

## **Guide to BGS-FP Pricing Spreadsheets**

### ***Purpose of Spreadsheets***

The BGS-FP pricing spreadsheets are intended to provide bidders with an easy to use tool that can translate auction prices for each EDC into retail BGS-FP rates. Bidders first enter into the spreadsheet auction prices for each EDC's 3-year tranches, as well as a price for the 2011 RECO RFP, they then click on the calculate box and then they will be able to view the retail BGS-FP rates that would result if the auction were to clear at the entered price levels. Retail BGS-FP prices may be important to bidders for the purpose of assessing the likelihood and degree of migration to and from BGS-FP as customers are free to leave and return to BGS with no restrictions other than practical restrictions related to metering and billing, with switching generally occurring on scheduled meter reading dates and requiring 20 days notice prior to this date.

Retail BGS-FP rates are proposed to be a function of the auction clearing prices for an EDC's 3-year tranches from the 2012 Auction, the auction clearing prices for the 3-year tranches in the 2011 Auction, and the auction clearing prices for the 3-year tranches in the 2010 Auction, as well as seasonal payment factors for 2010, 2011, and 2012. For RECO, the result of the RECO RFP for portions of RECO's load in the NY-ISO will also affect BGS-FP retail rates.

### ***Contemplated Use of Pricing Spreadsheets***

It is contemplated that bidders will use these spreadsheets in two ways. First, in preparation for the auction, bidders can examine a wide variety of scenarios of potential auction clearing prices and analyze the retail rates that result from those scenarios. These analyses can be used to examine how potential migration from a given set of retail rates may affect the bidder's valuation of the auction opportunity. Second, as the auction is in progress, bidders will be able to enter going prices and update their analyses of potential migration and the auction opportunity.

### ***Principles Underlying the Spreadsheet***

The spreadsheet reflects the methodology that the EDCs have proposed to use to set BGS-FP rates. This methodology has been filed with the New Jersey Board of Public Utilities ("Board"), which will make a decision regarding this methodology as part of its general decision on the EDC's July 1st, 2011 filing. The first step in the methodology is the determination of an EDC's average cost. The average cost is the weighted average price that would be paid to BGS-FP suppliers accounting for seasonal payment factors and BGS-FP sales volume by season. For PSE&G, JCP&L, and ACE, the clearing price for each of the three products (i.e., for the 3-year tranches from the 2012, 2011, and 2010 Auctions) is multiplied by the EDC-specific seasonal payment factor and these seasonal prices for each product are then

weighted by the associated number of tranches and seasonal sales volumes to determine the average cost applicable to BGS-FP load for each EDC. The associated number of tranches for the 2010 Auction (with one year of supply remaining), for the 2011 Auction (with two years of supply remaining), and for the 3-year tranches from the 2012 Auction, are such that each receives approximately a one-third weighting. For RECO, the weighted average price will also include the result of the RECO RFP, which procures power for the portions of RECO located in the New York ISO control area. The logic of the spreadsheet incorporates the volume relative to BGS-FP auction volumes and also allows for a price to be input for the RECO RFP.

Once the average cost is calculated by clicking on the calculate button, retail BGS-FP rates are calculated using multiplicative factors as well as factors determined by using the rate adjustment methodologies of PSE&G, ACE, and RECO. These multiplicative factors and the rate adjustment factors are taken directly from each EDC's Company Specific Addendum, which has been filed with the Board. The rate adjustment factors are equal to the dollar differences between the anticipated billed revenue and supplier payments in a season, divided by the total anticipated billed BGS-FP energy related charges in that season. The rates and factors will be visible in tabs for each EDC. For PSE&G, the multiplicative factors and the rate adjustment factors are applied directly to the average cost. For JCP&L the multiplicative factors are applied directly to the average cost. For ACE and RECO, the multiplicative factors and the rate adjustment factors are applied to the average cost less estimated average transmission revenue. This will be done as ACE and RECO have calculated factors on that basis. The weighted average transmission revenue is \$6.751/MWh for ACE and \$8.50/MWh for RECO.

### ***Reporting of Rate Results***

Rate results are reported by actual rate components (billing determinants) that will be charged to customers. That is energy charges by block; energy charges by time of use and demand (or obligation) charges are shown separately. Rate results include charges for energy, capacity, transmission, and ancillary services. All rates are reported before the application of New Jersey Sales and Use Tax ("SUT"), which for most customers (all except those exempt from SUT) will result in an upward adjustment of seven percent.

Bidders that wish to determine an average class rate can do so by using these rates and their assumptions as to customer usage patterns and load factors.

### ***Other Factors That May Influence BGS-FP Rates***

BGS-FP retail rates may also be influenced by other factors. First, each EDC has a tariff provision that provides for periodic adjustments to BGS-FP rates in order to reconcile revenues billed to BGS-FP customers with payments to BGS-FP suppliers. These adjustments can be found in the Company Specific Addenda and are somewhat different for each EDC. These adjustments could go in either direction, that is could go to increase or to decrease rates. The EDCs intend for these adjustments to be small, but provide no representation that they will

be small and each bidder must independently evaluate the potential retail rate impact of these adjustments and the potential effect on customer migration.

Second, in the event that the BGS-FP Auction is not fully subscribed and or that a bidder defaults, the EDCs will procure power under each EDC's contingency plan. The EDCs would intend to flow the costs associated with these purchases to customers through the BGS-FP rates on as current a basis as practical. This flow through would affect BGS-FP rates. Precise mechanisms for developing rates in this situation have not been developed or approved by the Board.

In 2004, the Board considered whether to continue imposing a retail margin of 0.5¢/kWh on customers 750kW and above. The Board has eliminated the Retail Margin and reduced the BGS-FP threshold to 750 KW. Hence, the Retail Margin does not apply going forward.

***Use of Spreadsheet Is Not Required and Bidders Assume Responsibility for Accuracy of Information***

Bidders are not required to use this spreadsheet. It is provided as a convenience and no representation or warranty is made as to the accuracy of the spreadsheet, the formulas, or the data. As indicated on the start page of the spreadsheet, bidders can reproduce the information in the spreadsheet from the EDC filings and the Board Order and should do so if they have any concern over the accuracy of the formulas or data in the spreadsheet.