be limited to, the following:

- (a) Indicative offers may be restricted such that any applicable load cap may apply across the associated bidders;
- (b) Pre-bid security or collateral requirements may be altered for the associated bidders to ensure that associated bidders do not gain a competitive advantage over other bidders; and,
- (c) In some cases, one or more associated bidders may not be allowed to participate in the auction.

## **12.3 Handling of Confidential Information**

In order to execute the process of gathering information on associated entities and executing the remedies outlined above, there may be situations that require the Independent Market Monitor to share, directly, certain confidential information among the associated parties, the Company and Commission.

In addition, as part of the remedies outlined in above, an associated party may gain access to or be able to ascertain certain confidential information of the other associated entities. While access to such information otherwise may be counter to certifications in the Part 2 Application, access to such information acquired through the data gathering and remedies related to associated bidders will not be considered a violation of the bidding rules.

Confidential information includes but may not be limited to the initial eligibility for each associated bidder based on indicative bids submitted with the Part 2 Application. The Independent Market Monitor will make reasonable efforts to minimize the disclosure of any such confidential information.

## **13. MISCELLANEOUS**

### **13.1 Warranty on Information**

The information provided for the auction, including but not limited to information provided on the Information Website, has been prepared to assist bidders in evaluating the auction process. It does not purport to contain all the information that may be relevant to a bidder in satisfying its due diligence efforts. Neither the Company nor the Independent Market Monitor make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information, and shall not, either individually or as a corporation, be liable for any representation expressed or implied in the auction process or any omissions from the auction process, or any information provided to a bidder by any other source. A bidder should check the Information Website frequently to ensure it has the latest documentation and information. Neither the Company, nor the Independent Market Monitor, nor any of their representatives, shall be liable to a bidder or any of its representatives for any consequences relating to or arising from the bidder's use of information.

### **13.2 Hold Harmless**

Bidder shall hold the Company and the Independent Market Monitor harmless of and from all damages and costs, including but not limited to legal costs in connection with all claims, expenses, losses, proceedings or investigations that arise in connection with the auction process or the award of a bid pursuant to the auction process.

### **13.3 Bid Submissions Become the Company's Property**

All bids submitted by bidders participating in the auction will become the exclusive property of the Company upon conclusion of the auction process.

### **13.4 Bidder's Acceptance**

Through its participation in the auction process, a bidder acknowledges and accepts all the terms, conditions and requirements of the auction process and the Supplier Master Agreement.

### **13.5 Permits, Licenses, Compliance with the Law and Regulatory Approvals**

Bidders shall obtain all licenses and permits and status that may be required by any governmental body, agency or organization necessary to conduct business or to perform hereunder. Bidders' subcontractors, employees, agents and representatives of each in performance hereunder shall comply with all applicable governmental laws, ordinances, rules, regulations, orders and all other governmental requirements.

### **13.6 Auction Intellectual Property**

All title, interests and other intellectual property rights in and to the auction design, the auction format and methodology, the auction software, the source code (including all modifications, enhancements, customization, adaptations and derivative works made by the Independent Market Monitor) and associated documentation, including but not limited to these Bidding Rules, and the screen formats and forms designed by the Independent Market Monitor (the "Auction Software"), are proprietary to the Independent Market Monitor and all rights, title, and interest to the Auction Software remain with the Independent Market Monitor. The Independent Market Monitor grants Qualified Bidders a non-exclusive, non-transferable, limited license to use the Auction Software, solely for use in connection with the auction, subject to the terms and conditions set forth herein, and not for copying, relicensing, sublicensing, distribution or marketing by the Qualified Bidder. No other interest is conveyed to the Qualified Bidder other than the license expressly granted herein. The foregoing use license shall immediately terminate upon disqualification of the Qualified Bidder or upon termination or completion of the auction process. If at any time it is determined in the Independent Market Monitor's sole discretion that the Qualified Bidder is in breach of this section 13.6, the Independent Market Monitor shall be entitled to terminate the Qualified Bidder's access rights to the Auction Software.

Notwithstanding anything herein to the contrary, and without limiting the Qualified Bidder's other obligations herein, the Qualified Bidder shall not, nor shall it permit any third party to: (i) modify, translate or otherwise create derivative works of the Auction Software; (ii) reverse engineer, decompile, decode, disassemble or translate any Auction Software, or output thereof, or otherwise attempt to reduce to human readable form or derive the source code, protocols or architecture of any Auction Software; (iii) use or study any Auction Software, or output thereof, for the purpose of developing any software that is intended to replace, or that has functions, structure or architecture similar to, such Auction Software, or any part thereof; (iv) publish, or otherwise make available to any third party, any benchmark or other testing information or results concerning the Auction Software; (v) permit any other person who is not authorized to access or use all or any part of the Auction Software or (vi) copy the Auction Software, distribute the Auction Software, remove or obscure any proprietary labeling on or in the Auction Software, create any derivative works based on the Auction Software, or modify the Auction Software, in each case, except to the extent expressly permitted by the Independent Market Monitor in writing.

In using the Auction Software, a Qualified Bidder shall take steps to prevent any virus, worm, built-in or use-driven destruction mechanism, algorithm, or any other similar disabling code, mechanism, software, equipment, or component designated to disable, destroy or adversely affect the Auction Software from being introduced into the systems.



## **APPENDIX A — EXAMPLE OF ROUND BY ROUND BIDDING IN AUCTIONS OF MULTIPLE PRODUCTS**

The illustrative example below shows for two bidders (BidderA and BidderB) and two products (Product-1 and Product-2) the confirmed bids (pre-EOR) and the post-EOR results for each round. In the example, the auction closes after round 4.

### **Round 1**

For round 1, the announced prices are \$75.00 and \$82.00 for Product-1 and Product-2, respectively. At those announced prices, BidderA bids 55 tranches and 85 tranches on Product-1 and Product-2, respectively. BidderB bids 80 tranches and 27 tranches on Product-1 and Product-2, respectively.

When the round closes the EOR procedure is executed. Each product is over-subscribed: 135 tranches were bid on Product-1 which has a tranche target of 100, and 112 tranches were bid on Product-2 which has a tranche target of 100.

The announced price for Product-1 will be reduced from \$75.00 to \$72.50 for round 2. The announced price for Product-2 will be reduced from \$82.00 to \$78.60 for round 2.

BidderA will have eligibility of  $55+85 = 140$  tranches for round 2, and BidderB will have eligibility of  $80+27 = 107$  tranches for round 2.

### **Round 2**

At the announced prices for round 2, BidderA bids 40 tranches and 85 tranches on Product-1 and Product-2, respectively. Thus, BidderA reduced its tranches bid on Product-1 from 55 to 40 tranches. BidderB bids 50 tranches and 57 tranches on Product-1 and Product-2, respectively. Thus, BidderB switched 30 tranches from Product-1 to Product-2.

When the round closes the EOR procedure is executed. Product-1 is under-subscribed by 10 tranches: only 90 tranches bid against the tranche target of 100 tranches: BidderA's bid represents a reduction in its eligibility by 15 tranches, while BidderB's bid maintained its eligibility. Thus, 10 of the 15 eligibility reduction tranches of BidderA are rolled back on Product-1. Those 10 tranches are priced at the announced price for Product-1 at which they were bid in round 1: \$75.00. The announced price for Product-1 will remain at \$72.50 for round 3.

Product-2 is over-subscribed by 42 tranches. The announced price for Product-2 will be reduced from \$78.60 to \$76.10 for round 3.

BidderA will have eligibility of  $50+85 = 135$  tranches for round 3 (including the 10 tranches rolled back on Product-1), and BidderB will have eligibility of  $50+57 = 107$  tranches for round 3.

### Round 3

At the announced prices for round 3, BidderA bids 99 tranches and 36 tranches on Product-1 and Product-2, respectively. Thus, BidderA is switching 49 of the tranches bid from Product-2 to Product-1. BidderB bids 50 tranches and 35 tranches on Product-1 and Product-2, respectively. Thus, BidderB is reducing its tranches bid on Product-2 from 57 to 35 tranches.

When the round closes the EOR procedure is executed. Product-1 is over-subscribed by 49 tranches. Product-2 is under-subscribed by 29 tranches: only 71 tranches bid against the tranche target of 100 tranches: BidderA's bid maintained its eligibility while BidderB's bid represents a reduction in its eligibility by 22 tranches. Thus, all 22 of the eligibility reduction tranches of BidderB are rolled back on Product-2. Those 22 tranches are priced at the announced price for Product-2 at which they were bid in round 2: \$78.60. Even after rolling back those 22 eligibility reduction tranches of BidderB, Product-2 still is under-subscribed — by 7 tranches. So 7 tranches that BidderA had switched from Product-2 to Product-1 are rolled back to Product-2. Those 7 tranches are priced at the announced price for Product-2 at which they were bid in round 2: \$78.60.

After rolling back 7 tranches from Product-1 to Product-2 for BidderA, BidderA still has increased the number of tranches it is bidding on Product-1: from 50 tranches bid in round 2 (10 tranches at \$75.00 and 40 tranches at \$72.50) to 92 tranches bid in round 3 (10 tranches at \$75.00 and 82 tranches at \$72.50). Product-1 is over-subscribed as a result, so higher-priced tranches in Product-1's bid stack can be removed. All 10 of BidderA's higher-priced tranches are removed from Product-1's bid stack, and these 10 tranches become BidderA's free eligibility for round 4. In round 4, BidderA can bid any of the 10 tranches on any product, but to the extent those 10 tranches are not bid on a product in round 4, those free eligibility tranches and their associated eligibility for BidderA will be permanently removed from the auction after round 4.

Because Product-1 is over-subscribed, the announced price for Product-1 will be reduced from \$72.50 to \$70.15 for round 4. Because Product-2 is not over-subscribed, the announced price for Product-2 will remain at \$76.10 for round 4.

BidderA will have eligibility of  $82+43+10 = 135$  tranches for round 4, and BidderB will have eligibility of  $50+57 = 107$  tranches for round 4 (including the 22 tranches rolled back on Product-2).

### Round 4

At the announced prices for round 4, BidderA bids 46 tranches and 43 tranches on Product-1 and Product-2, respectively. Thus, BidderA reduced its tranches bid on Product-1 from 82 to 46 tranches. BidderB bids 32 tranches and 57 tranches on Product-1 and Product-2, respectively. Thus, BidderB reduced its tranches bid on Product-1 from 50 to 32 tranches.

When the round closes the EOR procedure is executed. Product-1 is under-subscribed by 22 tranches: only 78 tranches bid against the tranche target of 100 tranches: BidderA's bid represents a reduction in its eligibility by 36 tranches, while BidderB's bid represents a reduction in its eligibility by 18 tranches. Of the 54 fewer tranches bid on Product-1, 36 were eligibility reductions from BidderA and 18 were eligibility reductions from BidderB. Of those 54 fewer tranches bid,  $100-78 = 22$  tranches need to be rolled back on Product-1. The selection of which tranches are rolled back is done by assigning random numbers tranche by tranche (not bidder by bidder) to each of the 54 fewer tranches bid on Product-1. On average, the selection of the rolled back tranches will be proportional based on the number of tranches by which each bidder reduced its bid on the product. Thus, if the assignment of random numbers and selection of rolled back tranches were repeated many times, the number of rolled back tranches for BidderA on Product-1 would be expected to be 15 on average or  $(82-46)/(132-78)*(100-78) = 36/54*22$ , rounded, and the number of rolled back tranches for BidderB on Product-1 would be expected to be 7 on average:  $(50-32)/(132-78)*(100-78) = 18/54*22$ , rounded.

### **Auction Close**

After the rollback is done for Product-1, it is determined that no product is over-subscribed and no bidder has free eligibility tranches. Thus, the criteria are met for closing the auction.

Product-1's bid stack has tranches bid at \$72.50 and tranches bid at \$70.15. So Product-1's clearing price is the higher of the two, or \$72.50. BidderA wins 61 tranches and BidderB wins 39 tranches for Product-1. All 100 tranches procured for Product-1 are paid the price of \$72.50.

Product-2's bid stack has tranches bid at \$78.60 and tranches bid at \$76.10. So Product-2's clearing price is the higher of the two, or \$78.60. BidderA wins 43 tranches and BidderB wins 57 tranches for Product-2. All 100 tranches procured for Product-2 are paid the price of \$78.60.

**Example 2. Round by Round Bidding with Pre-EOR and Post-EOR Results**

Round	Product-1					Product-2					Next-Round Eligibility	
	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Free	Total
1	\$75.00					\$82.00						
Pre-EOR		100	135		35		100	112		12		
BidderA			55	@ \$75.00				85	@ \$82.00		—	140
BidderB			80	@ \$75.00				27	@ \$82.00		—	107
Post-EOR		100	135		35		100	112		12		
BidderA			55	@ \$75.00				85	@ \$82.00		—	140
BidderB			80	@ \$75.00				27	@ \$82.00		—	107
2	\$72.50					\$78.60						
Pre-EOR		100	90		(10)		100	142		42		
BidderA			40	@ \$72.50				85	@ \$78.60		—	125
BidderB			50	@ \$72.50				57	@ \$78.60		—	107
Post-EOR		100	100		0		100	142		42		
BidderA			50	10 @ \$75.00 40 @ \$72.50				85	@ \$78.60		—	135
BidderB			50	@ \$72.50				57	@ \$78.60		—	107

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Round	Product-1					Product-2					Next-Round Eligibility	
	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Free	Total
3	\$72.50					\$76.10						
Pre-EOR		100	149		49		100	71		(29)		
BidderA			99	10 @ \$75.00 89 @ \$72.50				36	@ \$76.10		—	135
BidderB			50	50 @ \$72.50				35	@ \$76.10		—	85
Post-EOR		100	132		32		100	100		0		
BidderA			82	@ \$72.50				43	7 @ \$78.60 36 @ \$76.10		10	135
BidderB			50	@ \$72.50				57	22 @ \$78.60 35 @ \$76.10		—	107
4	\$70.15					\$76.10						
Pre-EOR		100	78		(22)		100	100		0		
BidderA			46	@ \$70.15				43	7 @ \$78.60 36 @ \$76.10		—	89
BidderB			32	@ \$70.15				57	22 @ \$78.60 35 @ \$76.10		—	89
Post-EOR		100	100		0		100	100		0		
BidderA			61	15 @ \$72.50 46 @ \$70.15				43	7 @ \$78.60 36 @ \$76.10		—	104
BidderB			39	7 @ \$72.50 32 @ \$70.15				57	22 @ \$78.60 35 @ \$76.10		—	96

Bidding Rules for the Duquesne Light Company Default Service Auctions

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	Product-1				Product-2				Tranches Won
	Clearing Price	Tranche Target	Tranches Won		Clearing Price	Tranche Target	Tranches Won		
Results	\$72.50	100	100		\$78.60	100	100		100
BidderA			61				43		104
BidderB			39				57		96