Term Structure and Auction Timing

OCC recommends the following changes to the proposal regarding product terms and auction timing:

- For the first auction in May of 2013, solicit ten tranches of an "11-month product" with a delivery period from July of 2013 through May of 2014, rather than the proposed "long product" with a delivery period from July of 2013 through May of 2015.
- Conduct three auctions to solicit 60 tranches of a "one-year product" with a delivery period from June of 2014 through May of 2015, instead of two auctions for 50 tranches as proposed by AEP Ohio.

The term structure and auction timing under this modified structure would be as follows:

Product Type	**Auction Timing**	**Tranches**	**7/2013-5/2014**	**6/2014-5/2015**
11-Month	May 2013	10		
One-Year	November 2013	20		
One-Year	January 2014	20		
One-Year	March 2014	20		
Stub	June 2014	40		

This modified structure offers a couple of advantages. First, this modified structure removes the 6/2014-5-2015 portion of the "long product" proposed by the Company for and procures it as a one-year product in an auction at a later date. As a result, the modified structure reduces the time between procurement and start of delivery for that 6/2014-5-2015 portion of the long product. This should reduce load and price uncertainty for this 12-month portion of the long product, and thus reduce risk premiums assessed by bidders when they bid on this portion as a separate one-year product.

Second, with only ten tranches on offer in the May 2013 auction, bidding may not be robust enough to support competitive pricing for a 23-month product, especially given the delivery risk for the longer-term product noted above. Shortening the term of the product to eleven months may increase bidder interest and promote competitive pricing, or at least limit the damage from inefficient pricing.

Auction Process

AEP Ohio proposes that the PUCO be permitted to reject the results of an auction only in the event that: (1) the Auction Manager determined that auction rules were not followed; (2) the auction was under-subscribed; (3) there were fewer than four bidders; or (4) one bidder won more than 80% of the available tranches.

OCC recommends that the Commission be given greater discretion to reject winning price offers that are not competitive or reasonably consistent with current market pricing for energy and will result in SSO customers paying more than they otherwise would have paid under AEP's FAC rate.