

## **Attachment A**

# **Bidding Rules for the FirstEnergy Ohio Utilities' CBP Auctions**

**Revised September 19, 2011**

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## 1. INTRODUCTION

These Bidding Rules apply to the competitive bidding process ("CBP") auctions for The Cleveland Electric Illuminating Company, The Toledo Edison Company, and Ohio Edison Company (hereafter referred to as "the FirstEnergy Ohio Utilities") to procure supply for the provision of Standard Service Offer supply ("SSO Supply") for all of their customers that take retail generation service from the FirstEnergy Ohio Utilities.

Bidders also need to be familiar with other documents for the auctions including the Master Standard Service Offer Supply Agreement ("Master SSO Supply Agreement"), the Part 1 Application, the Part 2 Application, the Communications Protocols, and the Glossary. 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 <http://www.firstenergyCBP.com>. It contains relevant data, the schedule and key dates for participating in the auction process, frequently asked questions, and other information.

Unless noted otherwise, "days" refer to business days and times refer to prevailing Eastern Time. Unless noted otherwise, all capitalized terms are defined in the Glossary included as Appendix 1 to the Communications Protocols.

Examples in these Bidding Rules are illustrative only.

These Bidding Rules may be modified from time to time by the CBP Manager in order to: (i) facilitate a more competitive CBP, (ii) make any necessary corrections and/or clarifications, (iii) account for any change in CBP 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 CBP Manager. Such modifications will be carried out in consultation with the FirstEnergy Ohio Utilities but without prior consent from the PUCO or any past, current, or potential bidder and will be posted to the Information Website.

### 1.1 CBP Manager

The CBP Manager is CRA International, Inc. The CBP Manager can be contacted by sending an email to [cbpmanager@crai.com](mailto:cbpmanager@crai.com). The full contact information for the CBP Manager is as follows:

CRA International, Inc.  
John Hancock Tower  
200 Clarendon Street, T-33  
Boston, MA 02116-5092  
Phone: 617.425.3384  
Fax: 617.425.6574  
[cbpmanager@crai.com](mailto:cbpmanager@crai.com)  
Attn: Brad Miller, Vice President / CBP Manager

## **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, the number of tranches, the nominal MW size of the tranches, and the seasonal price factors.

### **2.1 SSO Load**

Standard Service Offer ("SSO") Load will be the FirstEnergy Ohio Utilities' aggregate requirements to serve their SSO Customers and will include distribution losses. For purposes of these Bidding Rules, an "SSO Customer" is a retail customer of the FirstEnergy Ohio Utilities taking Standard Service Offer.

SSO Load will exclude the requirements of customers served by Competitive Retail Electric Service suppliers ("CRES Suppliers"). CRES Suppliers are certified by the PUCO and serve shopping customers.

SSO Load will also exclude the requirements of customers served via the Percentage of Income Payment Plan ("PIPP Customers"). For purposes of the CBP auctions, a PIPP customer is defined as any customer who is a PIPP customer as of June 1, 2011 and any customer who thereafter is enrolled in the PIPP program through May 31, 2014.

SSO Load will include the requirements of any Special Contract customers of the FirstEnergy Ohio Utilities who are served under special contracts.

### **2.2 Full Requirements Service**

The auctions are designed to procure full requirements service for SSO Customers of the FirstEnergy Ohio Utilities. Winning bidders will assume all responsibilities of a Load Serving Entity ("LSE"). Full requirements service includes energy, capacity, market-based transmission service and market-based transmission ancillaries, and any other LSE service or other service as may be required by PJM to serve the SSO Load of the FirstEnergy Ohio Utilities.

However, the FirstEnergy Ohio Utilities will provide distribution services and will be responsible for Network Integrated Transmission Services ("NITS") charges and for other non-market-based FERC approved transmission charges for shopping and non-shopping load.

Full requirements service and the LSE obligations of winning bidders are defined in the Master SSO Supply Agreement.

## 2.3 Tranches

SSO Load will be divided into identical units called tranches, each representing an equivalent percentage of SSO Load. Each tranche represents one percent (1%) of the actual hourly energy required for SSO Load for the applicable delivery period as well as one percent (1%) of the PJM capacity requirement for the applicable delivery period.

The number of tranches intended to be procured in the auction is referred to as the “tranche target”. The CBP Manager may reduce the tranche target 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 SSO SUPPLIERS

The payment to SSO Suppliers for tranches won will be a seasonal function of the auction prices. The summer payment for a tranche, paid to the winning bidder of the tranche from June 1 through August 31 during each year of the applicable delivery period, will be higher than the winning price for that tranche. The winter payment for the same tranche, paid to the winning bidder of that tranche for the remaining months in the calendar year during each year of the applicable delivery period, will be lower than the winning price for that tranche. The seasonal factors are multiplied by the winning price for a tranche in determining the summer and winter payments for that tranche. The FirstEnergy Ohio Utilities reserve the right to calculate the seasonal factors in advance of each auction in response to changing market conditions. The seasonal factors will be announced to suppliers prior to the auction and will be constant during the duration of the Master SSO Supply Agreement.

### Example 1. Seasonal Supplier Payments

Assume the summer factor is 1.1180 and the winter factor is 0.9581, and the delivery period is June 1, 2011 through May 31, 2013.

Assume a bidder in the auction wins three (3) 24-month tranches at a price of \$60.00/MWh. The size of each tranche is 1% of the SSO Load. Thus, the bidder will serve 3% of the SSO Load from June 1, 2011 through May 31, 2013. The bidder will receive \$67.08 ( $\$60.00 \times 1.1180$ ) for each MWh of SSO Load served in the summer months and \$57.49 ( $\$60.00 \times 0.9581$ ) for each MWh of SSO Load served in the winter months.

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

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

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

#### **4.1.1 Load Data**

The FirstEnergy Ohio Utilities will provide:

- Load data for a historical three-year period.
- Hourly load data for total retail load and SSO Load.
- Switching statistics and historical load profiles.
- Historical data on PIPP Customers and load.

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

The CBP Manager 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 Size, Tranche Target**

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

- The tranche target or the number of tranches being procured.
- The size (%) and MW-measure of the tranches in the auction.

No later than four (4) days prior to the Part 2 Application Due Date, the CBP Manager will announce:

- Any update to the MW-measure of the tranches in the auction.

## 4.2 Qualification Process

There are two parts to the application process. 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.

The auctions are scheduled for October and January, with the first auction scheduled for October 2010.

If a prospective bidder completes the Part 1 Application and becomes a Qualified Bidder for the October auction in a year, the bidder need not complete the Part 1 Application again for the subsequent auction scheduled for January. The Qualified Bidder still needs to complete the Part 2 Application for the auction scheduled for January even if the Qualified Bidder completed a Part 2 Application for the preceding October auction.

If a prospective bidder for the January auction in a year was not a Qualified Bidder for the preceding October auction, then the prospective bidder must complete the Part 1 Application to become a Qualified Bidder for the January auction.

All prospective bidders for an auction scheduled for October in a year must complete a Part 1 Application to become a Qualified Bidder for that auction, even if they were Qualified Bidders in any prior auction.

A prospective bidder is obligated to inform the CBP Manager 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 Master SSO Supply Agreement with the FirstEnergy Ohio Utilities within 3 business days following the close of the auction.
- Show 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 Master SSO Supply 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.

Part 1 Applications must be submitted to the CBP Manager no later than 12:00 p.m. noon prevailing Eastern Time on the Part 1 Application Due Date. Prospective bidders will be notified by the CBP Manager 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 CBP Manager 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 FirstEnergy Ohio Utilities, PUCO Staff, and any advisor ("PUCO Consultant") that PUCO Staff may have retained for this purpose.

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 CBP Manager no later than 12:00 p.m. noon prevailing Eastern Time on the Part 2 Application Due Date. Qualified Bidders will be notified by the CBP Manager 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 regarding associations to ensure that they are participating independently of other Qualified Bidders and to ensure the confidentiality of information regarding the auction.

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 facilitate. As the CBP Manager relies on a number of factors to assess and promote competitive bidding, including the number of independent competitors, using inaccurate information or insufficient disclosure of associations in the Part 2 Application is prohibited.

### 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 CBP Manager 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 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.

### Restrictions on the Indicative Offer

A Qualified Bidder may have restrictions on its initial eligibility — due to a credit-based tranche cap and/or due to load caps — and therefore may have restrictions on its indicative offer.

A Qualified Bidder may have a credit-based tranche cap that limits the Qualified Bidder's initial eligibility. Thus, the total number of tranches at the maximum starting prices across all products in the Qualified Bidder's indicative offer must not exceed the Qualified Bidder's credit-based tranche cap. This credit-based tranche cap is based on the credit rating of the Qualified Bidder or its Guarantor. A Qualified Bidder's credit-based tranche cap is determined as follows. The Qualified Bidder or Guarantor must:

- Be rated by at least one of the following rating agencies: Standard & Poor's Rating Services ("S&P"), Moody's Investors Service, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), and
- Have a senior unsecured debt rating (or, if unavailable, corporate issuer rating).

If the Qualified Bidder or Guarantor is rated by only two rating agencies, and the ratings differ, the higher rating will be used. If the Qualified Bidder or Guarantor is rated by the three rating agencies, and the ratings differ, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. The credit-based tranche cap for a Qualified Bidder or its Guarantor is determined as shown in the following table:

**Table 1. Credit-Based Tranche Cap**

Credit Rating of Qualified Bidder or Guarantor			Credit-Based Tranche Cap
S&P	Moody's	Fitch	
BB and above	Ba2 and above	BB and above	Unlimited up to auction's tranche target
BB-	Ba3	BB-	12 tranches
Below BB-	Below Ba3	Below BB-	6 tranches
If not rated by any of those rating agencies			6 tranches

Note that if a Qualified Bidder is not rated by any of the rating agencies, the Qualified Bidder's credit-based tranche cap will be 6 tranches.

The credit-based tranche cap is in effect only during the bidding process. After the Master SSO Supply Agreement has been executed by a winning bidder, the credit-based tranche cap will no longer be in effect and the SSO Supplier will be required to meet the credit terms in accordance with Article 6: Creditworthiness in the Master SSO Supply Agreement.

In addition to any credit-based tranche cap, a Qualified Bidder will be subject to a load cap that limits the number of tranches the bidder can bid on and win. The load cap will be 80 percent on an aggregated load basis across all auction products for each auction date such that no bidder may bid on and win more tranches than the load cap. The load cap will be implemented by ensuring that each bidder's initial eligibility does not exceed the load cap in an auction.

### 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 equal to \$500,000 per tranche for all products included in the bidder's indicative offer at the maximum starting prices. Either cash or a letter of credit will be accepted as pre-bid security. Some bidders may be subject to additional credit requirements or may be required to submit a letter of intent from a Guarantor or a letter of reference from a bank. The standard form of the letter of credit and other security documents that are in a form acceptable to the FirstEnergy Ohio Utilities will be posted to the Information Website.

If a draft letter of credit, alternate guaranty, letter of intent, letter of reference, or any alternate security 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. The FirstEnergy Ohio Utilities will assess, in their sole and exclusive discretion, whether such modifications are acceptable. The prospective bidder, in its Part 2 Application, must provide the required executed credit documents that either use the standard form or incorporate only those modifications to the standard form accepted by the FirstEnergy Ohio Utilities upon review of the bidder's Part 1 Application.

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

### **Example 2. Pre-Bid Security**

A Qualified Bidder submits an indicative offer of 5 tranches for the 12-Month product at the minimum starting price and 10 tranches for the 12-Month product at the maximum starting price, 3 tranches for the 24-Month product at the minimum starting price and 6 tranches for the 24-Month product at the maximum starting price, and 2 tranches for the 36-Month product at the minimum starting price and 4 tranches for the 36-Month product 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 letter of credit of \$500,000 per tranche. The Qualified Bidder thus posts cash or a letter of credit of \$10 million (20 tranches X \$500,000 per tranche).

Depending on whether the Qualified Bidder is relying on its own financial standing or on that of a Guarantor, and depending on the results of the creditworthiness assessment at the time of the Part 1 Application, the Qualified Bidder may be required additionally to submit a letter of intent to provide a guaranty from its Guarantor or to provide a letter of reference from its bank. Any such additional requirements would be communicated to the Qualified Bidder at the time of qualification during the Part 1 Application process.

For a Part 2 Application to be accepted, it must be complete, including the Qualified Bidder's indicative offer, letter of credit, and additional security (if required). After its Part 2 Application is accepted, a Qualified Bidder becomes a Registered Bidder. The CBP Manager will send each Registered Bidder a summary of its indicative offer, pre-bid security amount, and the Registered Bidder's initial eligibility.

The CBP Manager will also 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 CBP Manager within five (5) days following the conclusion of the auction, as explained further in the Part 2 Application.

Letters of credit and additional security (if required) will remain in full force, at a minimum, until the fifth calendar day after the conclusion of the auction. Subsequently, a bidder's financial guaranty will be marked cancelled and returned:

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

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

#### 4.2.3 Sanctions for Failing to Comply with the Part 1 and Part 2 Applications

Sanctions can be imposed on a bidder for failing to disclose information relevant to determining associations, for coordinating with another bidder, or for failing to abide by any of the certifications that it will have made in its Part 1 and Part 2 Applications. Such sanctions can include, but are not limited to, termination of the Master SSO Supply Agreement, loss of all rights to provide supply for the FirstEnergy Ohio Utilities to serve any load won by such bidder, forfeiture of financial guarantees and other fees posted or paid, prosecution under applicable state and federal laws, debarment from participation in future competitive bidding processes, and other sanctions that may be appropriate. For any failure to disclose information or for any violation of the certifications, the CBP Manager will make a recommendation on a possible sanction.

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

No later than three (3) days before bidding starts for an auction, the CBP Manager 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 CBP Manager will set the starting prices.

#### 4.4 Extraordinary Events

The CBP Manager, in consultation with the FirstEnergy Ohio Utilities, 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 CBP Manager 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 FirstEnergy Ohio Utilities and the CBP Manager. 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 CBP Manager in consultation with the FirstEnergy Ohio Utilities 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 CBP Manager in consultation with the FirstEnergy Ohio Utilities will determine a revised schedule.

## **5. BIDDING FORMAT FOR AUCTIONS OF MULTIPLE PRODUCTS**

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 CBP Manager'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 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 CBP Manager will keep bidders informed of the start and end times of subsequent rounds through the Bidding Website. The CBP Manager retains the option of pausing a round, delaying the start or end of a round, or otherwise adjusting the round times. The CBP Manager 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 CBP Manager 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 CBP Manager 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

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 CBP Manager 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 CBP Manager will not announce the reservation prices to bidders in advance of an auction.

#### 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 either its credit-based tranche limit or any applicable load cap.

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 in 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 simply 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 CBP Manager 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 CBP Manager 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 (i) no product is over-subscribed and (ii) no bidder has free eligibility tranches. 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, allowing bidders with free eligibility to bid those tranches.
- (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 CBP Manager 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 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 CBP Manager**

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

## **6. BIDDING FORMAT FOR AUCTIONS OF A SINGLE PRODUCT**

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 CBP Manager's secure Bidding Website.

The auction format is a multiple-round descending-price clock format for "N" rounds (N is not pre-determined, as discussed below) possibly followed by a sealed-bid round. The descending-price clock rounds are referred to as the "clock phase." If there is a round following the last clock round, it is referred to as the "sealed-bid round."

The number of rounds for the clock phase is not pre-determined. Instead, it is determined by a rule called "the transition rule," which determines the last round of bidding in the clock phase.

The clock phase, the transition rule, and the sealed-bid round are described next.

### **6.1 Clock Phase**

The description in this section applies to the clock phase of the auction. In a descending-price clock bidding format, the CBP Manager announces a price prior to the start of each bidding round and each bidder bids the quantity it would supply at that price. The rounds continue with the price declining each round, causing the total supply bid to fall.

An important rule is that a bidder cannot increase the number of tranches it bids round to round as the price falls, it can only maintain or reduce the number of tranches it bids.

#### **6.1.1 Rounds**

The clock phase is conducted with rounds of bidding. 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 CBP Manager will keep bidders informed of the start and end times of subsequent rounds through the Bidding Website. The CBP Manager retains the option of pausing a round, delaying the start or end of a round, or otherwise adjusting the round times. The CBP Manager 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.

### 6.1.2 The Announced Price and a Bid

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

The announced price will decrease round by round by a price decrement.

At sufficiently high announced prices there will be excess supply for the tranches being procured in the auction. Excess supply for the tranches in a round is measured as the total number of tranches bid across all bidders in the round minus the tranche target.

### 6.1.3 Reservation Price

There is a reservation price for the auction. The reservation price is the price above which tranches will not be purchased. At the conclusion of the auction, the CBP Manager will inform bidders through the Bidding Website if the reservation price has not been met.

The starting price for the auction is determined after the reservation price is determined. The starting price will be no lower than the reservation price. The starting price may be the same as or higher than the reservation price. The CBP Manager will not announce the reservation price to bidders in advance of an auction.

### 6.1.4 A Bidder's Eligibility to Bid

A bidder's eligibility to bid in a round is the maximum number of tranches it is allowed to bid in that round. A bidder's eligibility for a round is the number of tranches the bidder bid 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. If a bidder bids zero tranches in a round, it will not be allowed to bid in any more rounds of the clock phase.

As discussed above, a bidder's initial eligibility is its eligibility for round 1 of the auction.

### 6.1.5 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 accepted in the round for that bidder is the last confirmed bid it submitted in the round.

### 6.1.6 Default Bid

After the end of a round, a default bid of zero (0) tranches 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.

As with any bidder that actively bids zero tranches in a round, a bidder having a default bid of zero tranches submitted and confirmed on its behalf in a round will not be allowed to bid in any more rounds of the clock phase.

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 its behalf.

### 6.1.7 Price Decrements

The announced price will decrease round by round by a price decrement. Pre-specified price guidelines are used to determine the price decrement. Generally the price decrement will be larger for the earlier rounds in the auction and the greater is the excess supply for the tranches. 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 CBP Manager 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.

### 6.1.8 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.

### 6.1.9 Insufficient Supply for the Tranches

If there is insufficient supply for the tranches to ensure competitive bidding, the CBP Manager will reduce the tranche target. 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 the tranche target will be eliminated and there will be no reduction in the tranche target. Thus, any exercise of this discretion would be more likely in the earlier rounds of the auction.

If the CBP Manager reduces the tranche target for the auction, bidders will be informed of the revised tranche target. Any bidder that otherwise would have eligibility exceeding the new tranche target will have its eligibility reduced to the new tranche target.

## 6.2 Transition Rule

The rule that determines the last round of bidding in the clock phase is referred to as the transition rule.

The transition rule is that the last round of bidding in the clock phase is the first round of bidding in the clock phase in which excess supply falls to zero or below zero.

- If excess supply is zero, then the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.
- If excess supply is less than zero and only one bidder reduced the number of tranches it bid between the last two rounds of the clock phase, then the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.
- If excess supply is less than zero and two or more bidders reduced the number of tranches they bid between the last two rounds of the clock phase, then a sealed-bid round will be held as described next in section 6.3.

### 6.3 Sealed-Bid Round

The description in this section applies to the sealed-bid round of the auction. As with the clock phase, bidders bidding in the sealed-bid round will submit their bids by accessing the CBP Manager's secure Bidding Website.

If there is a sealed-bid round, it follows the last round of the clock phase. For ease of description, the last round of the clock phase will be referred to as "round N" and the next-to-last round of the clock phase will be referred to as "round N-1", so the sealed-bid round is "round N+1."

Bidders for the sealed-bid round are those bidders that bid at least one tranche in round N-1 and bid fewer tranches in round N. Any such bidder must submit a bid in the sealed-bid round (even if it bid zero tranches in round N). If it fails to submit a bid in the sealed-bid round, a default bid will be submitted on its behalf as described below in the section on default bids.

Only bidders that bid at least one tranche in round N-1 and bid fewer tranches in round N can submit a bid in the sealed-bid round.

#### 6.3.1 Allowed Bids

While each round in the clock phase has an announced price, there is no announced price for the sealed-bid round. In the sealed-bid round, a bidder submits a bid by specifying for each tranche it bids the price at which the bidder is committing to supply the tranche. A bid by a bidder is, for each tranche in the bid, an irrevocable binding commitment to supply the tranche at the price it bids for the tranche.

The tranches in the bidder's bid will be treated as a supply schedule. That is, the tranches will be sorted in ascending order by price and the price it bid for the first tranche is the price at which the bidder is committing to supply the first tranche, the price it bid for the second tranche is the price at which it is committing to supply the second tranche, and so on.

The bid that a bidder can submit in the sealed-bid round is restricted as follows.

- The bidder's bid must include each of the tranches that it bid in round N-1 but did not bid in round N (even if it bid zero tranches in round N).
- For each of the tranches that the bidder bid in round N-1 but did not bid in round N, the bidder's bid in the sealed-bid round must specify a price that is no higher than the announced price in effect for round N-1. The bidder can specify a different price for each of the tranches. Alternatively, the bidder can specify the same price for two or more of the tranches.

The units for prices specified in the bidder's bid are \$/MWh. The precision of prices is \$0.01/MWh or one cent per MWh. Prices that are entered with greater precision than \$0.01/MWh will be rounded up to the next \$0.01/MWh.

The following example shows four bidders participating in the clock phase and two of those bidders participating in the sealed-bid round.

**Example 3. Bids in Clock Phase and Allowed Bids in Sealed-Bid Round**

Clock Phase							
Round	Tranche Target	Announced Price (\$/MWh)	Number of Tranches Bid				
			BidderA	BidderB	BidderC	BidderD	Total
1	100	\$75.00	34	55	21	72	182
2	100	\$70.00	30	55	15	50	150
3	100	\$66.00	20	52	10	45	127
4	100	\$62.00	15	48	0	44	107
5	100	\$59.50	0	48	—	42	90

Sealed-Bid Round					
BidderA (must bid 15 tranches)			BidderD (must bid 2 tranches)		
# Tranches Bid	Max. Allowed Price (\$/MWh)	Price Bid (\$/MWh)	# Tranches Bid	Max. Allowed Price (\$/MWh)	Price Bid (\$/MWh)
5	\$62.00	\$62.00	1	\$62.00	\$60.04
8	\$62.00	\$61.40	1	\$62.00	\$59.50
2	\$62.00	\$59.95	—	—	—

In the example above, the clock phase was stopped after round 5 (round N) because it was the first round in which excess supply no longer was positive: in the round only 90 tranches of supply were bid against 100 tranches being procured.

- BidderA must bid 15 tranches in the sealed-bid round because it bid 15 tranches in round 4 and no tranches in round 5. For each of the 15 tranches, BidderA must submit a price in the sealed-bid round that is no higher than the announced price in round 4, or \$62.00/MWh. The bid submitted by BidderA in the sealed-bid round above satisfies that requirement: 5 tranches bid at \$62.00/MWh, 8 tranches bid at \$61.40/MWh, and 2 tranches bid at \$59.95/MWh.
- BidderB does not bid in the sealed-bid round because it bid at least one tranche in round 4 and it did not bid fewer tranches in round 5. BidderB thus wins the 48 tranches it bid in rounds 4 and 5, and the winning price for those 48 tranches is the round 5 announced price, or \$59.50/MWh.

- After round 4 it is known that BidderC can no longer participate in the auction because it bid zero tranches in round 4 and round 4 was not the last round of the clock phase. Thus, BidderC does not bid in the sealed-bid round and will not win any tranches.
- BidderD wins the 42 tranches it bid in round 5, and the winning price for those 42 tranches is the round 5 announced price, or \$59.50/MWh. In addition, BidderD must bid 2 tranches in the sealed-bid round because it bid 2 fewer tranches in round 5 than it bid in round 4. For each of the 2 tranches, BidderD must submit a price in the sealed-bid round that is no higher than the announced price in round 4, or \$62.00/MWh. The bid submitted by BidderD in the sealed-bid round above satisfies that requirement: 1 tranche bid at \$60.04/MWh and 1 tranche bid at \$59.50/MWh.

### 6.3.2 Multiple Bids by a Bidder

As in the clock phase, a bidder is allowed to make multiple bid submissions in the sealed-bid 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 the round, the only bid accepted in the round for that bidder is the last bid confirmed by the bidder in the round. Section 8.1 below discusses the process for confirming a bid.

### 6.3.3 Default Bid

A bidder in the sealed-bid round must submit a confirmed bid for all the tranches that it must bid in the sealed-bid round. If it fails to submit a confirmed bid by the end of the sealed-bid round, a default bid will be submitted on its behalf. This default bid will be as follows:

For each of the tranches the bidder bid in round N-1 but did not bid in round N, the default bid for the bidder in the sealed-bid round will specify a price that is the announced price in effect for round N-1.

After the sealed-bid round the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.

## 6.4 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.

### 6.4.1 Excess Supply = 0 at End of Clock Phase

If the last round of the clock phase had zero excess supply then there is no sealed-bid round. The winning tranches are the tranches bid in the last round of the clock phase, the winning bidders are the bidders who bid those tranches, and the winning price in the auction is the announced price for the last round of the clock phase.

### 6.4.2 Excess Supply < 0 at End of Clock Phase with No Sealed-Bid Round

If the last round of the clock phase had excess supply less than zero but only one bidder reduced the number of tranches it bid between the last two rounds of the clock phase, then there is no sealed-bid round. Tranches bid in the last round of the clock phase are winning tranches, bidders who bid those tranches are winning bidders, and the winning price for those tranches is the announced price for the last round of the clock phase.

Additional winning tranches total the difference between the tranche target and the total number of tranches bid in the last round of the clock phase (i.e., round N). Those additional winning tranches are awarded to the one bidder who reduced its number of tranches bid between round N-1 and round N. The bidder is awarded the additional winning tranches at the announced price in effect for the next-to-last round of the auction.

### 6.4.3 Excess Supply < 0 at End of Clock Phase with Sealed-Bid Round

If the last round of the clock phase had excess supply less than zero and two or more bidders reduced the number of tranches they bid between the last two rounds of the clock phase, then there is a sealed-bid round. Tranches bid in the last round of the clock phase are winning tranches, bidders who bid those tranches are winning bidders, and the winning price for those tranches is the announced price for the last round of the clock phase.

Additional winning tranches are determined as follows.

Random numbers will be assigned to the tranches bid in the sealed-bid round to be used as a tie-breaker, if needed, in case two or more tranches are bid at the same price. The tranches from the bids in the sealed-bid round will be sorted in ascending order by price and then in ascending order by random number. The assignment of random numbers to tranches and the sorting of tranches by price and by random number are done tranche by tranche without regard to bidder.

A winning tranche from the sorted list of tranches is a tranche that satisfies the following condition:

- It is one of the first T tranches that appears in the sorted list of bids, where T is the difference between the tranche target and the number of tranches bid in the last round of the clock phase. The bidder who bid such a winning tranche is the winning bidder for that tranche and the winning price for that tranche is the price the bidder bid for the tranche.

Tranches in the sorted list of bids that do not meet the condition above are not winning tranches.

None, some, or all of the tranches in a bidder's bid in the sealed-bid round may be winning tranches.

In Example 3 above, 17 tranches were bid in the sealed-bid round, and 10 of those tranches are selected as winning tranches. The winning tranches are selected in order of ascending price bid: one tranche bid at price \$59.50/MWh by BidderD, two tranches bid at price \$59.95/MWh by BidderA, one tranche bid at price \$60.04/MWh by BidderD, and six tranches bid at price \$61.40/MWh by BidderA.

## 6.5 Reporting Round Results

During a round, a bidder will see the current status of the auction and the status of the current round (including the announced price for a round in the clock phase) as well as its 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 clock phase will show:

- For the completed round, the announced price and a range of total supply across all bidders (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 in the clock phase below a pre-determined level, total supply will be reported simply as being below that level. This pre-determined level of total supply will not be disclosed.
- For each bidder, that bidder's bid for the round and the bidder's eligibility for the next round. (Each bidder does not see information about other bidders.)
- The announced price for the next round if the clock phase will continue with the next round.

## 6.6 Auction Pause Declared by CBP Manager

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

## **7. AFTER THE AUCTION CLOSES**

### **7.1 Notification of Results**

At the close of the auction, if the CBP Manager determines that the auction did not violate the competitive bidding process rules in such a manner so as to invalidate the auction, the CBP Manager will notify the FirstEnergy Ohio Utilities, the PUCO, the PUCO Consultant (if one has been retained), and the bidders as follows.

- The CBP Manager will notify the FirstEnergy Ohio Utilities, the PUCO, and the PUCO consultant of the identities of the winning bidders, the number of tranches won by each winning bidder, and the prices for the tranches won.
- The CBP Manager will notify each winning bidder of how many tranches the bidder has won and at what prices. The CBP Manager 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 PUCO or as required by law.

The PUCO may reject the results of the auction within forty-eight (48) hours of the conclusion of the auction based upon a recommendation from the CBP Manager or the PUCO's consultant that the auction violated the competitive bidding process rules in such a manner so as to invalidate the auction.

### **7.2 Execution of Master SSO Supply Agreement**

The winning bidders and the FirstEnergy Ohio Utilities will execute the Master SSO Supply Agreements three (3) business days following the close of the auction once the specific pricing information and load obligations have been inserted upon completion of the auction. Each winning bidder must demonstrate compliance with the creditworthiness requirements set forth in the Master SSO Supply Agreement.

### **7.3 Sanctions for Failure to Execute the Master SSO Supply Agreement**

A winning bidder's financial guaranty posted with its Part 2 Application may be forfeited if the winning bidder does not execute the Master SSO Supply Agreement within three (3) business days following the close of the auction, if it fails to demonstrate compliance with the creditworthiness requirements set forth in the Master SSO Supply Agreement, or if it fails to agree to any of the terms of the Master SSO Supply Agreement. If the FirstEnergy Ohio Utilities exercise their right to collect on the financial guarantees, then any contractual rights or other entitlements of the winning bidder will terminate immediately without further notice by the FirstEnergy Ohio Utilities. In addition, the winning bidder will be liable for damages incurred by the FirstEnergy Ohio Utilities, which will be determined in accordance with the terms of the Master SSO Supply Agreement as though the winning bidder were a defaulting party to the Master SSO Supply Agreement.

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

Bidders will bid in the auction by accessing the CBP Manager'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 CBP Manager.

### **8.1 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.
- (2) 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.
- (3) 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.

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

Access to the Bidding Website requires all of the following:

- User name and password provided by the CBP Manager.
- Access to the Internet.
- Microsoft Internet Explorer Web browser, version 6.0 or higher.
- 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.

### **8.3 Messaging**

The Bidding Website displays messages from the CBP Manager. These messages from the CBP Manager are displayed for all bidders with access to the Bidding Website.

## **9. 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 CBP Manager 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 CBP Manager 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 credit-based tranche limit or applicable load cap), the CBP Manager 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 CBP Manager 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 CBP Manager 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.

## **10. 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.

## **11. CONTINGENCY PLAN TO PURCHASE TRANCHES**

### **11.1 If Fewer Tranches than the Tranche Target are Purchased in the Auction**

In the event that fewer tranches than a product's tranche target are purchased in the auction, the FirstEnergy Ohio Utilities will implement a Contingency Plan for the unfilled tranches. Under that plan, if all tranches are not fully subscribed in the initial auction in any given year, the remaining tranches will be carried over and made available to bidders in the second auction in the year if there is such an auction. If there is a second auction in the year and tranches remain unsubscribed after the second auction, those tranches will be made available to winning bidders from the first and/or second auction conducted during the calendar year at the clearing price for the second auction using the following process.

First, if the number of unfilled tranches equals or exceeds the number of winning bidders from the second auction, each winning bidder will be given equal opportunity to accept the obligation to supply one or more additional tranches, subject to the winning bidder's initial eligibility and any applicable load cap. The price to be paid for the additional tranches that are supplied by the winning bidders will be the product-specific highest price among the winning tranches for the product in the second auction (and no higher than the product's reservation price in the second auction). After all winning bidders have accepted or rejected the option to supply one or more additional tranches each, either all the unfilled tranches from the second auction will have been assigned to winning bidders in the second auction, or there will be fewer remaining unfilled tranches than there are remaining winning bidders. In the latter case, a random number that was assigned to each Registered Bidder prior to the second auction will be used to select winning bidders in order of increasing random number. Note that a winning bidder who previously turned down the option to supply additional tranche(s) will not be included in this random selection procedure. A winning bidder selected through this random procedure will be asked if it would like to accept the option to supply one additional tranche. If, after giving each randomly selected winning bidder the option to supply an additional tranche, there still are unfilled tranches remaining, the random selection procedure will start over — using the same random numbers — for those winning bidders who accepted the option to supply an additional tranche.

If, after the conclusion of the steps above used to assign unfilled tranches in the second auction of the year to winning bidders in the second auction, there still are unfilled tranches, then random numbers will be assigned to bidders who won tranches in the first auction of the year and who did not participate in the second auction of the year. The same random selection procedure described above for winning bidders in the second auction will be applied to winning bidders from the first auction who did not participate in the second auction. Any winning bidder from the first auction who accepts the obligation to supply one or more tranches from the second auction will be paid the product-specific highest price among the winning tranches for the product in the second auction (and no higher than the product's reservation price in the second auction).

## **11.2 If a Winning Bidder Defaults Prior to or During the SSO Delivery Period**

In the event a winning bidder defaults prior to or during the delivery of SSO load requirements, the FirstEnergy Ohio Utilities will implement a Contingency Plan for the open tranches. The open tranches will be made available in the next auction if that auction occurs before the delivery period of the open tranches. If the next auction does not occur before the delivery period, then the open tranches will be offered to other winning bidders using the same procedure as used for unfilled tranches at the auction as described above.

In either of the two cases above, if tranches still remain after the procedures above are applied or in the event that there is only a single auction in a year, the necessary SSO supply requirements will be met through PJM-administered markets at prevailing Day-ahead zonal spot prices, and, unless instructed otherwise by the PUCO, the FirstEnergy Ohio Utilities will not enter into hedging transactions to attempt to mitigate the associated price or volume risks to serve these tranches.

Additional costs incurred by the FirstEnergy Ohio Utilities in implementing the Contingency Plan will be assessed first against the defaulting supplier's credit security, to the extent available.

## **12. ASSOCIATION AND CONFIDENTIAL INFORMATION RULES**

The Association and Confidential Information rules are described below.

### **12.1 Process for Reporting Associations, Identifying Concerns and Remedies**

A prospective bidder applying to qualify to bid will be required to disclose in its Part 1 Application any bidding agreement or arrangement in which it may have entered. 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 also will be required to certify that it accepts the terms of the Master SSO Supply Agreement and, should it win tranches, it will sign the applicable Master SSO Supply Agreement and comply with all creditworthiness requirements by the stated deadline.

Once entities are qualified to bid, each Qualified Bidder will be asked in its Part 2 Application to make a number of certifications, each detailed in the Part 2 Application, and each bidder may be required to provide additional information to the CBP Manager if a certification cannot be made. Each Qualified Bidder will be asked to certify 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 also will be asked to certify 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 CBP Manager 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.

## 12.2 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 PUCO, the FirstEnergy Ohio Utilities or the CBP Manager 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 FirstEnergy Ohio Utilities 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 CBP Manager to any or all bidders in this auction.

Absolute protection from public disclosure of the bidders' data and information filed in this auction process cannot be provided. 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 PUCO) or by a court of competent jurisdiction. However, the FirstEnergy Ohio Utilities will endeavor to notify the bidder in advance of such disclosure. In any event, neither the FirstEnergy Ohio Utilities nor the CBP Manager, 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 FirstEnergy Ohio Utilities and the CBP Manager 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 PUCO, and any other regulatory body and the courts, if necessary, without the prior consent/approval of, or notice to, any such bidder.

## 12.3 Certifications and Disclosures to Be Made

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.

In addition, a prospective bidder will be required to make the certifications listed in the Part 1 and Part 2 Applications.

The PUCO may publicly release the winning prices and the names of the winning bidders from the auction. The PUCO may choose to release additional information. After the auction, a winning bidder itself may release information regarding the number of tranches it has won, and a non-winning bidder itself may release information only regarding the fact that it participated in the auction. The winning bidders and the non-winning bidders otherwise continue to be bound by their certifications as described previously. In particular, no winning bidder and no non-winning bidder itself can reveal the winning prices of the auction prior to these being publicly released by the PUCO.

#### **12.4 Actions to Be Taken if Certifications Cannot Be Made**

If a bidder cannot make all the certifications above, the CBP Manager 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 CBP Manager may make additional inquiries 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 CBP Manager regarding certifications required in the Part 2 Application, the CBP Manager may reject the application.

#### **12.5 Sanctions for Failure to Comply**

Sanctions may be imposed on a Qualified Bidder for failing to properly disclose information relevant to determining associations, for coordinating with another bidder without disclosing this fact, for releasing Confidential Information or disclosing information during the auction (aside from only the specific exceptions provided above with respect to entities explicitly named in the Part 1 Application as entities that are part of a bidding agreement or other arrangement, to an Advisor; or bidders with which it is associated), 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 Master SSO Supply Agreement; the loss of all rights to provide tranches won by such bidder; the forfeiture of letters of credit 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; and/or other sanctions that may be appropriate. Should such an event occur, the CBP Manager will make a recommendation to the FirstEnergy Ohio Utilities regarding sanctions. The imposition of such sanctions will be at the discretion of the FirstEnergy Ohio Utilities.

## **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 FirstEnergy Ohio Utilities nor the CBP Manager 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 FirstEnergy Ohio Utilities, nor the CBP Manager, 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 FirstEnergy Ohio Utilities and the CBP Manager 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 FirstEnergy Ohio Utilities' Property**

All bids submitted by bidders participating in the auction will become the exclusive property of the FirstEnergy Ohio Utilities 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 Master SSO Supply 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 CBP Manager) and associated documentation, including but not limited to these Bidding Rules, and the screen formats and forms designed by the CBP Manager (the "Auction Software"), are proprietary to the CBP Manager and all rights, title, and interest to the Auction Software remain with the CBP Manager. The CBP Manager 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 CBP Manager's sole discretion that the Qualified Bidder is in breach of this section 13.6, the CBP Manager 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 CBP Manager 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 BidderA, 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 4. 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

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

	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