

X. APPENDIX A: PROVISIONAL BGS-CIEP AUCTION RULES

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X.A. Introduction

X.A.1. Overview

The four New Jersey Electric Distribution Companies (“EDCs”) are Atlantic City Electric Company (“ACE”), Jersey Central Power & Light Company (“JCP&L”), Public Service Electric and Gas Company (“PSE&G”), and Rockland Electric Company (“RECO”). The EDCs will procure full-requirements service for their Commercial and Industrial Energy Pricing (BGS-CIEP) loads in a single, statewide Auction for a one-year term from June 1, 2009 to May 31, 2010. The Auction will determine a CIEP Price measured in \$/MW-day. Each EDC’s CIEP Load includes the load of all customers served at transmission voltage and other large customers, as described in Table X-1. The BGS-CIEP Load for each EDC will be divided into a number of tranches of equal size, each accounting for the same percentage of the EDC’s BGS-CIEP Load.

BGS-CIEP is not a term-price service, but a service that is priced to the hourly market. Suppliers will be bidding for the right to serve a portion of BGS-CIEP Load for one or more EDCs. Customers on BGS-CIEP (*BGS-CIEP customers*) will pay, and winning suppliers will receive, the PJM zonal real-time hourly locational marginal price, as well as the pre-specified ancillary services rate and transmission costs based on the PJM Open Access Transmission Tariffs (“OATT”) in effect on January 1, 2009. Energy charges and ancillary service charges to customers will be adjusted for losses on each EDC’s system as appropriate. CIEP customers (i.e., all customers eligible for BGS-CIEP) will pay, and winning suppliers will receive, the CIEP Standby Fee, which is a fee for the option available to each CIEP customer of taking BGS on this tariff. The EDCs propose that this fee be set at 0.015¢/kWh of the energy used by CIEP customers measured at the customer meter. The Auction will determine for each EDC a CIEP Price (“price”) measured in \$/MW-day, that will be reflected in the rates charged to customers on BGS-CIEP, and that will be paid to each winning supplier on the basis of the share of the tranches for an EDC that each supplier has won at the Auction. The capacity obligation is the unforced capacity requirement for the aggregate group of BGS-CIEP customers determined in accordance with the EDC and PJM practices on a daily basis.

The EDCs will procure their BGS-CIEP Loads through a Simultaneous Descending Clock Auction (“Clock Auction”). The Clock Auction proceeds in a series of rounds. During

the bidding phase of each round, each bidder must indicate how many tranches of each EDC's BGS-CIEP Load the bidder wishes to serve at the prices announced by the Auction Manager. A *bid* is the number of tranches of each EDC's BGS-CIEP Load that a bidder wants to serve. After the bidding phase of a round, the Auction Manager reduces the price for the tranches of an EDC by a decrement if the number of tranches bid by all bidders exceeds the number of tranches needed by that EDC. The Auction Manager then announces the new price for each EDC before bidding in the next round opens. The Auction continues and the prices tick down until, for each EDC, the total number of tranches subscribed falls to the point where it equals the number of tranches needed. When the Auction ends, the bidders holding the tranches at the prices of the final round are the winners. When the Auction is held, the Board of Public Utilities ("Board") will have approved the Auction process and will be overseeing the Auction. After the Auction, the Board will decide whether to approve the Auction results and if it does, winners will become authorized BGS-CIEP suppliers.

X.A.2. Basic Generation Service and Load to Be Procured

Basic Generation Service, or BGS, is the electric supply for those retail customers who are not served by a third party supplier. *BGS Load* is the load associated with these customers, and it is obtained by subtracting the load of third party suppliers from the retail load in an EDC zone. For each EDC, BGS Load comprises two portions, *BGS-CIEP Load* and BGS Fixed-Price Load (*BGS-FP Load*). By definition, an EDC's BGS-CIEP Load includes the sum of the hourly load of all BGS-CIEP customers, times the EDC loss expansion factor associated with each CIEP rate class. *CIEP customers* refer to all customers that are eligible for BGS-CIEP, whether or not they choose BGS-CIEP. That is, CIEP customers are retail customers who are taking BGS-CIEP, or are retail customers served by a third-party supplier who, were they to take BGS, would be served under a CIEP (rather than an FP) tariff or rate. Table X-1 provides each EDC's list of rate classes for which either all customers, or only customers with a peak load contribution of 1,000 kW or greater, must currently take BGS on a CIEP tariff or rate. BGS-FP Load is the load associated with customers who take BGS but do so on an FP (rather than a CIEP) tariff or rate. The Board may change the CIEP line for the period starting June 1, 2009.

Table X-1. Customers That Must Take BGS on a CIEP Tariff

EDC	Rate Class	Customers Included	Description	Voltage Level
PSE&G	High Tension Service (“HTS-HV”)	All	General purposes at high voltages	138,000V to 230,000V
	High Tension Service (“HTS-Sub”)	All	General purposes at subtransmission voltages	26,400V to 69,000V
	Large Power and Lighting, Primary Service (“LPL-P”)	All	General purposes at primary distribution voltages.	2,400V to 13,200V
	Large Power and Lighting, Secondary Service (“LPL-S”)	Customers 1,000kW or greater	General purposes at secondary distribution voltages	208V to 480V
JCP&L	General Service Primary (“GP”)	All	General purposes at primary distribution voltages	2,400V to 34,500YV
	General Service Transmission (“GT”)	All	General purposes at transmission voltages	34,500ΔV
		All	High Tension Service	230,000V
	General Service Secondary (“GS”)	Customers 1,000kW or greater	General purposes at secondary distribution voltages	120 – 480V
	General Service Secondary Time-of-Day (“GST”)	Customers 1,000kW or greater	General purposes at secondary distribution voltages	120 – 480V
ACE	Transmission General Service (“TGS”)	All	General purposes at high voltages	23,000V or higher
	Annual General Service – Primary (“AGS-Primary”)	Customers 1,000kW or greater	General purposes at primary distribution voltages	4,000 & 12,000V
	Annual General Service – Secondary (“AGS-Secondary”)	Customers 1,000kW or greater	General purposes at secondary distribution voltages	120 – 480V
	Monthly General Service Primary (“MGS – Primary”)	Customers 1,000kW or greater	General purposes at primary distribution voltages	4,000 & 12,000V
	Monthly General Service Secondary (“MGS – Secondary”)	Customers 1,000kW or greater	General purposes at secondary distribution voltages	120 – 480V
RECO	Service Classification No. 7 – Primary TOU Service and Separately Metered Space Heating Service	All	Primary service customers with demands exceeding 1,000 kW	2,400V or higher
	Service Classification No. 2 – General Service	Customers 1,000kW or greater	General primary and secondary service.	All primary and secondary voltages

For purposes of the Auction, the BGS-CIEP Load for an EDC is called a *product in the Auction*: the BGS-CIEP Load for PSE&G is a product in the Auction, and the BGS-CIEP Load for ACE is another product in the Auction, etc. Each product in the Auction is divided into units called *tranches*, each representing the same percentage of that EDC's BGS-CIEP load. The number of tranches to be procured at the Auction and an estimated size of each EDC's tranche in MW are determined on the basis of the obligation attributable to all CIEP customers during 2008 (those customers who receive BGS and those who do not, called the *CIEP Peak Load Share*). The number of tranches to be procured at the Auction, the size of each tranche (i.e., the percentage of the BGS-CIEP Load that each tranche represents for an EDC), and the MW-measure of each tranche are provided below in Table X-2. The data in Table X-2 are provisional. Following the October 2008 update of this obligation by PJM, this table will be updated. The Auction Manager will provide this update no later than 10 days¹ before suppliers must first apply to participate in the Auction.

Tranches of BGS-CIEP products in the 2009 BGS-CIEP Auction are approximately 75 MW on an eligible basis.

Table X-2. Provisional Number of Tranches and MW-Measure of Tranche per EDC

EDC	CIEP Peak Load Share (MW)	Number of tranches	Size of tranche (%)	MW-measure
PSE&G	1,709.00	23	4.35	74.30
JCP&L	835.60	12	8.33	69.63
ACE	305.20	5	20.00	61.04
RECO	38.30	1	100.00	38.30
Total	2,888.10	41		

¹ Unless otherwise specified, "days" refers to business days.

The EDCs do not represent that each tranche will have the loads shown above or any particular value. The actual BGS-CIEP Load will depend upon many factors including customer migration to third party suppliers and weather conditions. Bidders are responsible for evaluating the uncertainties associated with BGS-CIEP Load.

X.A.3. Payment to BGS-CIEP Suppliers

Winners at the Auction are authorized to become BGS-CIEP suppliers by the Board. A BGS-CIEP supplier provides *full-requirements service* for the percentage of the EDC's BGS-CIEP Load that corresponds to the number of tranches won by the supplier. Full-requirements service means that the provider is responsible for fulfilling all the requirements of a PJM Load Serving Entity ("LSE"), including capacity, energy, ancillary services and transmission, and any other service as PJM may require. A winning supplier may win one or more tranches for one or more EDCs.

Each BGS-CIEP supplier receives an EDC-specific network transmission rate applied to the supplier's share (the number of tranches won times the size of the tranche) of the BGS-CIEP transmission obligation. This transmission rate will be based on the OATT rate in effect on January 1, 2009 and will be announced prior to the Auction. To the extent that the transmission rates change and that the Board approves a corresponding change in BGS-CIEP customers' rates: (1) if such a change results in an increase in BGS-CIEP customers' rates, then any additional revenues collected as a result of such an increase, once approved by the FERC in a final order, would be to the benefit of BGS-CIEP suppliers; or (2) if such a change results in a decrease in BGS-CIEP customers' rates, then any decrease in revenues would result in payments to BGS-CIEP suppliers being reduced. The parameters of what constitutes a change in transmission rates are specified in section 15.9 of the BGS-CIEP Supplier Master Agreement. Each BGS-CIEP supplier receives an ancillary service payment rate, pre-specified for each EDC, that includes PJM-administrative costs, and that is applied to the supplier's share of BGS-CIEP Load (energy). Each BGS-CIEP supplier receives the zonal real-time locational marginal price for the supplier's share of BGS-CIEP Load (energy), and the price determined in the Auction applied to the supplier's share of the BGS-CIEP capacity obligation. With respect to the rates that will be paid by BGS-CIEP customers, the transmission rate is based on either a demand charge or transmission obligation charge, depending on the EDC. The energy

rate is the hourly PJM spot price (real time) for the zone for each hour adjusted by the relevant EDC loss expansion factor. The ancillary service rate will be a pre-determined value based on the ancillary service payment rate to suppliers adjusted for losses. The price for an EDC is the final Auction price for that EDC and will be assessed as a specific capacity obligation charge, demand charge, or energy charge. In addition, a retail margin of 0.5¢/kWh has been established by the Board. All of these charges are levied on actual BGS-CIEP customers only. Details for each particular EDC are in the Company Specific Addenda to this filing.

Each BGS-CIEP supplier also receives the CIEP Standby Fee. All CIEP customers pay this standby fee, whether the customers are currently taking BGS or not. The EDCs propose that this standby fee be set at 0.015¢/kWh of the energy used by CIEP customers measured at the customer meter. This option fee is the charge for providing the option to each CIEP customer of taking BGS on this tariff.

Example 1.²

The tranche target for PSE&G is 23 tranches. A BGS-CIEP Supplier wins 5 of PSE&G's 23 tranches. The BGS-CIEP Supplier serves 22% of the BGS-CIEP Load and would be paid as follows.

For capacity, assume an Auction clearing price of \$40/MW-day and a BGS-CIEP capacity obligation totaling 30,000 MW-days for the month. The BGS Supplier is paid 22% of 30,000 MW-days times \$40/MW-day, or \$260,870.

For transmission, assume a BGS-CIEP transmission obligation totaling 36,000 MW-days for the month and assume an OATT of \$50/MW-day. The BGS-CIEP Supplier is paid 22% of 36,000 MW-days times \$50/MW-day, or \$391,304.

For ancillary services, assume an ancillary service payment rate of \$6/MWh and monthly energy of 500,000 MWh at the BGS-CIEP customer meter; adjusting for losses of 2.9128%, monthly BGS-CIEP Load is 514,564 MWh. The BGS-CIEP Supplier is paid 22% of 514,564 MWh times \$6/MWh, or \$671,170.

For energy, assume 800 MWh of energy measured at the BGS-CIEP customer meter for hour 1; adjusting for losses of 2.9128%, hourly BGS-CIEP Load is approximately 823 MWh. Assume also a real time LMP of \$20/MWh. The BGS-CIEP Supplier is paid 22% of 823 MWh times \$20/MWh, or \$3,580. For the remaining hours in the month an energy payment is determined in the same way but with the actual hourly BGS-CIEP Load and actual real time LMP for the zone.

² All examples are for illustrative purposes. The statewide load cap, prices, and bids are illustrative only.

Assuming that energy used by all CIEP customers was 1,000,000 MWh measured at the customers' meter, (double the corresponding value in the example for BGS-CIEP customers) the BGS-CIEP Supplier would receive 22% of 1,000,000 MWh times 0.015¢/kWh, or \$32,609 for the month for the CIEP Standby Fee. Note that for this payment, energy at the customer meter is not increased for losses.

X.A.4. Reliance on Product Definition and Payment Information in These Rules

Information regarding the product definition and payment bases is given in the Auction Rules solely for the convenience of bidders and are not to be relied upon by the bidders. The BGS-CIEP Supplier Master Agreement posted on the Auction web site is the document that provides the official definitions of product and payment terms.

X.B. Before The Auction

X.B.1. Information Provided to Bidders

The EDCs will have made data relating to BGS, BGS-FP, and BGS-CIEP available to potential bidders in advance of qualification. The data will be posted on the BGS Auction web site, <http://www.bgs-auction.com/bgs.dataroom.asp>.

The EDCs will provide historical zonal data, consisting of hourly load and daily capacity and transmission peak load allocations, for the following load categories: BGS, total retail, CIEP, BGS-CIEP, FP and BGS-FP. Data for BGS-FP and FP Loads will be derived as residuals: for example, FP Load is equal to total retail load less CIEP Load, and BGS-FP Load is equal to the BGS Load less BGS-CIEP Load. The data include associated zonal losses.

The EDCs will provide data for a historical period that starts no later than August 1, 2001 with the exception of RECO. As RECO's New Jersey service territory became part of PJM in March 2002, some of RECO's historical data series begin March 1, 2002. From the start of the historical period until May 31, 2004, the historical BGS-CIEP zonal data represent customers taking BGS on the CIEP tariff in force during the June 1, 2003 to May 31, 2004 supply period. Similarly, the historical CIEP data represent customers taking BGS-CIEP and customers served by a third-party supplier and that were eligible to take BGS on the CIEP tariff

in force during the June 1, 2003 to May 31, 2004 supply period. The historical FP and BGS-FP zonal data are then derived as residuals.

Starting with historical zonal data from June 1, 2004, the BGS-CIEP data for a given month will represent customers who take BGS on the CIEP tariff in force in that month. Similarly, the CIEP data will represent customers taking BGS-CIEP, as well as customers served by a third-party supplier and that are eligible to take BGS on the CIEP tariff in force at that time. For example, from June 1, 2005 to May 31, 2006, the historical BGS-CIEP zonal data represent customers taking BGS on the CIEP tariff in force during the June 1, 2005 to May 31, 2006 period, while starting on June 1, 2007, the BGS-CIEP zonal data will represent customers taking BGS on the CIEP tariff in force during the June 1, 2007 to May 31, 2008 supply period. The FP and BGS-FP zonal data are then derived as residuals. Historical zonal data will be extended each month as new data become available.

The EDCs will also provide supplemental data to assist bidders. The EDCs will provide historical hourly load and/or load profiles for their customer classes and/or load profile groups as well as historical customer counts by customer class and/or load profile group. The EDCs will provide size distribution information, consisting of one-time customer counts and, as available, aggregate energy usage by size grouping, for several customer categories: customers on CIEP service, customers 1500 kW or greater formerly eligible to take BGS on an FP tariff, customers 1,250 kW or greater formerly eligible to take BGS on an FP tariff, customers 1,000 kW or greater formerly eligible to take BGS on an FP tariff, and FP customers with a peak demand of 750 kW or greater that are required to pay the retail margin. The EDCs will provide data as needed on large customers that the Board may decide will no longer be eligible for BGS-FP service in the future. The EDCs will provide monthly customer switching data (number of customers and estimated load) as currently provided to the Board, as well as additional historical customer switching data by customer class. The EDCs will also provide information on renewable energy portfolio standards, as well as data on inadvertent energy and 500kV losses, Interruptible Load for Reliability (“ILR”) credits, renewable energy certificates from committed supply, and ancillary service charges.

As mentioned in section X.A.2, no later than 10 days³ before interested parties first apply to participate in the Auction, the Auction Manager will announce a *statewide load cap*, a statewide *maximum starting price*, and a statewide *minimum starting price*. At the same time, the Auction Manager will announce the size of the CIEP Peak Load Share for each EDC, the number of tranches available to bid for each EDC in the Auction, and the MW-measure of each tranche for each EDC based on the percentage of the CIEP Peak Load Share that a tranche represents. The statewide load cap is a maximum number of tranches of BGS-CIEP Load that any one bidder can bid in the Auction and serve statewide. A statewide load cap is imposed to ensure a diversified base of BGS-CIEP suppliers. (There is no EDC-specific load cap.) The minimum and maximum starting prices establish the range of possible starting prices for the Auction: each EDC will choose a starting level for its price for round 1 of the Auction that is between the minimum and the maximum starting prices. The EDCs will agree on the statewide load cap, and on the statewide minimum and maximum starting prices. Board Staff and the Board Consultant will review these decisions.

X.B.2. Qualification Process

The application process is in two parts. All interested parties that have no impediments to meeting the PJM LSE requirements can submit a *Part 1 Application*. There is no state licensing requirement. Interested parties will be asked to submit financial information so that the EDCs can assess their creditworthiness. In addition, each interested party will be asked to comply with other qualification criteria that will have been agreed upon by all EDCs, including agreeing to comply with the BGS-CIEP Auction Rules and agreeing to the terms of the BGS-CIEP Supplier Master Agreement. Each interested party will also be asked to agree that if the interested party is successful in its Part 1 Application it will keep confidential the list of other successful applicants and it will not assign its rights or substitute another entity in its place. This is to ensure that the entity that agrees to the BGS-CIEP Auction Rules in the Part 1 Application is also the entity submitting bids in the BGS-CIEP Auction, and to ensure that the entity that agrees to the terms of the BGS-CIEP Supplier Master Agreement is the entity that will execute the BGS-CIEP Supplier Master Agreement should the interested party become an Auction winner. In accordance with these Auction Rules, execution of the BGS-CIEP Supplier

³ Unless otherwise specified, “days” refers to business days.

Master Agreement must occur within three days of Board certification of the Auction results and within that period the Auction winner will demonstrate compliance with the creditworthiness requirements set forth in the BGS-CIEP Supplier Master Agreement. Such creditworthiness requirements will take into consideration all BGS obligations held by the Auction winner, including those from past BGS Auctions.

Applications must be submitted no later than noon⁴ on the ***Part 1 Application Date***, which will be no earlier than 10 days after the maximum and minimum starting prices have been announced. Interested parties will be notified whether they succeeded in qualifying to participate in the Auction no later than three days after the Part 1 Application Date. An interested party that has qualified becomes a ***qualified bidder***. The Auction Manager will send simultaneously to each qualified bidder a list of all qualified bidders, but the list of qualified bidders will not be publicly disclosed. Interested parties, in their Part 1 Applications, will have undertaken to maintain the confidentiality of the list of qualified bidders, and to destroy documents with this information provided by the Auction Manager within five days of the Board deciding whether to approve the Auction results, as explained further in this document in section X.E, “Association and Confidential Information Rules”.

Qualified bidders that wish to participate in the Auction must submit a ***Part 2 Application*** to the Auction Manager. Only qualified bidders may submit Part 2 Applications. Part 2 Applications must be submitted no later than noon on the ***Part 2 Application Date***, which will be no later than 10 days before the start of the Auction. In the Part 2 Application, qualified bidders will make a number of certifications to ensure compliance with the association and confidential information portion of these rules. These certifications, provided in section X.E below, ensure that each qualified bidder is bidding independently of other qualified bidders and ensure the confidentiality of information regarding the Auction. Each qualified bidder is also asked to agree to keep confidential the list of other successful applicants; to agree that the submission of any bid creates a binding and irrevocable offer to provide service under the terms of the BGS-CIEP Supplier Master Agreement; and not to assign its rights or substitute another entity in its place. This is to ensure that the entity that agrees to comply with the Association and Confidential Information Rules is also the entity

⁴ Unless otherwise specified, all times are Eastern Time Zone times.

submitting bids in the BGS-CIEP Auction, and to ensure that the entity that agrees that its bids create a binding and irrevocable offer to provide service under the terms of the BGS-CIEP Supplier Master Agreement is also the entity that will execute the BGS-CIEP Supplier Master Agreement should the qualified bidder become an Auction winner. With their Part 2 Application, qualified bidders will also be required to submit an *indicative offer* and to submit a *financial guarantee* in proportion to their indicative offer.

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 in the Auction. The competitiveness of the Auction and the ability of the Auction Process to deliver competitive prices may be harmed by the coordinated or collusive behavior that associations facilitate. The Auction Manager, who may rely, among other factors, on the number of independent competitors to set the *Auction volume*, would be using inaccurate information unless associations are duly disclosed in the Part 2 Application. The Auction volume is the number of tranches that the EDCs plan to purchase through the Auction. Associations may be considered in setting the Auction volume and may be used in the application of the statewide load cap. See section X.E “Association and Confidential Information Rules” later in this document for precise criteria.

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 they will have made in their Part 1 and Part 2 Applications. Such sanctions can include, but are not limited to, loss of all rights to serve any BGS-CIEP Load won in the Auction 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 BGS Auctions, and other sanctions that the Board may consider appropriate. For any failure to disclose information or any violation of the certifications, the Auction Manager will make a recommendation to the Board on a possible sanction and the Board will make the final determination.

An indicative offer specifies two numbers of tranches. The first number represents the amount that the qualified bidder is willing to serve at the maximum starting price on a statewide basis (i.e., for all EDCs combined). The second number represents the amount that

the qualified bidder is willing to supply at the minimum starting price on a statewide basis. At each of the maximum and the minimum starting prices, the number of tranches indicated by the qualified bidder cannot exceed the statewide load cap. At each of the maximum and the minimum starting prices, the number of tranches indicated by a qualified bidder cannot be lower than two.

Indicative offers are important in two respects. First, the EDCs may use the indicative offers to inform their decision in setting the round 1 prices. Second, the number of tranches indicated by the qualified bidder at the maximum starting price determines the qualified bidder's *initial eligibility*. As explained in the bidding rules in section X.C, a bidder will never be able to bid in the Auction on a number of tranches greater than the bidder's initial eligibility. Thus, the qualified bidder is encouraged to state the maximum possible number of tranches that it would be willing to serve.

Each qualified bidder must post a financial guarantee, in the form of a bid bond or a letter of credit, proportional to its initial eligibility. A financial guarantee of \$375,000 per tranche is required. Bid bonds and letters of credit must be in a form acceptable to the EDCs. Sample bid bonds and sample letters of credit that are acceptable to the EDCs will be posted to the Auction web site.

Example 2.

The maximum starting price is \$340.00/MW-day and the statewide load cap is 14 tranches. A qualified bidder submits an indicative offer of 8 tranches. The qualified bidder is required to submit a financial guarantee for \$3,000,000 (8 x \$375,000) in the form of a bid bond or a letter of credit. The number of tranches of the indicative offer is not lower than the minimum of 2 tranches and does not exceed the maximum of the statewide load cap of 14 tranches.

For a Part 2 Application to be accepted, the Part 2 Application including its indicative offer and financial guarantee must be complete, the financial guarantee must be provided in a form acceptable to all EDCs and must be sufficient to cover the indicative offer. If its Part 2 Application is accepted, a qualified bidder becomes a *registered bidder*. The Auction Manager will send simultaneously to each registered bidder a list of all registered bidders and the total initial eligibility in the Auction. Neither the list of registered bidders nor the total initial eligibility in the Auction will 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 in the Auction, and to destroy documents with this information provided by the Auction Manager within five days of the Board deciding whether to approve the Auction results, as explained further in this document in section X.E.

Financial guarantees will remain in full force until the Board has decided whether to approve the Auction results and the bidder has won no tranches; or until the Board has decided whether to approve the Auction results and the bidder has won tranches, has signed the BGS-CIEP Supplier Master Agreement, and has complied with all creditworthiness requirements of that agreement. The EDCs can collect the financial guarantees if bidders fail to comply with their obligations.

BGS-CIEP suppliers must meet PJM LSE requirements by the start of the supply period.

X.B.3. Starting Prices

Three days before the Auction starts, the Auction Manager informs all registered bidders of each EDC's starting price, which will be the price in round 1 of the Auction. Each EDC's starting price will be no higher than the statewide maximum starting price and no lower than the statewide minimum starting price. Each EDC will set its own starting price in consultation with the Auction Manager, Board Staff and the Board Consultant.

X.B.4. Extraordinary Events

The EDCs, in consultation with the Auction Manager, Board Staff and the Board Consultant, may determine that, due to extraordinary events, the statewide maximum starting price and the statewide minimum starting price require revision. In this event, the schedule may also be revised. If the indicative offers have already been received, the Auction Manager would request that the registered bidders (or the qualified bidders if registration had not been completed) revise their indicative offers on the basis of the revised statewide maximum starting price and the revised statewide minimum starting price.

For such a revision to be necessary, an extraordinary event must occur between the time at which the statewide maximum starting price and the statewide minimum starting price are

announced (no later than 10 days before the Part 1 Application is due) and the day on which the Auction starts. The EDCs, in consultation with the Auction Manager, Board Staff and the Board Consultant, will agree that an event constitutes an extraordinary event. Such events could include, for instance, the advent of war.

If an extraordinary event occurs during that time, the EDCs will determine a revised statewide maximum starting price, a revised statewide minimum starting price, a revised minimum indicative offer, and may also determine a revised schedule. Board Staff and the Board Consultant will review these decisions. New indicative offers will be required from bidders. The determination of new maximum and minimum starting prices, the revision to the minimum number of tranches in the indicative offer, 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.

X.C. Bidding Rules

We first present an overview of the Auction format. We then proceed to explain the bidding and other rules in detail.

X.C.1. Overview of Auction Format

The Auction is a simultaneous, multiple round, descending clock auction. We can explain this format's features by simply "unpacking" this terminology.

The Auction is called simultaneous because tranches for all the EDCs are put on offer through the same auction. The Auction proceeds in rounds. In a round, the Auction Manager announces a price for each EDC. Bidders bid by providing the number of tranches that they are willing to serve for each EDC at the prices announced by the Auction Manager. If the number of tranches bid is greater than number of tranches needed for an EDC, the price for that EDC is reduced for the next round. In the next round, bidders are given an opportunity to bid again.

The Auction is called a descending clock auction because prices "tick down" throughout the Auction, starting high and being reduced gradually until the supply bid is just sufficient to meet the load to be procured. Prices that tick down in a round decrease by a

decrement; a decrement is a given percentage of the previous price. Bidders holding the final bids when the Auction closes are the winners.

Example 3.

There are 11 bidders in the Auction. The statewide load cap is 14 tranches. Consider the following sample round.

ROUND 1

<i>EDC</i>	<i>Price (\$/MW-day)</i>	<i># Tranches bid</i>	<i># Tranches desired</i>	<i>Excess supply</i>	<i>Oversupply ratio</i>
PSE&G	320.00	50	23	27	0.771
JCP&L	320.00	12	12	0	0.000
ACE	320.00	5	5	0	0.000
RECO	320.00	5	1	4	0.400

The Auction Manager reduces the price of an EDC if the number of tranches bid is greater than the number of tranches desired. The amount by which the price is reduced depends on the oversupply ratio, which is the ratio of the excess supply on that EDC to an estimate of the *maximum possible* excess supply on that EDC, taking into account the total excess supply in the Auction. Roughly speaking, the larger the oversupply ratio for an EDC, the larger is the portion of maximum excess supply that is actually on that EDC, and the larger is the decrease in the price. A formula for the oversupply ratio is provided in section X.G.2.

In round 1, all bidders combined stand ready to supply 50 tranches of PSE&G at a price of \$320.00/MW-day. The number of tranches bid (50) exceeds the number of tranches desired (23) by 27 tranches. The price for PSE&G will tick down.

The actual excess supply on PSE&G is 27 tranches. The maximum possible excess supply is the total excess supply for all the EDCs in the Auction, or 31 (27 + 0 + 0 + 4). If all the excess bids in the Auction had been bid on PSE&G, PSE&G would have 31 tranches of excess supply. The estimate of the maximum excess supply used to calculate the oversupply ratio is the upper bound of the range of total excess supply at the Auction reported to bidders, which is 35. Thus, the oversupply ratio for PSE&G is 0.771 (27 / 35). Roughly speaking, 77% of the excess supply in the Auction is bid on PSE&G.

The calculation for RECO is similar. In round 1, all bidders combined stand ready to supply 5 tranches of RECO at a price of \$320.00/MW-day. The number of tranches bid (5) exceeds the number of tranches desired (1) by 4 tranches. The price for RECO will tick down.

The actual excess supply on RECO is 4 tranches. For RECO, the maximum possible excess supply is not the total excess supply for all the EDCs in the Auction (31, calculated above). Indeed, with only 11 bidders in the Auction and one tranche of RECO desired, the maximum possible number of tranches bid on RECO is 11 (11 x 1). The maximum possible excess supply on RECO is 10 (11 – 1). For RECO, the oversupply ratio is 0.400 (4 / 10).

The oversupply ratio is calculated in the same way for all other EDCs.

The Auction Manager will lower the price in round 2 for PSE&G and RECO since for these EDCs the number of tranches bid exceeds the number of tranches needed. PSE&G, which has the larger oversupply ratio, will have the larger decrement.

In round 2 below, the price for PSE&G, which had the larger decrement from round 1, fell the most. Bidders submit new bids at these prices. The total excess supply range reported to bidders is 16-25 (so that 25 is used as the measure of total excess supply in calculating the oversupply ratio).

ROUND 2

<i>EDC</i>	<i>Price (\$/MW-day)</i>	<i># Tranches bid</i>	<i># Tranches desired</i>	<i>Excess supply</i>	<i>Oversupply ratio</i>
PSE&G	305.93	31	23	8	0.320
JCP&L	320.00	15	12	3	0.120
ACE	320.00	10	5	5	0.200
RECO	307.20	2	1	1	0.100

Each EDC has more tranches bid than tranches desired. The Auction Manager will calculate the decrement for each EDC from that EDC’s oversupply ratio and lower the price of each EDC for the next round accordingly.

Although we describe the main points of the Auction Rules in more detail below, four aspects should be briefly highlighted at the outset. These are as follows:

1. Winners for each EDC are not determined until the bidding has closed for all EDCs. When the number of tranches bid in a round for an EDC does not exceed the number of tranches desired, the price for that EDC will not tick down for the next round. However, as the Auction progresses and the prices for the other EDCs tick down, some bidders may re-assign tranches and increase the number of tranches bid on that EDC, which may cause the price for the EDC to tick down again. Hence, the winners cannot be determined for any one EDC until bidding stops for all EDCs.

There is no matching of suppliers to customers during the course of the Auction or selection of winners by the Auction Manager. It is only at the end of the Auction that suppliers reveal themselves to be winners by not withdrawing from the Auction.

2. If a bidder bid on an EDC in the preceding round and the price for the EDC's tranches did not tick down for the current round, the bidder cannot reduce the number of tranches bid for that EDC in the current round, either through a withdrawal or a switch (these terms are defined in section X.C.4). Any bid is a binding obligation to accept the BGS-CIEP supply responsibility at the price at which the bid was made for a one-year term. The bidder may be able to reduce the number of tranches bid on that EDC later in the Auction. If other bidders increase their number of tranches bid on the EDC (because its price has remained high relative to the prices for other EDCs) and cause the price for that EDC to tick down, the bidder will once again be able to reduce the number of tranches bid on that EDC.
3. Bidders can never increase the total number of tranches they bid during the Auction. If a bidder does not bid a tranche in the first round, that tranche cannot be bid later on. Once a tranche is withdrawn, it can never be bid again.
4. All bidders that win tranches for a particular EDC and are authorized as suppliers by the Board receive the same price per MW-day as well as all other payments specified in the BGS-CIEP Supplier Master Agreement.

X.C.2. Round Phases and Bidding Day

Each round of the Auction is divided into three phases: a *bidding phase*, a *calculating phase*, and a *reporting phase*.

In the bidding phase of the round, bidders place bids. To be valid, a bid must be submitted and verified in the bidding phase and processed by the Auction software. Bidders should allow time within the bidding phase of the round for submission, verification, and confirmation of the bid by the Auction software. The time-stamp of a bid is the time at which the bid is confirmed. A bidder that submits a bid in a round may change this bid as long as the

bidding phase of the round is still open. The last valid bid by the bidder in the round becomes a firm offer to supply that cannot be rescinded.

In the calculating phase of the round, the Auction Manager tabulates the results of that round's bidding phase and calculates the prices for the next round. During this phase, bidders cannot submit bids and bidders do not yet have access to the results from that round's bidding phase.

In the reporting phase of the round, the Auction Manager informs bidders that are still in a position to win at the Auction of the results of that round's bidding phase. All Auction results are confidential as explained below in section X.E. Bidders are informed of the *going prices* for the next round's bidding phase and are provided with a range of total excess supply left in the Auction. The going prices in a round are the prices at which the Auction Manager solicits bids in the bidding phase of that round. (Total excess supply is defined more precisely in section X.C.5 and information provided concerning total excess supply is specified in more detail in section X.C.7 below.) A bidder receives no information regarding another bidder's bid. Each bidder privately receives the results of its own bid from that round, indicating to each bidder its obligation at this point in the Auction.

A typical schedule for a bidding day will have a number of rounds in a morning session, a lunch break, and then a similar number of rounds scheduled in an afternoon session. The round times will speed up over the course of the Auction as bidders become more familiar with the process and bidding becomes more routine.

X.C.3. Round 1 of the Auction

X.C.3.a. Definition of a Bid

A bidder selects how many tranches it wants to serve for each EDC at the round 1 prices. In round 1, a *bid* then consists of four numbers:

- a number of tranches that the bidder wants to supply for PSE&G at the PSE&G round 1 price;
- a number of tranches that the bidder wants to supply for JCP&L at the JCP&L round 1 price;
- a number of tranches that the bidder wants to supply for ACE at the ACE round 1 price;

- a number of tranches that the bidder wants to supply for RECO at the RECO round 1 price.

The EDCs are always ranked in decreasing order of the *tranche targets*; a tranche target is the number of tranches needed for a given EDC.

The number of tranches that a bidder chooses for one EDC may or may not be the same as the number of tranches that the bidder chooses for another EDC. A number of tranches is an integer (0,1,2,...). A number of 0 (zero) for one EDC means that at the round 1 price for the EDC the bidder does not want to supply any of the BGS-CIEP Load for that EDC.

Example 4.				
Suppose that the round 1 prices are:				
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Price (\$/MW-day)	320.00	330.00	284.00	290.00
Then (5, 0, 3, 1) is Bidder A’s round 1 bid and it indicates that the bidder stands ready to supply 5 PSE&G tranches, no JCP&L tranches, 3 ACE tranches, and 1 RECO tranche at the round 1 prices.				
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Price (\$/MW-day)	320.00	330.00	284.00	290.00
Bid (tranches)	5	0	3	1

X.C.3.b. Bidding Phase

The Auction Manager informs bidders of the starting prices for each EDC three days prior to the Auction; these starting prices are the prices in force, or the going prices, for round 1 of the Auction. The going prices in a round are the prices at which the Auction Manager solicits bids in the bidding phase of that round.

Any bid submitted in round 1 must satisfy the condition that the total number of tranches bid by a bidder cannot exceed the bidder’s initial eligibility. As explained in section X.B.2, the bidder’s initial eligibility is equal to the number of tranches in the bidder’s indicative

offer. As the bidder's indicative offer cannot exceed the statewide load cap, the bidder's bid automatically satisfies the statewide load cap.

Example 4, continued.

The statewide load cap is 14 tranches. Bidder A submits an indicative offer of 10 tranches at the maximum starting price. Bidder A's initial eligibility is 10 tranches.

Bidder A's bid in round 1 is (5, 0, 3, 1).

- Bidder A is bidding on 9 tranches, which does not exceed Bidder A's initial eligibility of 10 tranches.
- Bidder A is bidding on a number of tranches that does not exceed the statewide load cap of 14 tranches.

As explained further in section X.C.9, bidders can request an extension in round 1. The bidding phase in round 1 is automatically extended for the convenience of bidders.

X.C.3.c. Calculating Phase, Reporting Phase and Potential Volume Cutback

The calculating phase of round 1 immediately follows the extended bidding phase. In the ordinary course of events, the Auction Manager reviews the results and sets the prices that will be in force in round 2 of the Auction. Round 1 moves to the reporting phase and the Auction Manager reports to bidders the results of bidding in round 1 as well as the round 2 prices. The price for an EDC is the same as the round 1 price when the number of tranches bid in round 1 is insufficient to fill the tranche target for the EDC, or when the number of tranches bid for the EDC is just equal to the tranche target for the EDC. The price for an EDC ticks down when the number of tranches bid on that EDC exceeds its tranche target. Details on the amount by which the price in each round is reduced are given in section X.G.2. The Auction Manager also provides to bidders an indication of the total excess supply in the Auction in round 1, as explained in section X.C.7. A bidder is not provided any information regarding any other individual bidder's bids.

The Auction Manager may call a pause in the Auction during the calculating phase of round 1. This pause is called a *time-out* (see section X.C.9 for additional details on time-outs). The Auction Manager will call this time-out if the Auction Manager needs to consider whether to cut back the Auction volume to ensure the competitiveness of the Auction. It is not expected

that the Auction Manager would revise the statewide load cap, but the Auction Manager retains the discretion to make such a revision based on the revised Auction volume, and will do so when the reduced Auction volume falls below the statewide load cap. As soon as practicable during the time-out, the Auction Manager will either announce that the Auction volume will not change, or will announce the revised Auction volume, the revised tranche target for each EDC, and the revised statewide load cap if applicable.

As soon as practicable during the time-out, the Auction Manager will start the reporting phase of round 1. The Auction Manager will report to the bidders the prices in force for round 2 as well as an indication of the total excess supply in the Auction in round 1. (Total excess supply is defined in section X.C.7.) The manner in which the tranche targets for the EDCs will be changed on the basis of the revised Auction volume will be announced no later than 10 days before the Part 2 Application is due. If the statewide load cap is reduced because it exceeds the reduced Auction volume, the Auction Manager reports to a bidder whose eligibility is greater than the reduced statewide load cap that the bidder's bid has been adjusted to conform to the reduced statewide load cap. The bidder withdraws any excess eligibility in round 2.

If the Auction volume is cut back, each EDC will implement a *Contingency Plan* for its tranches that have been removed from the Auction. Under their Contingency Plans, the EDCs will purchase necessary services to serve BGS-CIEP Load, including installed capacity, energy, transmission, and ancillary services through PJM-administered markets. Pursuant to these Contingency Plans, which are described in more detail in the Company Specific Addenda, the EDCs will not negotiate contracts with suppliers for BGS-CIEP Load after the Auction.

The Auction Manager will use a confidential set of guidelines approved by the Board to decide whether to cut back the Auction volume and to determine the magnitude of any necessary cutback. If the Auction volume is cut back, it will be cut back to the number of tranches bid in round 1 divided by a parameter called the *target eligibility ratio* (a desired ratio of tranches bid to the Auction volume). The precise value of this parameter depends on various factors, such as the number of bidders and characteristics of individual bids.

Example 5.

In the bidding phase of round 1, the Auction volume is 41 tranches (this is the sum of the tranche targets for all EDCs in the BGS-CIEP Auction: $23 + 12 + 5 + 1 = 41$). Suppose that a total of 51 tranches are bid. Further, suppose that given the number of bidders and the characteristics of the bids, the Auction Manager sets the target eligibility ratio at 1.5.

The actual eligibility ratio is approximately 1.24 ($51 / 41$). The Auction Manager cuts back the Auction volume by 7 tranches to 34 tranches to attain the target eligibility ratio of 1.5 ($51 / 1.5 = 34$).

After the volume cutback, there will be 1.5 tranches bid for every tranche to be purchased through the Auction ($51 / 34 = 1.5$).

The Auction Manager may further cut back the Auction volume on the basis of the bids as the Auction progresses, in accordance with the confidential guidelines approved by the Board. If such a revision is necessary to ensure a competitive bidding environment, the Auction Manager will call a time-out during the calculating phase of a round. As soon as practicable during the time-out, the Auction Manager will advise the bidders of the revised Auction volume, the revised tranche target for each EDC, and the revised statewide load cap (if applicable).

No later than three days before the start of the Auction, the Auction Manager may release further information regarding the possible values of the target eligibility ratio and the circumstances under which a second volume cutback may be undertaken.

X.C.4. Bidding in Round 2**X.C.4.a. Bid and Eligibility**

A bidder selects how many tranches to serve from each EDC at the round 2 prices.

As stated in the introduction to the Auction format in section X.C.1, a bidder cannot increase its total number of tranches bid at the round 2 prices from its total number of tranches bid in round 1. This is more generally expressed by saying that the bidder cannot exceed its

eligibility. A bidder's eligibility in round 2 is the bidder's total number of tranches bid⁵ in round 1.

A bidder can always select the same number of tranches for each EDC in round 2 as in round 1. A bidder that wishes to change the number of tranches bid on a given EDC can reduce the number of tranches bid as long as the price for that EDC has ticked down. Such *reductions* in the number of tranches bid on an EDC for which the price has ticked down can be in the form of a *withdrawal* or a *switch*. A bidder reduces the number of tranches bid on an EDC through a withdrawal when the bidder is reducing the number of tranches bid on an EDC, not increasing the number of tranches bid on other EDCs, and thus reducing the number of tranches bid in total. A bidder reduces the number of tranches bid on an EDC through a switch when the bidder is re-assigning the total number of tranches bid so that the number of tranches bid on one or several EDCs is reduced, but the number of tranches bid on other EDCs is increased by the same amount. If a bidder re-assigns tranches, the total number of tranches that the bidder bids on at least one EDC will increase, but the total number of tranches bid on all EDCs cannot increase. This is explained in more detail below in sections X.C.4.b and X.C.4.c.

In addition to specifying the number of tranches that a bidder is prepared to serve for each EDC, fully specifying a bid in round 2 may require the bidder to provide *switching priorities* or *exit prices* (defined below). A bidder is required to provide switching priorities when increasing the total number of tranches bid on two or more EDCs, as explained in section X.C.4.c. A bidder is required to provide exit prices if a bidder is reducing the number of tranches bid on an EDC through a withdrawal, as explained in section X.C.4.b.

In reporting to the bidder the result of its bid in the reporting phase, the Auction Manager will always report that it accepts a bid that is unchanged. The Auction Manager may disallow reductions that a bidder wants to make from an EDC. The Auction Manager retains withdrawn tranches if, by accepting all reductions from withdrawals and switches, the tranche target for that EDC would no longer be filled. The Auction Manager denies reductions from switches if, after retaining all withdrawn tranches from that EDC, accepting all reductions from switches would prevent the tranche target for that EDC from being filled. To fill the tranche

⁵ Given that the bidder's round 1 bid satisfied the statewide load cap, and given that the bidder cannot increase its total number of tranches bid, the bidder's bid will satisfy the statewide load cap in all subsequent rounds.

target of an EDC, the Auction Manager first takes tranches that are bid at the round 2 price, then retains tranches that bidders want to withdraw, and finally denies reductions from switches that bidders have requested, as necessary. As explained in more detail below, the Auction Manager retains tranches that a bidder has withdrawn at the exit price named by the bidder and keeps switches that must be denied at the last price at which the bidder freely bid these tranches.

X.C.4.b. Reductions through Withdrawals

A bidder can withdraw tranches from an EDC only if the price for that EDC has decreased from round 1 to round 2. If, instead, the price for an EDC has not changed from round 1 to round 2, then the bidder's offer in round 1 at that price is still standing, and the bidder cannot bid on fewer tranches for that EDC at the unchanged going price. As explained below, a bidder can always bid more tranches for an EDC whose price has not changed from round 1 by reducing the number of tranches from other EDCs whose prices have ticked down and switching them to the EDC whose price has not ticked down.

A bidder that withdraws one or more tranches from an EDC must name an exit price for those tranches. A bidder names an exit price when it bid one or more tranches at the previous going price but is unwilling to bid these tranches at the current going price. A bidder that withdraws several tranches previously bid at the round 1 price for a given EDC must specify the same exit price for all tranches from that EDC. An exit price must be less than or equal to the last price at which the tranches were freely bid (in round 2, this is the price in round 1) and must be higher than the EDC's going price (in round 2, this is the round 2 price, a price at which the bidder is no longer willing to bid the tranches being withdrawn). A bidder that withdraws tranches from more than one EDC can specify a different exit price for each EDC.

An exit price enables the Auction Manager to determine which bidder would have remained ready to serve an EDC had the price ticked down continuously rather than in lumpy, discrete decrements. The Auction Manager relies on exit prices when tranches are withdrawn from an EDC and when the number of tranches bid on that EDC at the round 2 price falls short of that EDC's tranche target due to reductions from withdrawals and possibly also due to

reductions from switches. The tranches with lower exit prices are retained first, and they are retained at the exit price that the bidder has named.

If, to fill the last tranches of the tranche target of an EDC, the Auction Manager must retain some but not all the tranches from two or more bidders that named the same exit price, then the Auction Manager, for each tranche to be retained, will choose at random the bidder whose tranche is retained. Thus, for the first tranche needed at the tied exit price, the probability that a particular bidder is chosen is the number of tranches that the bidder has bid at the exit price divided by the total number of tranches bid at the exit price. If a second tranche is needed at the exit price, the Auction Manager again will choose at random a bidder whose tranche will be retained. The probability that any one bidder is chosen is the number of tranches that the bidder has bid at the exit price and that have not yet been retained divided by the total number of tranches bid at the exit price and that have not yet been retained. The Auction Manager repeats this procedure until the tranche target for the EDC is filled.

A bidder that withdraws tranches from an EDC loses the eligibility associated with these tranches, and forfeits the right to bid these tranches for the remainder of the Auction on any EDC. Eligibility is lost even if the withdrawn tranches are retained. Eligibility is always lost as a result of withdrawing tranches.

Example 6.				
The round 1 prices and the round 1 bid for Bidder A are:				
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 1 Price (\$/MW-day)	320.00	330.00	284.00	290.00
Bid (tranches)	5	0	4	1
The round 2 prices are:				
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 2 Price (\$/MW-day)	320.00	323.40	274.06	290.00
Bidder A cannot bid fewer tranches for PSE&G or RECO in round 2 because the prices for these EDCs have not changed from round 1.				
Bidder A reduces the number of tranches bid for ACE from 4 to 2. The bidder enters an exit price of \$283.42/MW-day, which is between \$274.06/MW-day and \$284.00/MW-day. (The exit price could have been equal to \$284.00/MW-day, but not equal to \$274.06/MW-day.)				

X.C.4.c. Reductions through Switches

When a bidder is switching and not withdrawing, a bidder is simultaneously decreasing the number of tranches bid for one or more EDCs and increasing the number of tranches for one or more EDCs while leaving the total number of tranches bid the same. As in the case when the bidder is reducing the number of tranches bid on an EDC because the bidder is withdrawing tranches, the bidder can reduce the number of tranches bid on an EDC by switching only if the price for that EDC has decreased in round 2. Again, if instead the price for an EDC has not ticked down, then the bidder cannot bid fewer tranches on that EDC (i.e., the bidder cannot withdraw tranches or switch tranches from that EDC).

Example 7.				
The following are the round 1 and round 2 prices and the bids for Bidder A.				
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 1 Price (\$/MW-day)	320.00	330.00	284.00	290.00
Bid Round 1 (tranches)	5	0	4	1
Round 2 Price (\$/MW-day)	320.00	323.40	274.06	290.00
Bid Round 2 (tranches)	9	0	0	1
<p>In round 2, Bidder A is increasing by 4 the number of tranches bid on PSE&G. Also, Bidder A is reducing by 4 the number of tranches bid on ACE. Since the total number of tranches bid is the same (10), the bidder is switching. Bidder A can reduce the number of tranches bid on ACE since its price has decreased in round 2. Bidder A can bid for more tranches for PSE&G. If the price for an EDC does not change, a bidder cannot bid <i>fewer</i> tranches but can bid <i>more</i> tranches for that EDC.</p>				

When (and only when) a bidder is increasing the number of tranches bid at the going price on more than one EDC, the bidder must specify a ***switching priority***. A switching priority is a rank assigned to each of the EDCs on which the bidder is increasing the number of tranches bid. The Auction Manager will use this switching priority only when accepting some, but not all, reductions involved in a switch that the bidder has requested. The Auction Manager will use this switching priority only when, to keep an EDC’s tranche target filled, the Auction Manager must retain all tranches that were withdrawn out of that EDC and must deny some, but not all, reductions from that EDC that come from a bidder’s switch. The Auction Manager first increases the number of tranches bid of the EDC to which the bidder has assigned the

highest priority (1 is the highest priority). The switches that the Auction Manager denies to fill the tranche target of an EDC are retained at the price at which they were last freely bid (in round 2, this is the round 1 price).

If a bidder intended to reduce the number of tranches bid on an EDC through a switch, some or all of these reductions may be denied. The Auction Manager will deny reductions from switches if the number of tranches bid at the going price, and the number of tranches that can be retained from withdrawals, are not together sufficient to fill the tranche target of an EDC. If the Auction Manager must deny one or several reductions from switches from two or more bidders, the Auction Manager chooses at random the bidder whose switch will be denied.

For each tranche of the target that must be filled by denying a reduction from a switch, the Auction Manager chooses at random the bidder whose switch is denied. Thus, for the first switch that must be denied, the probability that the Auction Manager chooses a tranche bid by a particular bidder requesting a switch is the number of tranches by which the bidder's bid on the EDC is reduced by the switch and that could be denied, divided by the total number of tranches by which the number of tranches bid on the EDC is reduced by switches from all bidders and that could be denied. If a second switch must be denied, the Auction Manager again chooses at random the bidder whose switch will be denied. The probability that the Auction Manager chooses a tranche bid by a bidder requesting a switch is the number of tranches by which the bidder's bid on the EDC is reduced by the switch and that could have, but have not yet been denied, divided by the total number of tranches by which the number of tranches bid on the EDC is reduced by all switches from bidders and that could have, but have not yet been denied. The Auction Manager repeats this procedure until the tranche target for the EDC is filled. The Auction Manager continues to report that some or all of these switches are being denied in subsequent rounds as long as they are still needed to fill the EDC's tranche target.

Example 8.

Bidder B submits the following bid in round 2 after this history in round 1:

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 1 Price (\$/MW-day)	320.00	330.00	284.00	290.00
Round 1 Bid (tranches)	2	7	2	1
Round 2 Price (\$/MW-day)	320.00	323.40	274.06	290.00
Round 2 Bid (tranches)	6	1	4	1

In round 2, Bidder B is increasing the number of tranches bid on ACE and PSE&G while reducing the number of tranches bid for JCP&L. Since the total number of tranches bid is the same (12) in both rounds, the bidder is switching. Bidder B gives the switching priority to the increase on PSE&G.

If the Auction Manager will allow 2 of Bidder B’s reductions but needs to deny the other 4, then the bidder will be allowed to increase its number of tranches bid for PSE&G by those 2 tranches because of the switching priority. The other 2 tranches by which Bidder B increased its number of tranches bid for PSE&G, and the 2 tranches by which Bidder B increased its number of tranches bid for ACE, will not be allowed. The 4 denied switches will remain JCP&L tranches with a price of \$330.00/MW-day, which is the last price at which they were freely bid.

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 2 Price (\$/MWh)	320.00	323.40	274.06	290.00
Round 2 Accepted Bid (tranches)	4	1 @ 323.40 4 @ 330.00	2	1

X.C.4.d. Withdrawing and Switching Tranches Simultaneously

If a bidder is both switching and withdrawing, a bidder can reduce tranches from a particular EDC only if the price for that EDC has decreased in round 2. Additionally, if the bidder is switching and withdrawing, the bidder may be asked to specify which tranches are being withdrawn and which tranches are being switched. The bidder would be asked for this additional information, for instance, when the bidder is switching and withdrawing, and the bidder is reducing the number of tranches bid for more than one EDC. The tranche or tranches that the bidder specifies to be withdrawn are the tranche(s) for which the bidder will name an exit price.

Example 9.

Bidder C submits the following bid in round 2 after this history in round 1:

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 1 Price (\$/MW-day)	320.00	330.00	284.00	290.00
Round 1 Bid (tranches)	2	5	2	1
Round 2 Price (\$/MW-day)	320.00	323.40	274.06	287.10
Round 2 Bid (tranches)	4	2	3	0

Bidder C bids a total of 10 tranches in round 1 and 9 tranches in round 2. Bidder C is withdrawing 1 tranche and will name an exit price for that tranche.

Since Bidder C reduces the number of tranches bid for both JCP&L and RECO, Bidder C’s intentions are not clear unless the Auction Manager asks Bidder C for additional information. Indeed, it could be that Bidder C is withdrawing from JCP&L and switching the remaining tranches. Or it could be that Bidder C is withdrawing from RECO and switching the remaining tranches.

Bidder C is asked to select whether it is withdrawing a tranche from JCP&L or RECO. Bidder C selects that it is withdrawing one tranche from RECO, and is asked to name an exit price for this tranche. Since Bidder C is increasing the number of tranches bid for more than one EDC (PSE&G and ACE), Bidder C is also asked for switching priorities. Bidder C assigns the first priority to ACE.

X.C.5. Calculating and Reporting Phases in Round 2

The calculating phase starts immediately after the bidding phase. Once the Auction Manager has tabulated and reviewed the results, the reporting phase begins. The Auction Manager informs all bidders of the round 3 price for each EDC. The Auction Manager provides to all bidders a range for the **total excess supply** in the Auction for round 2. The total excess supply in the Auction is the sum, over all EDCs for which the number of tranches bid exceeds the tranche target, of the excess supplies for the individual EDCs, plus free eligibility, which is defined below in section X.C.6. The range of total excess supply reported to bidders will change as the Auction progresses. When total excess supply is high, this range will count as few as 5 integers; as total excess supply decreases, the range will become wider and count 10 or more integers. The exact ranges of total excess supply provided as the Auction progresses are specified in detail in section X.C.7.

In addition to what the Auction Manager tells all bidders about the general progress of the Auction, the Auction Manager reports privately to each bidder the outcome of its own bid. (The Auction Manager never reports the bid of one bidder to another bidder.)

If the round 2 bid is unchanged from round 1, or if requested reductions (from switches or withdrawals) all have been granted, the Auction Manager reports the bid made in round 2.

If the bidder intended to reduce the number of tranches bid on an EDC by withdrawing tranches and some or all of these tranches are retained, the Auction Manager informs the bidder of the number of withdrawn tranches that are being retained and the price at which these tranches are retained. This can occur only if the EDC’s number of tranches bid in round 1 exceeded its tranche target while the number of tranches bid at the round 2 price is not sufficient to fill its tranche target. The price at which the withdrawn tranches are retained is the exit price. The Auction Manager will continue to report that some or all of these tranches are being retained in subsequent rounds as long as they are needed to fill the EDC’s tranche target.

If a bidder intended to reduce the number of tranches bid on an EDC through a switch, but if some or all of these reductions are denied, the Auction Manager informs the bidder of the number of tranches for which the switch is denied. The price at which a switch is denied is the last price at which the tranche was freely bid. In round 2, this price is the round 1 price. A switch can be denied only if, for the EDC from which the number of tranches bid is reduced, the number of tranches bid in round 1 exceeded its tranche target, and the number of tranches bid at the round 2 price plus the retention of all the withdrawals from the EDC are not sufficient to fill the tranche target.

Example 10.			
Bidders A, B, and C are the only bidders bidding for tranches of JCP&L, for which the tranche target is 12. None of these bidders are bidding on RECO. Their bids in rounds 1 and 2 are given below:			
<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>
Tranche Target	23	12	5
Round 1 Price (\$/MW-day)	320.00	330.00	284.00
Bidder A Bid (tranches)	0	5	0
Bidder B Bid (tranches)	0	3	0
Bidder C Bid (tranches)	0	5	0

Round 2 Price (\$/MW-day)	320.00	323.40	274.06
Bidder A Bid (tranches)	0	4	1
Bidder B Bid (tranches)	1	1	1
Bidder C Bid (tranches)	0	5	0

Bidder C’s bid is unchanged from round 1 to round 2. Bidder A switches, increasing the number of tranches bid for ACE by 1 and reducing the number of tranches bid on JCP&L. Bidder B is also switching. Bidder B gives ACE the switching priority. In total, three fewer tranches are bid on JCP&L.

No other bidders bid on tranches for JCP&L in round 2. In round 1, JCP&L’s tranche target is more than filled with 13 tranches bid at the round 1 price. In round 2, the 10 tranches bid at the round 2 price are insufficient to fill the tranche target. The Auction Manager must deny 2 of the intended switches.

Two of the 3 reductions from JCP&L must be denied. For the first tranche that must be filled by denying a switch, the probability that each bidder is chosen is 1/3 for Bidder A and 2/3 for Bidder B. Bidder B is chosen at random. The Auction Manager repeats the procedure for the second tranche that must be filled by denying a switch. The probability that each bidder is chosen is 1/2 for Bidder A and 1/2 for Bidder B. Bidder A is chosen at random. This means that the Auction Manager denies Bidder A its intended switch and that Bidder B is allowed to switch 1 of the 2 tranches requested. Bidder B gave ACE the switching priority. Adding the 2 denied switches to the 10 tranches bid at the round 2 price fills JCP&L’s tranche target.

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>
Round 1 Price (\$/MW-day)	320.00	330.00	284.00
Round 2 Price (\$/MW-day)	320.00	323.40	274.06
Report to Bidder A	0	4 @ \$323.40/MW-day 1 denied switch @ \$330.00/MW-day	0
Report to Bidder B	0	1 @ \$323.40/MW-day 1 denied switch @ \$330.00/MW-day	1 @ \$274.06/MW- day
Report to Bidder C	0	5 @ \$323.40/MW-day	0

The Auction Manager reports to Bidder A that its switch was denied. The Auction Manager also reports to Bidder A that it has 4 JCP&L tranches bid at the round 2 price of \$323.40/MW-day and 1 denied switch, a JCP&L tranche at the round 1 price of \$330.00/MW-day. The Auction Manager reports to Bidder B that Bidder B has 1 tranche of JCP&L bid at the round 2 price of \$323.40/MW-day and 1 denied switch, a JCP&L tranche bid at the round 1 price of \$330.00/MW-day. The Auction Manager also reports to Bidder B that Bidder B has 1 ACE tranche bid at \$274.06/MW-day (because of the switching priority). The Auction Manager also reports to Bidder C that Bidder C has 5 tranches of JCP&L bid at the round 2 price.

X.C.6. Round 3 and All Subsequent Rounds

Rounds start with a bidding phase. When an EDC's price in a round has ticked down from the previous round, a bidder is free to maintain its number of tranches bid on the EDC or reduce its number of tranches bid on the EDC. Also, the bidder can increase its number of tranches bid on an EDC if the bidder has tranches bid on another EDC for which the price has ticked down. When an EDC's price has not ticked down from the previous round, a bidder must maintain its number of tranches bid on the EDC, or the bidder can increase its number of tranches bid on the EDC (subject to the condition just noted). To fully specify a bid, in certain circumstances the bidder will be required to provide exit prices and switching priorities as explained in section X.C.4.

At all times, the number of tranches bid by a bidder cannot exceed the bidder's eligibility. The bidder's eligibility for a round is its eligibility at the start of the previous round minus the number of tranches that the bidder withdrew from the Auction in the bidding phase of the previous round. The total number of tranches bid by a bidder includes tranches bid at the going prices and denied switches that are kept at the last price at which they were freely bid.

In the reporting phase that follows the bidding phase and the calculating phase, the Auction Manager reports to all bidders a range for the total excess supply left in the Auction, as described in section X.C.7. The Auction Manager reports privately to a bidder on its bid. The Auction Manager reports any withdrawn tranches that are retained and any switches that are denied along with their associated prices, as described above in section X.C.4. If a switch that had been denied in a previous round is freed to be bid once again, then the Auction Manager will report the number of tranches that are being freed.

To fill the tranche target for an EDC, the Auction Manager takes bids in increasing order of price. The Auction Manager first takes tranches bid at the current round price, then the Auction Manager retains withdrawn tranches, and finally the Auction Manager denies switches. Thus, when new tranches are bid at the current round price for an EDC from which switches had been denied, the new tranches replace the denied switches (partially or completely) in filling the EDC's tranche target, and therefore free up some or all of these denied switches. A denied switch that is being replaced by a new tranche at the going price is then said to be *outbid*. If switches from more than one bidder are retained, and if not all denied switches are

outbid, the Auction Manager chooses at random, for each denied switch that will be outbid, the bidder whose switch will be outbid. Thus, for the first denied switch that is outbid, the probability that the Auction Manager chooses a particular bidder's denied switch is the bidder's number of denied switches divided by the total number of denied switches for that EDC. If a second denied switch must be outbid, the Auction Manager again will choose at random the bidder whose denied switch will be outbid. The probability that the Auction Manager chooses a bidder's denied switch is the bidder's number of denied switches that have not yet been outbid divided by the total number of denied switches that have not yet been outbid. The Auction Manager repeats this procedure until the required number of denied switches has been outbid.

Once some denied switches are outbid for a bidder, the Auction Manager reports this fact to the bidder, along with the number of tranches that have been outbid. A denied switch that is outbid becomes *free eligibility* for the bidder in the next round. A tranche of free eligibility can be bid on any one of the EDCs in the next round, or it can be withdrawn in the next round, as explained further below.

The Auction Manager reports privately to a bidder if a withdrawn tranche that had been retained is now being released and thereby irrevocably removed from the Auction. Withdrawn tranches that had been retained at the highest exit prices are the first to be released and removed from the Auction. If withdrawn tranches from more than one bidder had been retained at the same exit price, and if not all retained tranches at that exit price are being released, the Auction Manager chooses at random the bidder or bidders whose tranches are released and thereby irrevocably removed from the Auction. Thus, for the first retained tranche that should be released, the probability that a particular bidder is chosen is the bidder's number of retained tranches at the tied exit price divided by the total number of retained tranches at that exit price. If a second retained tranche needs to be released, the Auction Manager again will choose at random the bidder whose retained tranche will be released, and the probability that a particular bidder is chosen is the bidder's number of retained tranches at the tied exit price that have not yet been released divided by the total number of retained tranches at the tied exit price that have not yet been released. The Auction Manager repeats this procedure until the required number of tranches has been released.

Two additional bidding rules come into play when a bidder has been denied a switch.

First, if a bidder holds tranches for an EDC from a switch that had been denied in a previous round, and if this bidder bids new tranches for this same EDC at the price for the current round, the bidder will be deemed to have bid any tranches from a previously denied switch at the current round price for that EDC. That is, tranches from the denied switch become tranches that are bid at the price for the current round. The Auction Manager, in filling the tranche target for the EDC, will take first tranches bid at the going price; in these tranches at the going price, the Auction Manager will include any denied switches that have become tranches bid at the current round price (because the bidder has bid new tranches for this same EDC at the current round price).

Second, if a bidder’s denied switches are partially or totally outbid in a round and become free eligibility, and if the bidder withdraws one or more of these tranches of free eligibility in the very next round, then the bidder does not name an exit price for these tranches. No exit price is needed to withdraw a tranche of free eligibility because such tranches are not associated with any one EDC. The Auction Manager always accepts a withdrawal of tranches of free eligibility, and these tranches are always irrevocably removed from the Auction.

Example 11.		
Bidders A’s bids in rounds 6 and 7 are given below (Bidder A does not bid for any other EDCs):		
<i>EDC</i>	<i>JCP&L</i>	<i>ACE</i>
Round 6 Price (\$/MW-day)	320.00	284.00
Bidder A Bid (tranches)	2	4
Round 7 Price (\$/MW-day)	317.00	279.80
Bidder A Bid (tranches)	6	0
In round 7, Bidder A requests to switch 4 tranches. The Auction Manager denies part of the switch. Bidder A, in the reporting phase of round 7, is informed that its bid consists of 3 tranches of JCP&L at \$317.00/MW-day and 3 denied switches of ACE at \$284.00/MW-day (the price at which the tranches of ACE were last freely bid).		
<i>EDC</i>	<i>JCP&L</i>	<i>ACE</i>
Report to Bidder A	3 @ \$317.00/MW-day	3 denied switches @ \$284.00/MW-day

In round 8, Bidder A reduces its number of tranches bid on JCP&L by 2 and increases its number of tranches bid on ACE. At the round 8 prices, Bidder A bids 1 tranche of JCP&L and 2 tranches of ACE at the going prices. The denied switches are kept on ACE and cannot be freely bid.

<i>EDC</i>	<i>JCP&L</i>	<i>ACE</i>
Round 8 Price (\$/MW-day)	314.00	279.80
Bidder A Bid (tranches)	1	2
Denied Switches		3 @ \$284.00/MW-day

Bidder A has bid new tranches of ACE at the round 8 price while having switches denied on the same EDC at a higher price. Bidder A is then deemed to have bid all 5 ACE tranches at the round 8 price of \$279.80/MW-day as shown below. All 5 tranches of ACE become tranches bid at the round 8 price.

<i>EDC</i>	<i>JCP&L</i>	<i>ACE</i>
Round 8 Price (\$/MW-day)	314.00	279.80
Bidder A Bid (tranches)	1	5

X.C.7. Reporting of Total Excess Supply

In addition to the next round prices, the Auction Manager provides all bidders that could still be winners with a range for total excess supply in the Auction. The actual total excess supply in the Auction lies within the reported range. The total excess supply in the Auction is the sum, over all EDCs for which the number of tranches bid exceeds the tranche target, of the excess supplies for the individual EDCs, plus all tranches of free eligibility.

The manner in which the total excess supply in the Auction is reported changes as the Auction progresses. In general, when total excess supply is high, the Auction Manager announces a range for the total excess supply that includes exactly 5 integers. The largest integer of each such range will be divisible by 5. When the total excess supply falls to 35 or fewer tranches, the Auction Manager announces a range for the total excess supply that includes at least 10 integers. The largest integer of each such range will be divisible by 5. When the total excess supply falls to 15 or fewer tranches, the Auction Manager will report to all bidders only that the total excess supply is between 0 and 15 tranches.

In summary, the ranges are expected to be the following:

Possible Ranges for Total Excess Supply	
Total excess supply falls to 15 tranches or fewer: a single range remains	0 – 15
Total excess supply is between 16 and 35 tranches: ranges count 10 integers or more	16 – 25
	26 – 35
Total excess supply is 36 tranches or more: ranges count 5 integers	36 – 40
	41 – 45
	46 – 50 (etc.)

The Auction Manager may revise these ranges before the start of the Auction. The Auction Manager will inform the registered bidders no later than 3 days after registration of any changes in the possible ranges for total excess supply.

When the actual total excess supply is zero, the Auction ends, as explained in section X.C.11.

A bidder that has no remaining obligation loses its access to the Auction software and is no longer provided with the range of total excess supply and the next round prices. A bidder has no remaining obligation when the bidder has zero eligibility and has no retained withdrawals. A bidder that has no remaining obligation can no longer win at the Auction. Such a bidder loses its access to the Auction software and is no longer provided with the range of total excess supply and the next round prices no earlier than the round after the bidder has been first informed that it has no remaining obligation. The bidder will lose its access as soon as practicable, but in no event later than eight rounds after it has no remaining obligation.

Round results that are reported to all bidders will also be reported to a list of representatives from the EDCs, the Board and the Board Consultant. The bidders, the EDCs, the Auction Manager, the Board and the Board Consultant hold any Auction results to which they have access to be confidential. Before being registered to participate in the Auction, the bidders will agree to keep all Auction results, as well as the list of qualified bidders, the list of registered bidders, and the total initial eligibility in the Auction confidential. The bidders will

agree not to disclose any such confidential information about the Auction Process, except for any aspects of the Auction results that the Board releases as part of their decision of whether to approve the results, or that the Board explicitly authorizes can be released (see section X.E). Bidders will also agree to destroy documents with Auction information provided by the Auction Manager within five days of the Board deciding whether to approve the Auction results.

X.C.8. Calculation of Next Round Prices

An EDC's price in a round is calculated so that it ticks down more quickly the larger is the excess supply on the EDC. The excess supply on an EDC is measured against an estimate of the maximum possible excess supply for the EDC. This estimate takes into account the total excess supply in the Auction, the statewide load cap, the tranche target of each EDC, and the number of registered bidders. A decrease in price for an EDC that has a number of tranches bid greater than the tranche target is called the decrement; the decrement is a percentage of the previous going price. The decrements are calculated using formulas. The Auction Manager has the discretion to override the calculated decrement for any EDC in any round. The Auction Manager does not expect to use such discretion, but may do so. When the Auction Manager, in the reporting phase of a round, uses discretion to override the decrement formulas and determine the going prices for the next round, the Auction Manager notifies bidders of that fact during the reporting phase of that round.

The decrement formulas allow the decrements to be larger at the start of the Auction than in later rounds. At the start of the Auction, when the number of tranches bid on an EDC exceeds the tranche target, the decrement is between 0.5% and 5% of the previous round price. Decrements continue to be between 0.5% and 5% of the previous round price until the going prices for round 4 are calculated. After that time, in the first round in which the total excess supply in the Auction is 15 or fewer tranches, the decrements (for EDCs for which the number of tranches bid is greater than the tranche target) will be between 0.25% and 2.5% of the previous going price, and will remain so until the end of the Auction.

The excess supply of an EDC is the number of tranches bid at the going price minus the EDC's tranche target, or it is zero, whichever is greater. Prices are rounded off to the nearest cent per MW-day.

Provisional decrement formulas are provided in section X.G.2. The formulas that will be used in the Auction, which depend on the statewide load cap and the number of registered bidders, will be released to all bidders no later than three days after bidder registration.

X.C.9. Pauses in the Auction

Any one bidder can pause the Auction by requesting an *extension* or a *recess*. A bidder requests an extension during the bidding phase of a round; such a request extends the bidding phase of the round by 15 minutes for all bidders. A bidder requests a recess during the calculating or reporting phase of the round; such a request suspends the Auction for a period of no less than 30 minutes. A recess allows a bidder additional time to consider its bid.

The bidding phase of round 1 is automatically extended. The bidding phase of a round can be extended only once by 15 minutes. Each bidder is allowed three extensions during the Auction. A bidder with positive eligibility is automatically deemed to have requested a bidding extension when – by the scheduled ending time of the bidding phase – the bidder has not submitted a bid and when the bidder has not already used the three allowable extensions. A bidder with positive eligibility who has already used the three allowable extensions and who does not submit a bid during a round will be assigned a default bid as explained in section X.C.10. Extension requests from all bidders are granted but all extensions run concurrently. All bidders that have requested an extension during the bidding phase of a round will see their available number of extensions reduced. The bidding phase in a round will be extended only once by 15 minutes. The Auction Manager reports to all bidders at the end of the planned bidding phase that the bidding phase has been extended.

A recess must be requested during the calculating phase or during the reporting phase, before the scheduled last half of the reporting phase of a round starts, or before the last five minutes of the reporting phase of a round, whichever is earlier. (That is, if the reporting phase of a round is scheduled to be 8 minutes, then the recess must be requested before the last 5 minutes of the reporting phase; if the reporting phase of a round is scheduled to be 14 minutes,

then the recess must be requested before the last 7 minutes of the reporting phase.) As soon as is feasible after the time at which a recess can be requested has passed, the Auction Manager reports to all bidders that a recess has been called. The Auction Manager retains the discretion to set the length of a recess but the Auction Manager will not set the recess time to be less than 30 minutes.

Each bidder is allowed to request at most one recess during the Auction. A bidder cannot request a recess in the first ten rounds of the Auction. Starting in the eleventh round, a bidder may request a recess in a round only if the total excess supply in the Auction reported in the previous round was 15 or fewer tranches. All recess requests are granted, but all requested recesses run concurrently. All bidders making a request in a given calculating or reporting phase will be deemed to have used a recess request. All bidders that have requested a recess will see their available number of recesses reduced to zero and the recess will last a length of time determined by the Auction Manager for one recess and will be no less than 30 minutes.

Example 12.

The total number of tranches in the Auction is 41.

In round 5, total excess supply is reported to be in the 76-80 range. Bidders are not able to request a recess in round 5 since round 11 has not yet been reached.

In round 12, the total excess supply is reported to be in the 0-15 range for the first time. Bidders can request a recess in round 13, since the total excess supply reported in the previous round (round 12) was at 15 tranches or below, and round 11 had been reached.

The Auction Manager can call a time-out to the Auction at any time during a round. It is intended that a time-out suspend activity in the Auction for a period of no more than four hours; however, the Auction Manager retains the discretion to suspend activity for a longer period, if necessary. Whenever a time-out is called, the Auction Manager reports to all bidders how long the time-out is expected to last.

During the calculating phase of round 1, the Auction Manager may call a time-out to the Auction to evaluate whether the Auction volume should be adjusted. The Auction Manager has the discretion to call additional time-outs during the Auction. Such discretion could be used,

for example, in case of an extraordinary event occurring during the Auction. The Auction Manager expects to exercise this discretion rarely.

X.C.10. Failure to Submit a Bid

A bidder with positive eligibility must submit a bid in every round (even when the bidder's bid does not change or the bidder is bidding only on EDCs whose prices have not ticked down). As explained in section X.C.9, if a bidder with positive eligibility does not submit a bid during the bidding phase of a round, the bidder is granted an extension whenever possible. If the bidder has previously used all three extensions, or if the bidder does not submit a bid during the extension to the bidding phase, then the bidder has failed to submit a bid.

When a bidder with positive eligibility has failed to submit a bid in a round, the bidder is assigned a *default bid*. A default bid is the number of tranches on each EDC equal to the minimum number of tranches that the bidder could have bid on each EDC, as explained below. Any tranches of free eligibility that could have been bid in the round are deemed to be withdrawn and are irrevocably removed from the Auction. Any tranche that was bid on an EDC and that could be withdrawn is deemed to be withdrawn at the highest possible exit price for the round, which is equal to the going price in the previous round. A tranche that is withdrawn as a result of a default bid can be retained only if the number of tranches bid by other bidders at the going price, and the number of withdrawn tranches from bidders that have submitted a bid, together are not sufficient to fill the tranche target. In breaking any ties between tranches withdrawn at the same exit price, default bids will be disadvantaged compared to bids actually submitted by bidders. In general, in any circumstance where a tie must be broken, default bids will be disadvantaged compared to bids actually submitted by bidders, also as explained below.

As a consequence of a bidder being assigned a default bid, a bidder may lose the ability to submit bids for the remainder of the Auction. For example, if the prices of all the EDCs for which a bidder bid tranches tick down, then the default bid is zero on all EDCs. Indeed, the minimum number of tranches that can be bid on an EDC whose price has ticked down is zero. Any tranche that had previously been bid is withdrawn. After such a default bid, the bidder

will be assigned zero eligibility in the next round, and the bidder will lose the ability to bid in the next and in all future rounds.

The default bid assigned to a bidder that has not submitted a bid during a round or during its extension, and the treatment of this default bid in any required tie-breaking procedure, are determined during the calculating phase of a round. The default bid for a bidder in round 1 is 0 tranches on each and every EDC. The default bid for a bidder in round 2 and all subsequent rounds is described in detail as follows.

If the bidder has some tranches of free eligibility in the current round, these tranches are deemed to be withdrawn and are irrevocably removed from the Auction.

If, in the previous round, a bidder did not bid any tranches on an EDC at the going price and in the reporting phase of that round the Auction Manager reported that the bidder did not have any retained withdrawals or denied switches for that EDC, then the bidder is assigned zero tranches for that EDC.

If, as of the reporting phase in the previous round, a bidder had tranches on a particular EDC at the going price for the previous round and if the EDC's price ticked down from the previous round to the current round, then the bidder is deemed to have withdrawn all tranches at the highest exit price, namely the price from the previous round. The bidder loses the eligibility associated with these tranches. Tranches with a lower exit price named by bidders that have submitted a bid in the current round are retained first. If needed, tranches with the same exit price named by bidders that have submitted a bid in the current round are retained next. If all the withdrawn tranches by the bidder and by other bidders that were assigned a default bid are needed to fill the tranche target, these tranches are retained. If some but not all of the tranches submitted by the bidder and other bidders that were assigned a default bid are needed, tranches are chosen at random to fill the tranche target, in a procedure analogous to that used for bidders that submitted a bid, as described in section X.C.4.

If, as of the reporting phase in the previous round, a bidder had some tranches on a particular EDC at the going price for the previous round, and/or retained withdrawals, and/or denied switches; if the EDC's price did not tick down from the previous round to the current

round; and if there is excess supply for the EDC in the current round, so that the price will tick down from the current round to the next round, then:

- all withdrawals that were previously retained are released and the bidder has no remaining obligation from those tranches;
- all switches that had previously been denied are outbid and the bidder is assigned free eligibility for those tranches in the next round;
- all tranches bid in the previous round at the going price are bid in the current round on the EDC at the going price. The bidder has eligibility associated with these tranches in the next round. If the bidder is assigned a default bid in the next round these tranches will be withdrawn and assigned the highest possible exit price.

If, as of the reporting phase in the previous round, a bidder had some tranches on a particular EDC bid at the going price, and/or retained withdrawals, and/or denied switches; if the EDC's price did not tick down from the previous round to the current round; and if there is no excess supply on the EDC in the current round so that the price will not tick down in the next round; then:

- any tranches bid at the going price in the previous round are deemed to be bid in the current round at the current going price;
- if any new tranches were bid by other bidders on the EDC at the going price in the current round, the denied switches (if any) of bidders that have been assigned default bids are outbid first, before the denied switches of bidders that have submitted a bid in the current round. If more than one bidder has been assigned a default bid, and if some but not all denied switches from such bidders are outbid, then for each denied switch that must be outbid, the Auction Manager chooses at random among the default bidders the bidder whose switch is outbid, in a procedure analogous to that used for bidders that submitted a bid, as described in section X.C.6;
- if any new tranches were bid by other bidders on the EDC at the going price in the current round, and if all denied switches from default bidders and from bidders that submitted a bid are outbid, retained withdrawals are released, starting with the

highest named exit price. For a given exit price, tranches from bidders that have been assigned default bids (if any) are released first, before the retained withdrawals of bidders that have submitted a bid in the current round. If more than one bidder has been assigned a default bid, and if some but not all of the retained withdrawals from such bidders must be released at a given exit price, then for each retained withdrawal that must be released, the Auction Manager chooses at random among the default bidders the bidder whose withdrawn tranche is released, in a procedure analogous to that used for bidders that submitted a bid, as described in section X.C.6.

The bidder can lose its ability to bid in all future rounds by failing to bid during the bidding phase of a round or during its extension. It is the responsibility of the bidder to ensure that bids are submitted on time.

Example 13.

Bidders A’s bid in round 5 is given below:

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 5 Price (\$/MW-day)	292.00	301.00	293.04	303.00
Bidder A Bid (tranches)	0	4	2	0

Bidders A’s bid in round 6 is given below:

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 6 Price (\$/MW-day)	289.00	298.00	289.94	297.85
Bidder A Bid (tranches)	2	4	0	0

This bid represents a switch, whereby Bidder A has increased the number of tranches on PSE&G while decreasing the number of tranches on ACE.

The Auction Manager reports the following:

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 7 Price (\$/MW-day)	289.00	295.00	289.94	292.96
Report to Bidder A (tranches)	0	4	2 denied switches @ 293.04	0

In round 7, the minimum number of tranches that Bidder A can bid on PSE&G and RECO is zero, because Bidder A did not have any tranches bid on these EDCs in round 6. The minimum number of tranches that Bidder A can bid on JCP&L is zero, since the price for JCP&L has ticked down from \$298.00/MW-day to \$295.00/MW-day. The minimum number

of tranches that Bidder A can bid on ACE is 2, since the price for ACE has not ticked down and Bidder A has two denied switches on ACE.

In round 7, Bidder A fails to submit a bid in the bidding phase of the round. Bidder A is granted an extension but does not submit a bid during the extension. Bidder A will be assigned the following bid, which is its default bid. Bidder A is the only bidder that is assigned a default bid.

<i>EDC</i>	<i>PSE&G</i>	<i>JCP&L</i>	<i>ACE</i>	<i>RECO</i>
Round 7 Price (\$/MW-day)	289.00	295.00	289.94	292.96
Default Bid for Bidder A (tranches)	0	0	2 denied switches @ 293.04	0

None of Bidder A’s withdrawn tranches are retained; tranches from other bidders that actually submitted bids are sufficient to fill the tranche target for JCP&L. Three new tranches are bid on ACE by other bidders. Both of Bidder A’s tranches become outbid denied switches. Bidder A’s eligibility in round 8 is 2. Should Bidder A again fail to bid in round 8, this free eligibility will be lost. Bidder A would be assigned eligibility of zero in round 9 and would lose the ability to bid for the remainder of the Auction.

X.C.11. End of Auction

The Auction ends for all EDCs at the same time. The Auction ends in the reporting phase before the first round in which no bidder could change its bid from the previous round. For the Auction to end, the total excess supply in the Auction must be equal to zero and it must be that no price can tick down. At the end of the Auction, tranches are allocated to the winners and all winners for an EDC’s tranches, should the Board authorize them as suppliers, will receive the same price for that EDC. The price given to the winners is determined as follows.

If, to fill the tranche target for an EDC in the final round, only tranches bid at the price from the final round are used, the winners are those that submitted bids at the price from the final round. The final price given to all winners is the price from the final round.

If, to fill the tranche target for an EDC in the last round, withdrawn tranches must be retained, then the winners are the bidders that submitted bids at the price from the last round and the bidders that submitted the lowest of the exit prices. If, to fill the last tranches of the tranche target of an EDC in the last round, the Auction Manager must use some but not all the tranches from two or more bidders tied at the same exit price, then the Auction Manager, for each tranche, will choose at random the bidder whose tranche is retained. For the first tranche

needed at the tied exit price, the probability that a bidder is chosen is the number of tranches that the bidder has bid at the exit price divided by the total number of tranches bid at the tied exit price. If a second tranche is needed at the exit price, the Auction Manager again will choose at random the bidder whose tranche will be retained. The probability that any one bidder is chosen is the number of tranches that the bidder has bid at the exit price and that have not yet been retained divided by the total number of tranches bid at the exit price and that have not yet been retained. The Auction Manager repeats this procedure until the tranche target for the EDC is filled. The final price given to all winners is the last accepted price.

If, to fill the tranche target for an EDC in the last round the Auction Manager must disallow reductions from both withdrawals and switches, then the winners are the bidders that submitted bids at the last round price, the bidders that withdrew their tranches, and the bidders with reductions for that EDC from switches that were denied. The final price received by all winners is the price at which the denied switches were last freely bid.

Example 14.

The tranche target for PSE&G is 23.

In round 54, 25 tranches for PSE&G are bid at a price of \$140.00/MW-day. In round 55, 20 tranches for PSE&G are bid at a price of \$139.65/MW-day.

Bidder A bids 5 tranches for PSE&G in round 54 and 2 tranches in round 55. Bidder A enters an exit price equal to the last round going price of \$140.00/MW-day for the 3 tranches it is withdrawing.

Bidder B bids 3 tranches for PSE&G in round 54 and 1 tranche in round 55. Bidder B enters an exit price of \$139.69/MW-day for the 2 tranches it is withdrawing.

No other bidder changes its number of tranches bid on PSE&G. All other bidders collectively bid 17 tranches for PSE&G in both rounds 54 and 55. The total excess supply in round 55 is zero and the Auction ends in round 55. Twenty tranches for PSE&G are allocated to the bidders that bid at the going price of \$139.65/MW-day. Two additional tranches are allocated to Bidder B since it submitted a lower exit price. Finally, Bidder A wins one additional tranche so that the tranche target is filled. All winning bidders will receive a price of \$140.00/MW-day, which is the lowest price at which the tranche target is filled.

X.D. Post Auction

The Board will decide whether or not to approve the results of this Auction (the BGS-CIEP Auction) by the end of the second business day following the calendar day on which the BGS-FP or BGS-CIEP Auction closes, whichever comes later.

If the Board approves the Auction results and authorizes the winners to become BGS-CIEP suppliers, the Auction Manager will notify each winner of the tranches it has won and the final prices. The Auction Manager will notify each EDC of the following for its territory: the identity of the winners, the number of tranches won, and the final price.

Each winner and each EDC will have three days from the time at which the Board approves the Auction results to execute the BGS-CIEP Supplier Master Agreement. Each winner will have these three days to demonstrate compliance with the creditworthiness requirements set forth in the BGS-CIEP Supplier Master Agreement and to submit the executed BGS-CIEP Supplier Master Agreement to the Board for information. A winner's financial guarantee posted before the Auction may be forfeited if the winner does not execute the Agreement within three days, if the winner fails to demonstrate compliance with the creditworthiness requirements set forth in the BGS-CIEP Supplier Master Agreement, or if the winner fails to agree to any of the terms of the Agreement. Effective with the exercise by an EDC of its right to collect on the financial guarantees, any contractual rights or other entitlements of the winners shall immediately terminate without further notice by the EDC. In addition, winners shall be liable for damages incurred by the EDCs, which damages shall be determined in accordance with the terms of the BGS-CIEP Supplier Master Agreement as if the winner were a defaulting party to that Agreement.

Each winner will have to pay a fee per tranche won. This fee will be set to recover all the costs associated with the Auction Process. The Auction Manager will announce the fee per winning tranche no later than 6 days before the Auction. The fee will be netted against the first payment made to the winner during the supply period.

X.E. Association and Confidential Information Rules**X.E.1. Process for Reporting Associations, Identifying Concerns and Remedies**

Interested parties applying to qualify to bid in the Auction will be required to indicate in their Part 1 Applications whether they are part of a bidding agreement, joint venture for purposes of participating at the Auction, bidding consortium, or other arrangements pertaining to bidding in the Auction. Interested parties will also be required to certify in their Part 1 Application that, should they qualify to participate in the Auction, they will not disclose information regarding the list of qualified bidders. In addition to certifications regarding bidding agreements and confidential information, each interested party makes a number of other certifications signifying its agreement with the terms of the BGS-CIEP Auction Rules, the terms of the BGS-CIEP Supplier Master Agreement, as well as signifying its agreement that it will not assign its rights or substitute another entity in its place. These additional certifications are discussed in section X.B.2.

Once parties are qualified to bid in the Auction, each qualified bidder will be asked in its Part 2 Application to make a number of certifications, each detailed below, and each qualified bidder may be asked to provide additional information to the Auction Manager if these certifications cannot be made. In particular, each qualified bidder will be informed of the list of qualified bidders and will be asked to certify that it is not associated with any other qualified bidder. If a qualified bidder cannot make such a certification, it will be asked to identify associations it may have with other qualified bidders. The criteria that determine whether two bidders are associated with one another are given below. If two qualified bidders are associated with one another, the Auction Manager will determine whether the two qualified bidders can both participate in the Auction, as well as the terms and conditions of such participation. The Auction Manager may require qualified bidders that are associated with one another to bid as one entity or to reorganize so as to no longer be associated with one another.

Qualified bidders will be asked to certify that they will undertake to appropriately restrict their disclosure of confidential information relative to their bidding strategy and confidential information regarding the Auction Process (both of which are defined in section X.E.3). Qualified bidders will also be asked to certify that they have not come and will not

come to any agreement with another qualified bidder with respect to bidding at the Auction, except as disclosed and approved by the Auction Manager in their Part 1 Application. In addition to certifications regarding associations and confidential information, each qualified bidder makes a number of other certifications signifying its agreement that a bid is a binding offer to provide service under the terms of the BGS-CIEP Supplier Master Agreement, as well as signifying its agreement that it will not assign its rights or substitute another entity in its place. These additional certifications are discussed in section X.B.2.

Before obtaining final 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 Process.

X.E.2. Association Criteria

1. Preliminary Definitions

- a. A party ***controls*** an entity directly if the party holds a majority of shares, majority voting power, a majority of common directors, can appoint a majority of directors, or if the party in fact controls the entity's affairs through some other means. A party controls an entity indirectly if the party controls another entity that controls the entity in question (or through a longer line of control; e.g., if the party controls another entity that controls an entity that controls the entity in question, etc.).
- b. A party ***participates*** directly in another entity Z if the party holds any class of listed shares, if it holds the right to acquire such shares, if it holds any option to purchase shares or if it has voting power. The participation is indirect if the party participates in another entity that participates in Z (with potentially a longer line of "indirect participation"). When the participation is indirect, the percentage of participation of the party in the entity is obtained by multiplying the percentages of participation at each level.
- c. A party ***is concerned with*** the bid of a bidder if the party has confidential information relative to the bidders' bidding strategy (see definition in the next section), has agreed to provide assistance with financing or has agreed to provide assistance in another way.

2. Bidder A and Bidder B are associated with each other if Bidder A
 - a. Controls bidder B, directly or indirectly; or
 - b. Has at least a 10% participation in Bidder B and is concerned with Bidder B's bid;
or
 - c. Controls an entity that has at least a 10% participation, direct or indirect, in Bidder B and that is concerned with Bidder B's bid; or
 - d. Is controlled by an entity that controls Bidder B directly or indirectly; or
 - e. Is controlled by an entity that has at least a 10% participation, direct or indirect, in Bidder B and that is concerned with Bidder B's bid.

3. Bidder A and Bidder B are associated if there is a party which
 - a. Controls Bidder A, directly or indirectly; or
 - b. Has at least a 10% participation in Bidder A, directly or indirectly, and is concerned with Bidder A's bid; or
 - c. Controls an entity that has at least a 10% participation in Bidder A, direct or indirect, and is concerned with Bidder A's bid; or
 - d. Has confidential information about Bidder A's bid and is controlled by Bidder A;
or
 - e. Has confidential information about Bidder A's bid and is controlled by an entity or person that controls Bidder A directly or indirectly; or
 - f. Has confidential information about Bidder A's bid and is controlled, directly or indirectly, by an entity that has at least a 10% participation in Bidder A and is concerned with Bidder A's bid;and if this same party has one of relationships a. To f. With Bidder B.

4. Bidder A and Bidder B are associated if there is a party that has at least a 20% participation, directly or indirectly, in both bidders.

5. Bidder A and Bidder B are associated if there is a party that has at least a 20% participation, directly or indirectly, in Bidder A and that:

- a. Has at least 10% participation in Bidder B, directly or indirectly, and is concerned with Bidder B's bid; or
- b. Is controlled by Bidder B; or
- c. Controls a person or entity that controls Bidder B; or
- d. Controls a person or entity that: has at least 10% participation in Bidder B, directly or indirectly, and is concerned with Bidder B's bid; or
- e. Is controlled by a person or entity that controls Bidder B directly or indirectly; or
- f. Is controlled by a person or entity that has at least 10% participation in Bidder B, directly or indirectly, and is concerned with Bidder B's bid; or
- g. Is controlled by a person or entity who controls a person has at least 10% participation in Bidder B, directly or indirectly, and is concerned with Bidder B's bid.

X.E.3. Definitions of Confidential Information

Confidential information relative to the bidding strategy means information relating to a bidder's bid, whether in writing or verbally, which if it were to be made public would be likely to have an effect on any of the bids that another bidder would be willing to submit at the Auction. Confidential information relative to the bidding strategy includes (but is not limited to) a bidder's Auction strategy; a bidder's indicative offer; the bidder's preference to bid for one EDC's system rather than another; the quantities that a bidder wishes to serve of one or more EDCs' systems; the bidder's estimation of the value of a tranche of the various EDCs' systems; the bidder's estimation of the risks associated with serving BGS-CIEP Load or of serving a particular EDC; and a bidder's contractual arrangements for power with a party to serve the BGS-CIEP Load were the bidder to be a winner at the Auction.

Confidential information regarding the Auction Process means information that is not released publicly by the Board or the Auction Manager and that a bidder acquires as a result of participating in the Auction Process, whether in writing or verbally, which if it were to be made public could impair the integrity of current or future Auctions, impair the ability of the EDCs to hold future Auctions, harm consumers, or injure bidders or applicants. Confidential information regarding the Auction Process includes (but is not limited to) the list of qualified

bidders, the list of registered bidders, the initial eligibility in the Auction, the status of a bidder's participation in the Auction, and all reports of results and announcements made by the Auction Manager to all or any one bidder during the Auction.

X.E.4. Certifications and Disclosures to Be Made

An interested party will be required in its Part 1 Application to disclose any bidding agreement or arrangement in which the interested party may have entered. In addition, the following certification will be required and will apply from the time that the Part 1 Application has been submitted.

1. An applicant must certify that if it qualifies to participate in the Auction, the applicant will not disclose at any time information regarding the list of qualified bidders, including the number of qualified bidders, the identity of any one or all entities that have been qualified, or the fact that an entity has not been qualified for participation in the Auction. The applicant must certify that it will destroy any document distributed by the Auction Manager that lists the qualified bidders within five days of the Board deciding whether to approve the Auction results.

The following certifications will be required of each qualified bidder in its Part 2 Application and will apply from the time of qualification until the Board certification of the Auction results. Each qualified bidder must consult the list of all qualified bidders and attest to the following:

2. A qualified bidder must certify that it is not associated with another qualified bidder according to the criteria given above.

A qualified bidder unable to make certification 2 must identify the qualified bidders with which it is associated and the nature of the association.

3. A qualified bidder must certify that, other than qualified bidders that were explicitly named in its Part 1 Application as parties with whom the bidder has entered into a bidding agreement, joint venture for the purpose of bidding in the Auction, bidding consortium, or other arrangement pertaining to bidding in the Auction, the bidder has

not entered into any agreement with another qualified bidder, directly or indirectly, regarding bids at the Auction, including, but not limited to, the amount to bid at certain prices, the system on which bids are placed, when or at what prices bids are withdrawn or switched, or the amount of exit prices.

An *Advisor* is an entity or person(s) that will be advising or assisting you with bidding strategy in the BGS-CIEP Auction, with estimation of the value of a system's tranches, or with the estimation of the risks associated with serving BGS-CIEP load.

4. A qualified bidder must certify to one of the following: (i) the qualified bidder has not retained an Advisor; or (ii) the qualified bidder has retained an Advisor, the Advisor will not provide any similar advice or assistance to any other qualified bidder, and the Advisor will not be privy to confidential information relative to another qualified bidder's bidding strategy; or (iii) the qualified bidder has retained an Advisor who will provide similar advice or assistance to another qualified bidder, or who will be privy to confidential information relative to any other qualified bidder's bidding strategy, but appropriate protections have been put into place to ensure that the Advisor does not serve as a conduit of information between, or as a coordinator of the bidding strategies of, multiple bidders.

A qualified bidder unable to make certification 4 must name the Advisor and the other bidder(s) concerned.

5. A qualified bidder must certify that the qualified bidder is not a party to any contract for the purchase of power that might be used as source of supply for BGS-CIEP, and that (i) would require the disclosure of any confidential information (confidential information relative to the bidding strategy or confidential information regarding the Auction Process) to the counterparty under such a contract; or (ii) that would require the disclosure of any confidential information (confidential information relative to the bidding strategy or confidential information regarding the Auction Process) to any other party; or (iii) that would provide instructions, direct financial incentives, or other inducements for the bidder to act in a way determined by the counterparty in the

agreement and/or in concert with any other bidder in the Auction. Notwithstanding the above, a qualified bidder may, during negotiations prior to the Auction for contractual arrangements for power to serve BGS-CIEP Load were the bidder to be a winner at the Auction, discuss with the counterparty to such arrangements the nature of the products to be purchased, the volume, and the price at which it is willing to buy these products.

A qualified bidder unable to make certification 5 must disclose the contractual terms that prevent the qualified bidder from making the certification.

6. A qualified bidder must certify that it does not have any knowledge of confidential information relative to the bidding strategy of any other qualified bidder.

A qualified bidder unable to make certification 6 will be asked to name the other qualified bidder and the nature of the confidential information.

7. A qualified bidder must certify that it will not disclose confidential information relative to its own bidding strategy except to bidders that were explicitly named in its Part 1 Application as parties with whom the bidder has entered into a bidding agreement, joint venture for the purpose of bidding in the Auction, bidding consortium, or other arrangement pertaining to bidding in the Auction, bidders with which it is associated as disclosed through certification 2, to its Advisor, and to its financial institution.

A qualified bidder unable to make certification 7 will be asked to state all reasons.

8. A qualified bidder must certify that, other than entities affiliated with the bidder, and other than bidders with which the bidder has entered a bidding agreement, joint venture for purposes of the Auction, bidding consortium, or other arrangement pertaining to the Auction, no party has agreed to defray any of its costs of participating in the Auction, including the cost of preparing the bid, the cost of any financial guarantees, the cost to be paid upon winning a tranche, or any other participation cost.

A qualified bidder unable to make certification 8 must identify the party that has agreed to defray some or all of the qualified bidder's cost of participating in the Auction, and the nature of the participation costs that the party has agreed to defray.

Furthermore, in its Part 2 Application a qualified bidder will have to certify that it will not disclose any confidential information regarding the Auction Process that it has acquired or will acquire through its participation. These certifications will apply from the time of submission of the Part 2 Application.

9. A qualified bidder must certify that if it is registered to participate in the Auction, the qualified bidder will not disclose at any time information regarding the initial eligibility in the Auction or the list of registered bidders, including the number of registered bidders, the identity of any one or all entities that have been registered, or the fact that an entity has not been registered for participation in the Auction.
10. A qualified bidder must certify that it will not disclose any confidential information regarding the Auction Process to any party except to its Advisor and bidders with which it is associated.

A qualified bidder unable to make certification 9 or certification 10 will be asked to state all reasons.

Following a successful Part 2 Application, the registered bidder will be required to certify that it will continue to abide by its prior commitment to maintain the confidentiality of information regarding the Auction Process. The registered bidder will be required to do so before obtaining manuals and procedures essential to submit bids in the Auction. The registered bidder also certifies that it will destroy all documents provided by the Auction Manager that contain confidential information within five days of the Board deciding whether to approve the Auction results. Such certification will apply from the time at which it is made, no later than five days before the start of the Auction.

11. A registered bidder certifies that it continues to abide by its prior confidentiality certifications. The registered bidder will not disclose any confidential information

regarding the Auction Process to any party except to its Advisor and bidders with which it is associated. Further, the registered bidder certifies that it will destroy all documents written or electronic provided by the Auction Manager that contain confidential information regarding the Auction Process within five days of the Board deciding whether to approve the Auction results.

Once the Auction has been concluded, if the Board approves the Auction results, the Board may choose to release information regarding final BGS-CIEP prices and the names of the winners. At that point, a winner may itself release information only regarding the number of tranches it has won and the territories the winner will be serving, and a losing bidder may itself release information only regarding the fact that it participated in the Auction. The winners and losing bidders otherwise continue to be bound by their certifications as described previously.

X.E.5. Actions to Be Taken If Certifications Cannot Be Made

If a party cannot make all above certifications, the Auction Manager will decide within five days on a course of action on a case-by-case basis. To decide on this course of action, the Auction Manager may make additional inquiries to understand the reason for the inability of the bidder to make the certification.

In general, qualified bidders that are associated with one another, or that have entered into agreements regarding bidding at the Auction, are considered as one bidder for the purposes of application of the statewide load cap and for the administration of the Auction. Bidders can be allowed to bid independently or can be asked to end their association or agreement as a condition of participation, as circumstances warrant. If qualified bidders are asked to end their associations they will be given five days to do so.

If qualified bidders do not comply with additional information requests by the Auction Manager regarding certifications required in the Part 2 Application, or do not comply with a request from the Auction Manager to end their associations, this may be sufficient grounds for the Auction Manager to reject the application.

Sanctions can be imposed on a qualified bidder for failing to disclose information relevant to determining associations, for coordinating with another bidder without disclosing this fact, for releasing confidential information except as provided in 3, 5, and 7 of section X.E.4, or for disclosing information during the Auction to a person other than those specified in 10 of section X.E.4. Such sanctions can include, but are not limited to, loss of all rights to serve any BGS-CIEP Load won in the Auction by such bidder, forfeiture of bid bonds and other fees posted or paid, liquidated damages of \$100,000, action under state 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 BGS Auctions, prosecution under applicable state and federal laws, or other sanctions that the Board may consider appropriate. The Auction Manager will make a recommendation to the Board on a possible sanction and the Board will make the final determination.

X.F. Glossary of Auction Terms

X.F.1. Associated With

A bidder is associated with another if the two bidders have ties that could allow them to act in concert or that prevent them from competing actively against each other in the Auction. Specific criteria for associations are provided in section X.E.

X.F.2. Auction Volume

The Auction volume is a number of tranches that the EDCs taken together will purchase through the Auction. The Auction Manager, in accordance with confidential guidelines approved by the Board, may cut back the Auction volume.

X.F.3. BGS

Basic Generation Service is the electric supply for those retail customers who are not served by a third party supplier.

X.F.4. BGS-CIEP Customer

A BGS-CIEP Customer is a retail customer who takes BGS on a CIEP (as opposed to FP) tariff.

X.F.5. BGS Load

The BGS Load is the full electricity requirement (i.e., including energy, capacity, ancillary services, transmission, etc.) of retail customers who have not chosen a third party supplier, as measured and reported to PJM. It is the EDC aggregate zonal requirements less the wholesale requirements less the third party supplier requirements.

X.F.6. BGS-CIEP Load

An EDC's BGS-CIEP Load includes the sum of the hourly load of all BGS-CIEP customers, adjusted for losses.

X.F.7. BGS-CIEP Peak Load Share

BGS-CIEP Peak Load Share is the portion of PJM-determined EDC zonal peak load on one proxy day attributable to customers in CIEP rate classes that are taking BGS on that proxy day. The BGS-CIEP Peak Load Share is a single value measured in MW.

X.F.8. BGS-FP Load

The BGS-FP Load is the BGS Load excluding the BGS-CIEP Load.

X.F.9. Bid

A bid consists of four numbers: a number of PSE&G tranches, a number of JCP&L tranches, a number of ACE tranches, and a number of RECO tranches. A bid represents the number of tranches that a bidder wishes to serve for each EDC at the going prices in force at that point in the Auction. In all rounds except the first, to fully specify a bid, a bidder may be asked for information in addition to the number of tranches to which it wishes to subscribe for each EDC, such as switching priorities and exit prices. A bid is valid when it is submitted and verified in the bidding phase, and processed by the Auction software.

X.F.10. Bidding Phase

The bidding phase is the first phase of a round, during which bidders place bids. A bidder that submits a bid in a round may revise or change this bid as long as the bidding phase of the round is still open.

X.F.11. Calculating Phase

The calculating phase is the second phase of the round, during which the Auction Manager tabulates the results of that round's bidding phase and calculates the prices for the next round.

X.F.12. CIEP Customer

CIEP customers are retail customers who are taking BGS-CIEP, or are retail customers served by a third party supplier who, were they to take BGS, would be served under a CIEP (rather than an FP) tariff.

X.F.13. CIEP Load

CIEP Load for an EDC is defined as the sum of the hourly load of all BGS-CIEP customers, as well as the hourly load of retail customers served by a third party supplier who, were they to take BGS, would do so under a CIEP tariff, adjusted for losses.

X.F.14. CIEP Peak Load Share

CIEP Peak Load Share is the portion of PJM-determined EDC zonal peak load on one proxy day attributable to customers in CIEP rate classes. The CIEP Peak Load Share is a single value measured in MW, that consists of the BGS-CIEP Peak Load Share and the peak load attributable to customers served by third party suppliers on the proxy day and who are in CIEP rate classes. In section X.G.1, the data are illustrative and will be replaced by the relevant data for the Auction.

X.F.15. CIEP Standby Fee

The CIEP Standby Fee is a fee for the option available to each CIEP customer of taking BGS on a CIEP tariff or rate. This fee is set at 0.015¢/kWh of the energy used by CIEP customers measured at the customer meter.

X.F.16. Contingency Plan

If the number of tranches procured through the Auction is less than the Auction volume set at the start of the Auction, each EDC whose tranche target is not filled at the end of the Auction will implement a Contingency Plan for the remaining tranches. Under their Contingency Plans, the EDCs will purchase necessary services including installed capacity, energy, and ancillary services, etc., through PJM-administered markets.

X.F.17. Decrement

If the number of tranches bid exceeds the number of tranches needed for an EDC, the price for the EDC falls by a decrement in the next round. The decrement varies in each round based on the excess supply on an EDC measured against an estimate of maximum possible excess supply.

X.F.18. Denied Switches

The Auction Manager denies reductions in the number of tranches bid for an EDC from switches when the tranches bid at the going price and the withdrawn tranches that can be retained are not sufficient to fill that EDC's tranche target. Denied switches are retained at the last price at which they were freely bid.

X.F.19. Eligibility and Initial Eligibility

Initial eligibility is equal to the number of tranches that a bidder has financially guaranteed with a bid bond or letter of credit with its Part 2 Application. Initial eligibility can never exceed the statewide load cap.

A bidder's initial eligibility is the bidder's eligibility in round 1. A bidder's eligibility in round 2 is the total number of tranches bid for all EDCs at the going prices in round 1. For any subsequent round, a bidder's eligibility in a round is the bidder's eligibility at the start of the previous round minus the number of tranches that the bidder withdrew in the bidding phase of the previous round (whether or not the Auction Manager retains these withdrawn tranches).

X.F.20. Eligibility Ratio

An eligibility ratio is obtained by dividing the total eligibility in the Auction by the number of tranches available in the Auction.

X.F.21. End of Auction

The Auction ends in the reporting phase of the first round in which total excess supply is zero.

X.F.22. Excess Supply

The excess supply on an EDC is the number of tranches bid at the going price for the EDC minus the EDC's tranche target, or it is zero, whichever is greater.

X.F.23. Exit Price

If a bidder is reducing eligibility in a round, in general the bidder names an exit price. The bidder names an exit price for the tranches of an EDC that the bidder is no longer willing

to serve at the price for the current round. An exit price must be a price higher than the going price in the current round and less than or equal to the previous going price for the EDC. No exit price is named when withdrawing tranches of free eligibility.

X.F.24. Extension

An extension extends the bidding phase of a round by 15 minutes. Each bidder is allowed three extensions during the Auction. A bidder is automatically deemed to have requested a bidding extension whenever no bid has been received from the bidder by the end of the scheduled bidding phase of a round and the bidder has not used the three allowable extensions. The bidding phase in round 1 is automatically extended for the convenience of bidders.

X.F.25. Financial Guarantee

Each qualified bidder must post a financial guarantee, in the form of a bid bond or a letter of credit, proportional to its indicative offer at the maximum starting price.

X.F.26. FP Load

FP Load is the retail load excluding the CIEP Load.

X.F.27. Free Eligibility

A denied switch that is being replaced in filling the tranche target by a new tranche at the going price is said to be outbid. An outbid denied switch becomes a tranche of free eligibility. The bidder can assign a tranche of free eligibility to any EDC(s) and, if the bidder wishes to withdraw such a tranche, no exit price will be named and this tranche will not be retained.

X.F.28. Full-requirements Service

Full-requirements service means that the supplier is responsible for fulfilling all the requirements of a PJM LSE including capacity, energy, ancillary services, transmission, and any other service as may be required by PJM.

X.F.29. Going Price

The going price for an EDC in a round is the price at which the Auction Manager is soliciting bids in that round. A bidder that submits a bid in a round declares itself ready to supply the number of tranches bid for each EDC at the going price for the EDC.

X.F.30. Indicative Offer

An indicative offer specifies two numbers of tranches. The first number represents the amount that the qualified bidder is willing to serve at the maximum starting price on a statewide basis (i.e., for all EDCs combined). The second number represents the amount that the qualified bidder is willing to supply at the minimum starting price on a statewide basis. At each of the maximum and the minimum starting prices, the number of tranches indicated by the qualified bidder cannot exceed the statewide load cap. At each of the maximum and the minimum starting prices, the number of tranches indicated by a qualified bidder cannot be lower than two. Indicative offers are provided with the Part 2 Application.

X.F.31. Initial Eligibility

See eligibility.

X.F.32. Minimum and Maximum Starting Price

The minimum and maximum starting prices establish the range of possible starting prices for the Auction: each EDC will choose a starting price for round 1 of the Auction that is between the minimum and the maximum starting prices. The EDCs will agree on the statewide minimum and maximum starting prices.

X.F.33. MW-Measure

The approximate measure in MW of a single tranche for an EDC, given the CIEP Peak Load Share for the EDC and the percentage of load represented by the tranche.

X.F.34. Outbid (Denied Switches)

A denied switch that is being replaced in filling the tranche target by a new tranche at the going price is said to be outbid.

X.F.35. Oversupply Ratio

The oversupply ratio is the ratio of the excess supply on an EDC to a measure of the maximum possible excess supply on that EDC. The measure of the maximum possible excess supply on the EDC takes into account the total excess supply in the Auction, the statewide load cap and the number of registered bidders.

X.F.36. Part 1 Application

In their Part 1 Applications, interested parties will be asked to submit financial information so that the EDCs can assess their creditworthiness. In addition, interested parties will be asked to comply with other qualification criteria that will have been agreed upon by all EDCs, including agreeing to comply with the BGS-CIEP Auction Rules and agreeing to the terms of the BGS-CIEP Supplier Master Agreement. Each interested party will also be asked to agree that if the interested party is successful in its Part 1 Application it will keep confidential the list of other successful applicants and it will not assign its rights or substitute another entity in its place..

X.F.37. Part 1 Application Date

Date at which Part 1 Applications are due. This date will be set no earlier than 10 days after the maximum and minimum starting prices have been announced.

X.F.38. Part 2 Application

In the Part 2 Application, qualified bidders will make a number of certifications to ensure compliance with the association and confidential information portion of these rules. Each qualified bidder is also asked to agree to keep confidential the list of other successful applicants; to agree that the submission of any bid creates a binding and irrevocable offer to provide service under the terms of the BGS-CIEP Supplier Master Agreement; and not to assign its rights or substitute another entity in its place.

X.F.39. Part 2 Application Date

Date at which Part 2 Applications are due. This date will be set no later than 10 days before the start of the Auction.

X.F.40. Product in the Auction

A product in the (BGS-CIEP) Auction is the BGS-CIEP Load for an EDC for a one-year supply period.

X.F.41. Qualified Bidder

An interested party that has submitted a Part 1 Application and that has satisfied all conditions of the Part 1 Application becomes a qualified bidder. Interested parties will be notified that they have qualified no later than three days after the Part 1 Application Date.

X.F.42. Recess

A recess is a suspension of the Auction for a period of no less than thirty minutes, giving bidders more time to consider their bids. A bidder may request a recess in the calculating phase or the reporting phase of a round. Each bidder is allowed one recess during the Auction. A bidder cannot request a recess in the first ten rounds of the Auction. Starting in the eleventh round, a bidder may request a recess in a round if the total excess supply in the Auction reported in the previous round was 40 or fewer tranches.

X.F.43. Reductions

Reductions in the number of tranches bid on an EDC for which the price has ticked down can be in the form of a withdrawal (i.e., reducing the number of tranches bid on an EDC without increasing the number of tranches bid on other EDCs, and thus reducing the number of tranches bid in total) or a switch (i.e., re-assigning the total number of tranches bid so that the number of tranches bid on one or several EDCs is reduced, but the number of tranches bid on other EDCs is increased by the same amount).

X.F.44. Registered Bidder

A qualified bidder that submits a Part 2 Application and that satisfies all conditions of the Part 2 Application becomes a registered bidder. Conditions of the Part 2 Application include the submission of an indicative offer and financial guarantees. These conditions also include making certifications relating to the Association and Confidential Information Rules or,

if not all these certifications can be made, providing additional information to the Auction Manager and abiding by the course of action decided by the Auction Manager.

X.F.45. Reporting Phase

The reporting phase is the third and final phase of a round, during which the Auction Manager informs the bidders of the results of that round's bidding phase. All bidders are informed of the going prices for the next round's bidding phase and are provided with a range of total excess supply. Each bidder privately receives the results of the bidder's own bid from that round, indicating to each bidder its obligation at this point in the Auction.

X.F.46. Round

The Auction runs in discrete time periods called rounds. Each round has a bidding phase, a calculating phase, and a reporting phase.

X.F.47. Rounding

Prices and exit prices are in dollars per MW-day and are rounded off to the nearest cent.

X.F.48. Session

Each day in the Auction will consist of two bidding sessions of roughly equal length. Each bidding session will consist of a number of rounds.

X.F.49. Statewide Load Cap

The statewide load cap is a maximum on the number of tranches that a single bidder can bid and win statewide.

X.F.50. Starting Prices

The starting prices are announced three days before the Auction starts. The starting prices are the going prices in round 1.

X.F.51. Switches and Switching

Switching involves an increase in the number of tranches bid on some EDCs while at the same time a reduction in the number of tranches bid on other EDCs. Switching (without a simultaneous reduction of tranches through a withdrawal) occurs when a bidder reallocates its tranches bid without changing the total number of tranches bid on all EDCs. Switching alone has no effect on eligibility.

X.F.52. Switching Priority

A switching priority is a preference assigned to one of the EDCs for which a bidder is increasing its number of tranches bid. The bidder is required to assign a switching priority when the bidder is increasing the number of tranches bid for more than one EDC.

X.F.53. Target Eligibility Ratio

The target eligibility ratio is a desired ratio of eligibility to the Auction volume.

X.F.54. Time-Out

A time-out is a pause in the Auction. A time-out suspends activity in the Auction for a period of up to four hours. The Auction Manager can call a time-out at any time during a round.

X.F.55. Total Excess Supply

The total excess supply in the Auction is the sum, over all EDCs for which the number of tranches bid exceeds the tranche target, of the excess supplies for the individual EDCs, plus tranches of free eligibility.

X.F.56. Tranche

A tranche of one EDC is a full-requirements tranche. A tranche is a fixed percentage share of an EDC for the period June 1, 2009 to May 31, 2010.

X.F.57. Tranche Size

The tranche size of an EDC is the percentage share of the BGS-CIEP Load of the EDC represented by one tranche.

X.F.58. Tranche Target

The tranche target is the number of tranches available at the Auction for an EDC.

X.F.59. Withdrawal

A bidder reduces the number of tranches bid on an EDC through a withdrawal when the bidder is reducing the number of tranches bid on an EDC, while not increasing the number of tranches bid on other EDCs, and thus reducing the number of tranches bid in total. A bidder who does not bid a tranche of free eligibility in the round when it becomes available is making a withdrawal.

X.G. Appendix**X.G.1. Tranches**

Data for sample calculations are provided in the table below. The data are for illustrative purposes only. The second column of the table provides, for each EDC, the 2008 CIEP Peak Load Share on a proxy day. The third column provides the number of tranches for each EDC, which is the tranche target. The number of tranches is rounded up. The last column provides the MW-measure, which is the size of the tranche multiplied by the CIEP Peak Load Share.

EDC	CIEP Peak Load Share (MW)	Number of tranches	Size of tranche (%)	MW-measure
PSE&G	1,709.00	23	4.35	74.30
JCP&L	835.60	12	8.33	69.63
ACE	305.20	5	20.00	61.04
RECO	38.30	1	100.00	38.30
Total	2,888.10	41		

For ACE, the CIEP Peak Load Share is 342.0 MW. The size of a tranche is 20%. The MW-measure is then 68.40 MW, or 20% of 342.0 MW.

X.G.2. Decrements

The calculation of the size of the decrement, Δ , is based on the oversupply ratio, γ , which is the ratio of the excess supply on an EDC to an estimate of the maximum excess supply:

$$\gamma = \frac{B - TT}{\min(\overline{RES}, n \cdot \min\{SWLC, TT\} - TT)}$$

The numerator is the excess supply on an EDC, which is the number of tranches bid at the going price (B) minus the tranche target (TT). The denominator is an estimate of maximum possible excess supply. The excess supply on an EDC must be less than or equal to the total excess supply in the Auction. \overline{RES} is the upper bound of the range of total excess supply reported to bidders and is used as the measure of total excess supply. The excess supply on an EDC must also be less than or equal to the excess supply that would result from all bidders bidding the maximum possible number of tranches on the EDC. The maximum possible number of tranches that can be bid on an EDC is either the statewide load cap ($SWLC$) or the tranche target (TT), whichever is lower. Thus, the excess supply that would result from all bidders bidding the maximum possible number of tranches on the EDC would be $n \cdot \min\{SWLC, TT\} - TT$ tranches, namely the number of registered bidders (n) times the statewide load cap ($SWLC$) or the tranche target (TT), minus the tranche target (to get a measure of excess supply). The measure of excess supply used for the decrement rule is the upper bound of the range of total excess supply reported to bidders in the Auction, or the measure based on the number of registered bidders and the load cap, whichever is smaller.

Regime 1

At the start of the Auction, in Regime 1, the following decrement formulas will be used.

If an EDC's tranche target is 15 tranches or more, then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.005 , \min \{ (0.068 \gamma - .0085) , 0.05 \}]$$

For example if $\gamma = 0.4705$, then $\Delta = 0.023494$, which means that prices are reduced by 2.3494% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.5% (and the amount of the decrease in price would be rounded off to the nearest cent). When the oversupply ratio is at or below 0.1985 (but above 0), the decrement is set at 0.5%. The decrement is never more than 5% (subject to rounding off). When the oversupply ratio is 0.8603 or greater, which means that the excess supply on the EDC reaches 86.03% of its maximum, the decrement is set at 5%. When the oversupply ratio is between 0.1985 and 0.8603, so that the excess supply on the EDC is between 19.85% and 86.03% of its maximum, the decrement is between 0.5% and 5% according to the rule given above.

If an EDC's tranche target is between 7 and 14 tranches (inclusive), then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.005, \min \{(0.155 \gamma) - .0157, 0.05\}]$$

For example if $\gamma = 0.2000$, then $\Delta = 0.0153$, which means that prices are reduced by 1.53% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.5% (and the amount of the decrease in price would be rounded off to the nearest cent). When the oversupply ratio is at or below 0.1335 (but above 0), the decrement is set at 0.5%. The decrement is never more than 5% (subject to rounding off). When the oversupply ratio is 0.4239 or greater, which means that the excess supply on the EDC reaches 42.39% of its maximum, the decrement is set at 5%. When the oversupply ratio is between 0.1335 and 0.4239, so that the excess supply on the EDC is between 13.35% and 42.39% of its maximum, the decrement is between 0.5% and 5% according to the rule given above.

If an EDC's tranche target is between 3 tranches and 6 tranches (inclusive), then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.005, \min \{(0.405 \gamma - 0.05), 0.05\}]$$

For example if $\gamma = 0.2000$, then $\Delta = 0.031$, which means that prices are reduced by 3.1% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.5% (and the amount of the decrease in price would be rounded off to the nearest cent). When the oversupply ratio is at or below

0.1358, the decrement is set at 0.5%. The decrement is never more than 5% (subject to rounding off). When the oversupply ratio is 0.2470 or greater, which means that the excess supply on the EDC reaches 24.70% of its maximum, the decrement is set at 5%. When the oversupply ratio is between 0.1358 and 0.2470, so that the excess supply on the EDC is between 13.58% and 24.70% of its maximum, the decrement is between 0.5% and 5% according to the rule given above.

If an EDC's tranche target is 2 tranches or fewer, the decrement for that EDC is set as a series of steps.

Using this rule, the smallest decrement would be 1% (and the amount of the decrease in price would be rounded off to the nearest cent). The smallest decrement would be in effect when the oversupply ratio is at or below a pre-determined minimum value. The decrement is never more than 5% (subject to rounding off). The largest decrement would be in effect when the oversupply ratio is above a pre-determined maximum value. When the oversupply ratio is in between the pre-determined minimum and maximum values, the decrement will be set at a value between 0.5% and 5%. For two or more consecutive values of the oversupply ratio, the decrement will stay constant.

For example, if the tranche target is 1 and if the number of registered bidders is 10, the following series of steps would be used:

$$\Delta = \begin{cases} 0.01 & \text{if } \gamma \leq 0.3 \\ 0.04 & \text{if } 0.3 < \gamma \leq 0.75 \\ 0.05 & \text{if } \gamma > 0.75 \end{cases}$$

When the oversupply ratio is at or below a minimum value of 0.3000, the decrement is set at 1%. When the oversupply ratio is above a maximum value of 0.7500, which means that the excess supply on the EDC exceeds 75.00% of its maximum, the decrement is set at 5%. When the oversupply ratio is between 0.3000 and 0.7500, so that the excess supply on the EDC is between 30.00% and 75.00% of its maximum, the decrement is constant at 4% according to the rule given above.

The rule provided above as an example has three possible values for the decrement or three “steps”. The exact form of the rule for such an EDC used in the Auction will depend on the tranche target and on the number of registered bidders. The number of steps in the final rules could be greater than in the example provided above.

Change in Regime

Decrements continue to be between 0.5% and 5% of the previous going price as calculated by the decrement formulas of Regime 1 until the going prices for round 4 are calculated. After that time, in the first round in which the total excess supply in the Auction is reported to bidders to be 15 or fewer tranches, then the decrement formulas of Regime 2 will be used for the prices that will be the going prices in the next round and for the remainder of the Auction.

Regime 2

Later in the Auction, in Regime 2, the following decrement formulas will be used.

If an EDC’s tranche target is 15 tranches or more, then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.0025 , \min \{(0.034 \gamma - 0.00725) , 0.025\}]$$

For example if $\gamma = 0.8$, then $\Delta = 0.01995$, which means that prices are reduced by 1.995% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.25% (and the amount of the decrease in price would be rounded off to the nearest cent). When the oversupply ratio is at or below 0.2867 (but above 0), the decrement is set at 0.25%. The decrement is never more than 2.5% (subject to rounding off). When the oversupply ratio is 0.9486 or greater, which means that the excess supply on the EDC reaches 94.86% of its maximum, the decrement is set at 2.5%. When the oversupply ratio is between 0.2867 and 0.9486, so that the excess supply on the EDC is between 28.67% and 94.86% of its maximum, the decrement is between 0.25% and 2.5% according to the rule given above.

If an EDC’s tranche target is between 7 and 14 tranches (inclusive), then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.0025 , \min \{ (0.0775 \gamma - 0.01385) , 0.025 \}]$$

For example if $\gamma = 0.4$, then $\Delta = 0.01715$, which means that prices are reduced by 1.715% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.25% (and the amount of the decrease in price would be rounded off to the nearest cent). When the oversupply ratio is at or below 0.2109 (but above 0), the decrement is set at 0.25%. The decrement is never more than 2.5% (subject to rounding off). When the oversupply ratio is 0.5013 or greater, which means that the excess supply on the EDC reaches 50.13% of its maximum, the decrement is set at 2.5%. When the oversupply ratio is between 0.2109 and 0.5013, so that the excess supply on the EDC is between 21.09% and 50.13% of its maximum, the decrement is between 0.25% and 2.5% according to the rule given above.

If an EDC's tranche target is between 3 tranches and 6 tranches (inclusive), then the decrement for that EDC is set as follows:

$$\Delta = \text{Max} [0.0025 , \min \{ (0.1525 \gamma - 0.025) , 0.025 \}]$$

For example if $\gamma = 0.2$, then $\Delta = 0.0055$, which means that prices are reduced by 0.55% for the next round. Prices will be rounded off to the nearest cent.

Using this rule, the smallest decrement would be 0.25% (and the amount of the price decrease would be rounded off to the nearest cent). When the oversupply ratio is at or below 0.1803 (but above 0), the decrement is set at 0.25%. The decrement is never more than 2.5% (subject to rounding off). When the oversupply ratio is 0.3279 or greater, which means that the excess supply on the EDC reaches 32.79% of its maximum, the decrement is set at 2.5%. When the oversupply ratio is between 0.1803 and 0.3279, so that the excess supply on the EDC is between 18.03% and 32.79% of its maximum, the decrement is between 0.25% and 2.5% according to the rule given above.

If an EDC's tranche target is 2 tranches or fewer, the decrement for that EDC is set as a series of steps. The decrement is also subject to an automatic bump-up, as further described below.

Using this rule, the smallest decrement would be 0.25% (and the amount of the decrease in price would be rounded off to the nearest cent). The smallest decrement would be in effect when the oversupply ratio is at or below a pre-determined minimum value. The decrement is never more than 2.5% (subject to rounding off). The largest decrement would be in effect when the oversupply ratio is above a pre-determined maximum value. When the oversupply ratio is in between these pre-determined minimum and maximum values, the decrement will be set at a value between 0.25% and 2.5%. For two or more consecutive values of the oversupply ratio, the decrement will stay constant.

For example, if the tranche target is 1 and if the number of registered bidders is 10, the following series of steps would be used:

$$\Delta = \begin{cases} 0.0025 & \text{if } \gamma \leq 0.30 \\ 0.02 & \text{if } 0.30 < \gamma \leq 0.75 \\ 0.025 & \text{if } \gamma > 0.75 \end{cases}$$

When the oversupply ratio is at or below a minimum value of 0.3000, the decrement is set at 0.25%. When the oversupply ratio is above a maximum value of 0.7500, which means that the excess supply on the EDC exceeds 75.00% of its maximum, the decrement is set at 2.5%. When the oversupply ratio is between 0.3000 and 0.7500, so that the excess supply on the EDC is between 30.00% and 75.00% of its maximum, the decrement is constant at 2%.

The rule provided above as an example has three possible values for the decrement or three “steps”. The exact form of the rule for such an EDC used in the Auction will depend on the tranche target and on the number of registered bidders. The number of steps in the final rules could be greater than in the example provided here.

The decrement for an EDC with a tranche target of 4 or fewer is subject to an automatic increase when the decrement remains at the Regime 2 minimum (0.25%) for three rounds in a row. The maximum number of rounds in a row for which the decrement is increased is three rounds. If the decrement is increased, it is set to the average of the minimum decrement and the next highest decrement.

Specifically, the decrement is *bumped up*, i.e., increased from the minimum (0.5%) to an average of the two smallest decrements, whenever the decrement would otherwise have been set at the minimum in that round, and:

- In the three previous rounds, the decrement was set at the minimum; or
- Of the three previous rounds, the decrement was set at the minimum for the first two of these previous rounds and the decrement was bumped up in the third; or
- Of the three previous rounds, the decrement was set at the minimum for the first of these three previous rounds and was bumped up in the second and third of these previous rounds.

For example, suppose that the tranche target is 1 and that the number of registered bidders is 10. If the oversupply ratio is at or below 0.30 for rounds 20, 21, 22 and 23, the decrement is set at the minimum (0.25%) in rounds 20, 21 and 22, but the decrement is increased to 1.125% (the average of the minimum decrement 0.25% and the next highest decrement, 2%) in round 23.