

# Scenario 4: Affiliate Purchases

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# Scenario 4 Defined

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- "Affiliate purchases (including possible affiliate use of market acquisition). This scenario envisions the LSE contracting with an affiliate to satisfy all of the subject load obligation, including risk management. The affiliate, in turn, may contract with other suppliers to provide resources to meet its contractual obligation through market or other mechanisms."

# Current Arrangement

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- ExGen supplies ComEd (and PECO) with full requirements pursuant to power purchase agreement
- PPA began in 2001

# Affiliate Transaction

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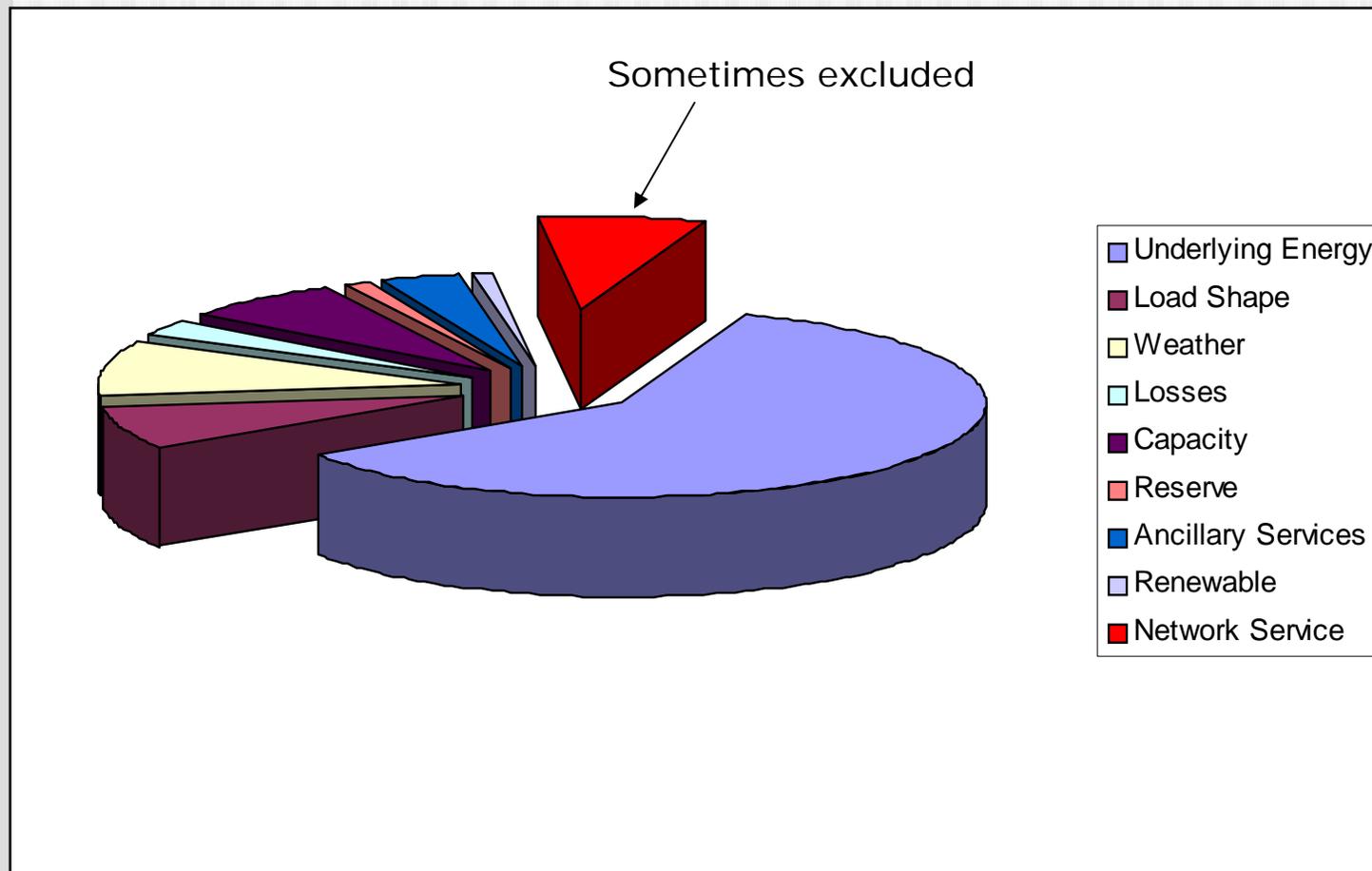
- Typical of first-generation standard offer service
- For next phase, trend in restructured states is away from affiliate transactions and toward full competitive procurement

# The Product

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- Full requirements, except for network service
- Otherwise, identical to product in Scenarios 1 and 2
- ComEd price structure is fixed price, time of use, seasonal
- Same product (and risks, except for retail choice migration) that utilities have been providing for decades

# Components of Full Requirements



# Valuation of Product: Energy

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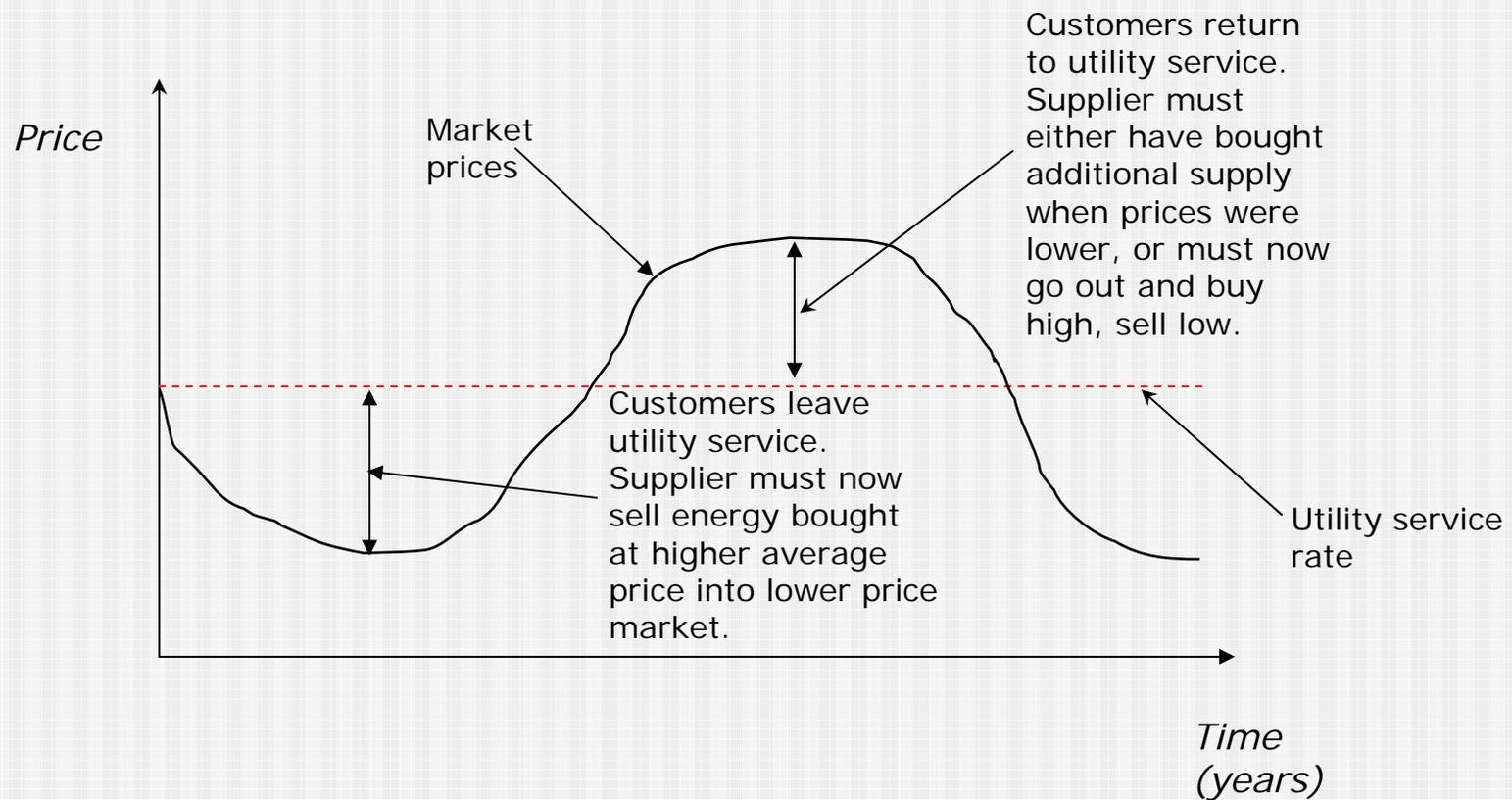
- Volumetric energy risks relative to expected load shape
  - Customer migration due to retail choice
  - Weather
- Risks are the same for whichever entity supplies the load

# Migration Risk

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- Objective: Forecast customer switching into and out of the load
  - Prepare accordingly
  - Be prepared to improvise constantly
- Forecast based on expected market conditions and supplier behavior
- In fixed price structure, supplier (affiliate or auction) holds all price risk

# Customer Migration Illustration



# Risk Allocation

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- In this scenario, as in 1 & 3, migration risk warehoused by supplier and managed accordingly
- In portfolio manager concept, migration risk passed through to customers in retail rates