
Final Report

**Post-Auction Report on the New Jersey Utilities'
Basic Generation Service Auction Processes:
BGS Supply Period Beginning August 1, 2003**

Submitted to:

New Jersey Board of Public Utilities
Newark, New Jersey

Submitted by:

Charles River Associates
Boston, Massachusetts

CRA Project D04053-00

April 8, 2003



Table of Contents

| | <u>Page</u> |
|---|-------------|
| Table of Contents..... | i |
| Executive Summary | 1 |
| 1. Introduction..... | 4 |
| 2. Summary of the BGS Auctions..... | 7 |
| 3. Assessment of the BGS Auctions..... | 13 |
| 4. Analysis of BGS Auction Prices..... | 22 |
| 5. Recommendations to Improve Future Auctions..... | 29 |
| Appendix A: Product Prices and Tranches by Round..... | A1 |
| Appendix B: Post-Auction Checklists..... | B1 |
| Appendix C: Press Articles on the BGS Auctions | C1 |



Executive Summary

This is the final report of Charles River Associates (CRA) to the New Jersey Board of Public Utilities (the BPU, or the Board) regarding our review and oversight of the New Jersey electric utilities' Basic Generation Service (BGS) procurement auction process for the BGS supply period beginning August 1, 2003 (Docket No. EX01110754).

Background on BGS

Procurement for BGS Supply Period From August 2002 Through July 2003

CRA was first retained by the New Jersey Board of Public Utilities in September 2001 to oversee and monitor the auction process proposed by four electric distribution companies (EDCs) in New Jersey¹ to procure supplies for Basic Generation Service in Year 4 of the Transition Period (August 2002 through July 2003) as part of the state's electricity restructuring. Among other tasks, CRA was responsible for: providing advice on BGS proposals; providing advice on BGS auction processes, designs, and rules; monitoring the marketing of the auction; reviewing the data and information exchange; monitoring efforts to educate bidders on the auction process and rules; monitoring the administration of the auction; advising on the final auction results; and, providing a report on the auction results with recommendations to improve future auctions.

The BGS auction for Year 4 of the Transition Period concluded in February 2002 and upon the completion of bidding CRA recommended to the Board that it certify the auction results, which it subsequently did. This first BGS auction generally was regarded as a success.

Procurement for BGS Supply Period Beginning August 1, 2003

In September 2002, CRA was retained again by the BPU to provide similar assistance with regard to auction processes proposed by the EDCs² for Year 1 and Year 2 of the Post-Transition Period. While the process outlined in the EDCs' *Proposal for Basic Generation Service Beyond July 31, 2003* was similar in many respects to the first BGS auction, there were some significant new variations, including the linking of auction results to consumer prices and the separation of

¹ The four EDCs were Public Service Electric and Gas Company (PSE&G), GPU Energy, Atlantic City Electric Company (ACECO) d/b/a Conectiv Power Delivery, and Rockland Electric Company (RECO).

² The same four EDCs as for the prior year, except that GPU Energy was now known as Jersey Central Power & Light Company (JCP&L).



Executive Summary

large customers from small customers in two distinct BGS auctions. Also, JCP&L proposed to implement a “retail pilot program” and to hold a separate bidding mechanism to procure supplies of “green energy.” In addition, RECO proposed to utilize an RFP procurement process for about ten percent of its load (specifically, load in its Central and Western Divisions served through the NYISO rather than through PJM).

The BGS auctions for the supply period beginning August 1, 2003 concluded on February 4, 2003. Upon the completion of bidding CRA recommended to the Board that it certify the auction results, which it subsequently did.

CRA’s Role in Procurement for BGS Supply Period Beginning August 1, 2003

In its advisory role, CRA reviewed BGS proposals with respect to Board objectives, provided advice to the Board in the process of approving the BGS processes and rules, and reviewed the BGS auction processes for reasonableness of administration, guidelines for setting the starting prices and auction volumes, the default or contingency plan, and the proposed BGS contracts.

In its monitoring role of the FP (Fixed Price) and HEP (Hourly Energy Price) auctions, CRA monitored the marketing and information efforts; advised the BPU on the significance of the indicative bids, the auction starting prices, and the tranche sizes; monitored the administration of the auctions, including speed of rounds and price tick down for each round; monitored the bidding for possible anticompetitive behavior; and advised the BPU on whether the final auction results reflected the approved auction processes. Finally, with this report, CRA assesses the auction results and provides recommendations to improve future auctions.

As requested by Board Staff, CRA’s monitoring activities for the JCP&L “green energy” RFP and RECO RFP processes were less intensive.

CRA’s Findings and Recommendations

CRA determined that the implementation of the BGS auction process sufficiently met the criteria CRA proposed be used to evaluate the process. Nevertheless, we believe that improvements are possible. In particular, the recommendations listed below, which are discussed in more detail in section 5, will lead to better information for bidders, enhanced marketing efforts, improved scheduling, more reliable auction software, and better communications protocols — thereby increasing the likelihood of continued success in future auctions.



Executive Summary

- Decisions on all issues that may affect the auction should be finalized as early as possible, and “last minute” lobbying and negotiation should be minimized, if not eliminated.
- Schedules and deadlines for providing data and information should be adhered to as faithfully as possible, and when delays do occur, notice should be provided immediately as to when the missing data and information will be made available.
- Rigorous stress testing of the auction software should occur well before the auctions are to commence.
- Advance contingency planning — including the preparation of “stock messages” — should occur well before the auction to better ensure that bidders are fully and clearly informed in the event of abnormal occurrences, such as auction software failures.
- Some concern has been expressed that the bid decrements this year may have been too large near the end of the auction, resulting in higher closing prices than otherwise. Even if it were true that the bid decrements were “too large,” this is at least partially mitigated by bidders specifying exit prices that would correspond to smaller decrements. In any case, we recommend that the bid decrement algorithms be revisited.
- The number of EDC representatives who will have access to sensitive auction information should be minimized to the extent possible to reduce the real or perceived likelihood of either intentional or inadvertent improper exchanges of information.
- Consideration should be given to changing the deadline of the post-auction Board review — and either acceptance or rejection — of the auction results from two *calendar* days after the day on which the auction closes to two *business* days after the day on which the auction closes. This year, questions were raised about the implications if the post-auction Board review period were to fall on a weekend. There is a tradeoff between avoiding possible Board reviews on weekends and whether bidders would be affected if the Board review were to take up to three or four calendar days (i.e., including weekend days) rather than up to two calendar days.



1. Introduction

The New Jersey Board of Public Utilities retained Charles River Associates to review and oversee the New Jersey Electric Utilities' Basic Generation Service auction processes for Year 1 of the Post-Transition Period (Docket No. EX01110754). This report is CRA's post-auction assessment of those BGS auction processes.

Following the successful conclusion of the first BGS auction in February 2002, the Board implemented a review to determine whether to make BGS available on a competitive basis for the Post-Transition Period (beginning August 1, 2003). By its Order of January 10, 2002, the Board issued a list of questions and solicited information from interested parties regarding the most appropriate mechanisms for procuring BGS supply and for pricing BGS in the Post-Transition Period. This Order also directed Staff to meet with interested parties to discuss these issues in working-group settings.

After the review of written submissions and two working-group meetings, the Board Order of June 6, 2002 ordered the EDCs and other interested parties to file formal proposals by July 1, 2002. Several proposals were received, including a joint proposal by the four EDCs (along with company-specific addenda). JCP&L also submitted separate filings regarding a "retail pilot program" and a "green energy procurement process" while RECO proposed an RFP process to procure fixed-price supply for its Western and Central Divisions, which are served through the NYISO. A legislative-type hearing was held on September 10, 2002, which was followed by several informal settlement conferences. Staff then filed its position on September 23, 2002, at which time the EDCs and other parties filed comments and modifications to their July 1 submissions. Reply comments from Staff, the EDCs, and other parties were filed on October 11, 2002. CRA reviewed all submissions and comments, attended the legislative-type hearing, participated in informal settlement conferences, and provided input to Staff as it prepared its submissions and comments.

The Board approved the EDCs' proposed processes, by Order dated December 18, 2002. On January 13, 2003 the Board certified the final results of the RECO RFP process. The FP and HEP auctions took place February 3-4, 2002. At the February 5, 2002 Board Agenda Meeting, the Commissioners voted unanimously to accept the results of the two auctions. At its February 20, 2003 Agenda Meeting, the Board certified the results of the JCP&L "green energy" RFP process.



Introduction

CRA's efforts in assisting the Board through this process are summarized as follows:

- Reviewing submissions from the EDCs and other parties and advising the Board as to whether the proposed energy procurement processes would likely achieve the Board's objectives.
- Attending Commissioner briefing sessions, Board agenda meetings, legislative-type hearings, informal settlement meetings, and bidder information sessions.
- Preparing memoranda and engaging in discussions with Staff on various specific issues, including "green energy" procurement, retail adders and retail pilot programs, and multi-year products.
- Monitoring the marketing and communication efforts of the EDCs and their Auction Manager (NERA — National Economic Research Associates).
- Reviewing draft auction rules, protocols, and other documents, and providing input and advice to the Auction Manager.
- Assisting Staff with its review of indicative bids, starting prices, and auction volumes.
- Participating in and monitoring trial auctions.
- Monitoring the FP and HEP auctions and, after the conclusion of bidding, advising the Board as to whether the final results reflect the approved auction processes and generated an outcome that is consistent with competitive bidding, market determined prices, and efficient allocation of the rights and obligations to supply BGS-FP and BGS-HEP loads.

CRA's final task is the preparation of this post-auction report, which is organized as follows.

- Section 2 summarizes the auctions in table format, highlighting key indicators and measures.
- Section 3 provides our assessment of the BGS auctions, focusing on key issues and questions.
- Section 4 discusses our analysis of BGS auction prices.
- Section 5 contains our recommendations for improving future auctions.



Introduction

- Appendix A includes charts showing round-by-round product prices and the number of active tranches statewide.
- Appendix B includes our post-auction checklists that were delivered to the BPU at the close of the auction.
- Appendix C contains various press items pertaining to the BGS auction processes.



2. Summary of the BGS Auctions

2.1. The FP and HEP Auctions

2.1.1. FP Auction

The FP auction began with the opening of round 1 at 8:50 a.m. on Monday, February 3, 2003. It concluded with the close of round 14 at 6:00 p.m. on Tuesday, February 4, 2003.

[REDACTED]. The tranche target for the auction was 155 tranches [REDACTED]. [REDACTED]

No volume adjustment was made during the auction, so the pre-auction tranche target and EDC-specific load caps were unchanged for the auction.

Issues that arose during the auction are discussed below in section 3.

At the February 5, 2003 Board Agenda Meeting, the Commissioners voted unanimously to accept the results of the FP auction.

Table 1 below shows pertinent indicators and measures for the FP auction.



Summary of the BGS Auctions

Table 1. Summary of BGS-FP Auction

| Product (months): | PSE&G | | JCP&L | | ACECO | | RECO | | Total | |
|--|----------|-------|----------|-------|----------|-------|----------|-------|------------|-------|
| | 10 | 34 | 10 | 34 | 10 | 34 | 10 | 34 | 10 | 34 |
| BGS-FP peak load share (MW) | 5,573 | 2,886 | 2,973 | 1,388 | 1,480 | 691 | 295 | 98 | 10,321 | 5,063 |
| Total tranches needed | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Starting tranche target in auction | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Final tranche target in auction | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Tranche size (% of BGS-FP load) | 1.18% | | 2.27% | | 4.55% | | 25.00% | | | |
| Tranche size (approximate MW) | 99.52 MW | | 99.11 MW | | 98.66 MW | | 98.25 MW | | | |
| Starting load cap (# tranches) | 19 | 10 | 10 | 5 | 5 | 3 | 3 | 1 | | |
| Final load cap (# tranches) | 19 | 10 | 10 | 5 | 5 | 3 | 3 | 1 | | |
| Quantity procured (# tranches) | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Quantity procured (% BGS-FP load) | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| # Winning bidders | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Maximum tranches sold to any one bidder | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Minimum and maximum starting prices prior to indicative bids (cents/kWh) | | | | | | | | | ■■■■■■■■■■ | |
| Starting price at start of auction (cents/kWh) * | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ | ■■■■ |
| Price paid to winning bidders (cents/kWh) ** | 5.386 | 5.560 | 5.042 | 5.587 | 5.260 | 5.529 | 5.557 | 5.601 | 5.274 | 5.564 |

* Price shown in "Total" column is the average across the EDCs weighted by each EDC's "Starting tranche target in auction".

** Price shown in "Total" column is the average across the EDCs weighted by each EDC's "Final tranche target in auction".



Summary of the BGS Auctions

2.1.2. HEP Auction

The HEP auction began with the opening of round 1 at 8:30 a.m. on Monday, February 3, 2003. It concluded with the close of round 15 at 11:45 a.m. on Tuesday, February 4, 2003.

[REDACTED] The tranche target for the auction was 107 tranches [REDACTED]. No volume adjustment was made during the auction, so the pre-auction tranche target and statewide load cap were unchanged for the auction. [REDACTED]

[REDACTED]

[REDACTED]

Again, issues that arose during the auction are discussed below in section 3.

At the February 5, 2003 Board Agenda Meeting, the Commissioners voted unanimously to accept the results of the HEP auction.

Table 2 below shows pertinent indicators and measures for the HEP auction.



Summary of the BGS Auctions

Table 2. Summary of BGS-HEP Auction

| | PSE&G | JCP&L | ACECO | RECO | Total |
|--|---------|---------|---------|---------|---------|
| BGS-HEP peak load share (MW) | 1,514.3 | 923.2 | 205.4 | 29.0 | 2,671.9 |
| Total tranches needed | 61 | 37 | 8 | 1 | 107 |
| Starting tranche target in auction | 61 | 37 | 8 | 1 | 107 |
| Final tranche target in auction | 61 | 37 | 8 | 1 | 107 |
| Tranche size (% of BGS-HEP load) | 1.64% | 2.70% | 12.50% | 100.00% | |
| Tranche size (approximate MW) | 24.8 MW | 25.0 MW | 25.7 MW | 29.0 MW | |
| Starting load cap (# tranches) | | | | | 36 |
| Final load cap (# tranches) | | | | | 36 |
| Quantity procured (# tranches) | 61 | 37 | 8 | 1 | 107 |
| Quantity procured (% BGS-HEP load) | 100% | 100% | 100% | 100% | 100% |
| # Winning bidders | ■ | ■ | ■ | ■ | |
| Maximum tranches sold to any one bidder | ■ | ■ | ■ | ■ | ■ |
| Minimum and maximum starting prices prior to indicative bids (\$/MW-day) | | | | | ■ ■ |
| Starting price at start of auction (\$/MW-day)* | ■ | ■ | ■ | ■ | ■ |
| Price paid to winning bidders (\$/MW-day)** | \$60.00 | \$65.25 | \$56.10 | \$59.80 | \$61.52 |

* Price shown in "Total" column is the average across the EDCs weighted by each EDC's "Starting tranche target in auction".

** Price shown in "Total" column is the average across the EDCs weighted by each EDC's "Final tranche target in auction".



Summary of the BGS Auctions

2.2. The RECO RFP Process and JCP&L Green Pilot RFP Process

Given CRA's more limited involvement with the two RFP processes, the summaries for these two processes are more concise than for the two auctions.

2.2.1. RECO RFP Process

The RECO RFP was issued to secure a fixed price for RECO's supply needs (both energy and capacity) for approximately 45 MW of load in its areas served through the NYISO (rather than through PJM). The RFP was released to 27 prospective bidders on December 11, 2002.

RECO and Staff received proposals (seven for energy and six for capacity) on January 6, 2003. After reviewing the proposals and discussing them with RECO and Staff, on January 13, 2003 the Board certified the final results and winning bids and bidders as determined by RECO (under Staff oversight). CRA did not oversee the RFP process or review the RFP bids.

The winning bids and bidders for energy and capacity for RECO's BGS load served through the NYISO were as follows:

| | | |
|----------|----------------------------|---------------------|
| Energy | Constellation Power Source | 4.775¢/kWh |
| Capacity | Select Energy | \$1,750.00/MW-month |

2.2.2. JCP&L "Green Energy" RFP Process

Through its Order of Clarification issued on December 26, 2002, the Board determined that the JCP&L Green Pilot Program (the Green Energy RFP) for 200 MW of residential load³ would consist of an all-inclusive energy bid, and that these bids would be due after the close of the FP auction. JCP&L released the RFP to potential bidders through the BGS auction Web site.

JCP&L, NERA (JCP&L's Auction Manager for the Green Energy RFP process), and Staff received two qualified proposals on February 13, 2003. After reviewing the proposals and discussing them with JCP&L, NERA, and Staff, on February 20, 2003 the Board certified the

³ Or 150,000 customers, whichever is greater.



Summary of the BGS Auctions

final results and winning bids and bidders as determined by JCP&L and NERA (under Staff oversight). CRA did not oversee the RFP process or review the RFP bids.

The winning bidder in the JCP&L Green Pilot Program was FirstEnergy Solutions Corporation with a bid of 5.444¢/kWh for all eight tranches (200 MW).



3. Assessment of the BGS Auctions

This section of our report provides our assessment of the BGS FP and HEP auctions, focusing on key issues and questions that arose during the auctions. The section is structured along the lines of the post-auction checklists (included in this report as Appendix B) that we delivered to the BPU on February 5, 2003 to facilitate the Board's review of the auction. The section provides additional commentary and observations not included in those more abbreviated post-auction checklists.

3.1. CRA's recommendation as to whether the Board should certify the auction results

CRA recommended that the Board certify the results of both BGS auctions. As we indicated in our post-auction checklists, we believe that the design, implementation, and outcome of the BGS auction processes achieved the objectives of the Board. On February 5, 2003, the Board certified the BGS auction results based on input from Board Staff, CRA, and NERA, the EDCs' Auction Manager.

Notwithstanding our recommendation that the Board certify the BGS auction results, this report raises some issues and concerns that we had during the process leading up to the auctions, and during the auctions themselves. Section 5 below makes recommendations for improving future auctions.

3.2. Did bidders have sufficient information in a timely manner to prepare for the auctions? Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?

Yes. Generally, the schedule allowed bidders sufficient time to prepare for the auction. There were no serious issues raised by bidders with regard to the amount of time available to prepare for the auction.

On a few occasions the FAQ (Frequently Asked Questions) and electronic data room updates for the BGS auction Web site did not occur on schedule (each Monday for the FAQ page update and the 17th of each month for the electronic data room update). However, when delays did occur they were reasonably brief and we have no reason to believe that these delays had any material impact on bidder behavior or on the outcome of the auctions. In some, but not all, of these cases of delay an e-mail announcement or Web site posting was made to note that a delay had occurred and to provide an estimate of when the expected information would be provided.



Assessment of the BGS Auctions

On January 30, 2003, bidders were informed that ACECO would provide 500 MW of capacity credits to BGS-FP bidders. This announcement came with only one full business day until the commencement of the FP auction.⁴ Ideally, information of this type would be provided well before bidding is to begin so that bidders are assured of having sufficient time to factor it into their valuation and bidding models. To the best of our knowledge there were no bidder complaints regarding the timing of the release of this information, and as such, we presume that the timing of the announcement had no serious impact on bidder behavior or on the outcome of the FP auction. There is, however, an open question whether the lateness of the announcement meant bidders were not able to fully incorporate the information into their bids, and thus bids may not have been as low as they might have been had the announcement been made earlier.

3.3. Were there any issues and questions left unresolved prior to the auctions that created material uncertainty for bidders?

No, for the most part.

As noted above, the announcement that ACECO would provide 500 MW of capacity credits to winning FP bidders came with little time remaining until the commencement of bidding.

Bidders for 34-month FP products do face uncertainty related to the fact that during the remainder of 2003 the Board will revisit such issues as the possible imposition of a retail margin and the redefinition of the dividing line between FP and HEP customers. However, bidders were fully aware of these uncertainties well in advance of bidding and thus were able to account for any perceived risks in their valuation and bidding models.

3.4. From what CRA could observe, were there any procedural problems or errors with the auctions, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager?

A few problems and issues arose during the trial and real auctions, though fewer technical problems than were experienced last year, and the issues that arose with regard to specific bidders were not related to any equipment or procedural problems on the part of the Auction Manager.

⁴ At the January 23 Bidder Information Session in Philadelphia, bidders were notified that an announcement on capacity credits was forthcoming.



Assessment of the BGS Auctions

We observed or were informed of the following events:

- During the trial auctions on January 28, 2003, there was a failure of the FP auction software/system that prevented bidders from accessing the system. We understand that the Auction Manager team believes the problem was caused by having more people than expected log into the system, which overwhelmed a piece of security software. This problem did not reoccur during the real auctions.
- During the trial auctions there also were problems with the clock synchronization and the messaging function, which we identified to the Auction Manager team. These problems did not reoccur during the real auctions.
- During round 7 of the FP auction, bidders lost access to the system. From our discussions with members of the Auction Manager team at the time, we understand that the problem was related to a malfunction with a piece of software they referred to as "Tomcat". The round had to be annulled and restarted, approximately one hour later. Aside from the one-hour delay, there was no apparent effect on the auction.
- During round 9 of the FP auction, a bidder [bidder name redacted] was contacted by the Auction Manager team, per standard protocol, as the bidder had not yet submitted a bid with the close of the bidding phase approaching. From what the Auction Manager team has told us, we understand that the bidder internally was trying to decide whether to bid and, if so, what bids to make, as time wound down. With only seconds remaining the bidder representative who was on the phone with the Auction Manager team representative uttered some numbers, but did not say anything that could be understood intelligibly as a bid. As such, the bidder failed to register a bid, had its eligibility drop to zero, and was precluded from further bidding. Representatives of the bidder subsequently contacted the Auction Manager to complain that they had been treated unfairly. Staff and CRA representatives discussed this matter with the Auction Manager team, and all agreed that proper procedures had been followed and that the bidder had been treated fairly. Following further discussion among the bidder's representatives, the bidder's attorney, Staff, and CRA representatives, the bidder appeared to accept that it indeed had been treated fairly, even if the outcome of the event was an unfortunate one for them. A recording



Assessment of the BGS Auctions

of the phone conversation between the Auction Manager team and the bidder was central to resolving this dispute.⁵

- On February 5, 2003, the day after both auctions had closed, the Auction Manager team informed CRA and Staff representatives that another bidder had complained that a bid had not been accepted. We understand that the bidder waited until the final seconds of the bidding phase and did not finalize its bid submission in time to have it registered on the auction server. We also understand that following further discussion between the bidder and the Auction Manager team, the bidder agreed that the outcome was due solely to the bidder's own actions and was not the result of any error on the part of the Auction Manager or the auction software.

3.5. From what CRA could observe, were protocols for communication between bidders and the Auction Manager adhered to?

As far as we can tell, the protocols generally were adhered to. We did not have the opportunity to directly monitor communications between the bidders and the Auction Manager team.

Occasionally, such as when technical problems caused delays in the trial and real auctions, the messages sent to all bidders through the software were not completely clear. (We recognize that in such instances there is a tradeoff between providing at least some information to bidders quickly, and taking the time to craft a complete and articulate message.)

3.6. From what CRA could observe, did any hardware or software problems or errors occur, either with the auction system or with its associated communications systems?

We noted some problems in section 3.4 above.

3.7. Were there any unanticipated delays during the auctions?

These were noted in section 3.4 above.

⁵ Bidders were aware that all back-up bidding phone calls were recorded by the Auction Manager team in accordance with the auction rules.



Assessment of the BGS Auctions

3.8. Did unanticipated delays appear to adversely affect bidding in the auctions? What adverse effects did CRA directly observe and how did they relate to the unanticipated delay?

There was a single delay of approximately one hour, as described above, but we do not believe that there was any material effect on the final outcome of the auction.

3.9. Were appropriate data back-up procedures planned and carried out?

We were informed by the Auction Manager that data back-up procedures were being carried out consistently in accordance with the pre-established protocol. Due to the layout of the Auction Manager's site, the procedures used for back-up, and the fact that the auction servers were in a remote location, we did not have the opportunity to monitor the back-up procedures directly. Recording the telephonic back-up bids proved to be important in resolving a dispute with a bidder, as described above.

3.10. Were any security breaches observed with the auction process?

We did not observe any security breaches in either auction process, nor were we informed of any events that one might consider a potential security breach.

3.11. From what CRA could observe, were protocols followed for communications among the EDCs, NERA, BPU Staff, the Board (if necessary), and CRA during the auctions?

Further to CRA's recommendation from last year's process, this year NERA developed formal communication protocols covering information exchanges among NERA, the EDCs, the Board, Board Staff, CRA, prospective bidders, and the media. Regular reminders were sent regarding what types of information could, and could not, be shared with whom. From what we could observe, there were no breaches in the communication protocols. We believe that the establishment and enforcement of these protocols made a positive contribution to the integrity of the BGS auction process.



Assessment of the BGS Auctions

3.12. From what CRA could observe, were the protocols followed for decisions regarding changes in auction parameters (e.g., volume, load caps, bid decrements)?

Yes. No changes in the volume — and therefore in the load caps — were made. The decision not to change the volume in either auction was in conformity with the pre-established guidelines. Also, there were no deviations from the pre-established bid decrement algorithms in either auction, although the Auction Manager is allowed discretion to deviate from the algorithms as deemed appropriate or necessary (but the expectation is that such discretion would be exercised only rarely). Some concern has been expressed that the bid decrements this year may have been too large near the end of the auction, resulting in higher closing prices than otherwise.⁶ Even if it were true that the bid decrements were “too large,” this is at least partially mitigated by bidders specifying exit prices that would correspond to smaller decrements. Despite the use of exit prices and the Auction Manager’s discretion to deviate from the algorithms, we recommend that the bid decrement algorithms be revisited.

3.13. Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the auction software double-checked or reproduced off-line by the Auction Manager?

The Auction Manager informed us that these calculations were being done.

3.14. Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auctions?

No. As noted previously, in two instances bidders were unhappy to learn that they failed to successfully submit a bid before the end of a bidding phase. However, all bidders were reminded prior to the auctions that they were responsible for submitting their bids on time and that they should not wait until the last moment to attempt to submit a bid.

⁶ This contrasts with last year when some concern was expressed that bid decrements were too small, causing last year’s BGS auction to last longer than necessary.



Assessment of the BGS Auctions

3.15. From what CRA could observe, were the communications between the Auction Manager and bidders timely and effective?

Generally yes, although we did not have the opportunity to directly monitor communications between the bidders and the Auction Manager team. In certain cases the clarity of messages to bidders could have been improved, as described above, but we do not believe that these instances had any material impact on the auction.

3.16. Was there evidence that bidders felt unduly rushed during the process?

We saw no such evidence. We understand that some bidders asked for more time to review results during the later rounds of the FP auction. The Auction Manager agreed to this request and altered the schedule accordingly.

[REDACTED]

3.17. Were there any complaints from bidders about the process that CRA believed were legitimate?

As noted above, two bidders complained about issues related to late bids. In both situations we believe that the rules were enforced fairly.

3.18. Were the auctions carried out in an acceptably fair and transparent manner?

Yes. In particular, the rules appeared to be applied uniformly to all bidders.

3.19. Was there evidence of non-productive “gaming” on the part of bidders?

Not that we could discern.



Assessment of the BGS Auctions

3.20. Was there any evidence of collusion or improper coordination among bidders?

Not that we could discern. Bidders responded to changes in relative product prices from round to round consistent with competitive behavior.

3.21. Was there any evidence of a breakdown in competition in the auctions?

Not that we could discern. [REDACTED]

3.22. Was information made public appropriately? From what CRA could observe, was sensitive information treated appropriately?

From what we could observe, auction information was treated with appropriate sensitivity.

3.23. Do the auctions appear to have generated results that are consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS load?

Yes, the bidding appeared to be competitive, price arbitrage across the products occurred, and the winning bidders won tranches because losing bidders were not willing and able to accept prices as low as the winning bidders. This suggests the tranches were allocated to the bidders with the highest value of supplying BGS load (and therefore willing and able to accept the lowest prices).

3.24. Were there factors exogenous to the auctions (e.g., changes in market environment) that materially affected the auctions in unanticipated ways?

No significant factors became apparent that would affect the auction. Also, as noted below, the Forward Market Price Indexes (FMPIs) were not significantly different this year compared to last year.



Assessment of the BGS Auctions

3.25. Are there any concerns with the auctions' outcomes with regard to any specific EDC(s)?

No.



4. Analysis of BGS Auction Prices

This section of the report analyzes the forward market price indexes and closing prices for the BGS auctions. In addition to our assessment above, the analysis here suggests the auction results reflect the auction processes approved by the Board. Unless noted otherwise, for this year's BGS auction prices, the focus is on the BGS-FP auction prices as these lend themselves to a richer analysis. A short section below discusses the BGS-HEP auction charges.

Table 3 below reports the Forward Market Price Index (FMPI) and final auction price for each auction product for the most recent BGS-FP auction (held February 2003), and for the BGS auction held last year (February 2002).⁷

Table 3. Auction Prices and FMPIs

| AUCTION PERIOD AND PRICE * | PSE&G | JCP&L | ACECO | RECO |
|---|------------------|------------------|--------------|-------------|
| FMPIs (\$/MWh) | | | | |
| February 2002 Auction (12-Month Product) | ██████ | ██████ | ██████ | ██████ |
| February 2003 BGS-FP Auction | | | | |
| 10-Month Product | ██████ | ██████ | ██████ | ██████ |
| 34-Month Product | ██████ | ██████ | ██████ | ██████ |
| Final Auction Prices (¢/kWh) | | | | |
| February 2002 Auction (12-Month Product) | 5.112 | 4.865 | 5.117 | 5.819 |
| February 2003 BGS-FP Auction | | | | |
| 10-Month Product | 5.386 | 5.042 | 5.260 | 5.557 |
| 34-Month Product | 5.560 | 5.587 | 5.529 | 5.601 |
| Auction Price less FMPI, divided by FMPI | | | | |
| February 2002 Auction (12-Month Product) | ██████ | ██████ | ██████ | ██████ |
| February 2003 BGS-FP Auction | | | | |
| 10-Month Product | ██████ | ██████ | ██████ | ██████ |
| 34-Month Product | ██████ | ██████ | ██████ | ██████ |

*Note that FMPIs are specified in \$/MWh and auction prices are specified in cents/kWh. There are 10 \$/MWh in 1 ¢/kWh.

⁷ FMPIs are not relevant for the BGS-HEP auction, in which bidders bid on a "capacity charge."



Analysis of BGS Auction Prices

4.1. Forward Market Price Indexes (FMPIs)

[REDACTED]

[REDACTED]

[REDACTED]

8

[REDACTED]



Analysis of BGS Auction Prices

[REDACTED]

[REDACTED]

4.2. FMPIs and BGS-FP Auction Prices

[REDACTED]



Analysis of BGS Auction Prices



4.3. BGS-HEP Auction Charges

The BGS-HEP auction that was held this year was characterized as “a capacity auction” in that bidders were asked to bid on “a capacity charge component.” More precisely, winning BGS-HEP suppliers receive:

- (1) The PJM zonal real-time locational marginal price (LMP) for the supplier’s share of BGS-HEP load (energy).
- (2) The EDC-specific network transmission rate applied to the supplier’s share of the BGS-HEP transmission obligation.
- (3) 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-HEP load (energy).
- (4) The default supply service availability charge (DSSAC) that is applied to the energy used by all HEP customers whether or not these customers are taking BGS.
- (5) The EDC-specific closing charge in the BGS-HEP auction, referred to as the “capacity charge” in \$/MW-day, which is applied to the supplier’s share of the BGS-HEP capacity obligation.

To the extent that components (1)-(4) do not adequately capture the risk-reward tradeoffs facing bidders that are unrelated to capacity, bids will reflect more than just the capacity charge in component (5).



Analysis of BGS Auction Prices

Closing charges for the BGS-HEP auction ranged from \$56/MW-day to \$65/MW-day across the four EDCs. These may be above PJM capacity prices for many recent periods, but PJM capacity prices can be volatile, and as noted above, while bidders were asked to bid on the “capacity charge,” in reality they were bidding on risk-reward factors that likely are not fully reflected in payment components (1), (2), (3), and (4) above. Thus, one would expect BGS-HEP bids to be above pure capacity charges actually bid in the PJM capacity market.

4.4. Conclusion on BGS Auction Prices and Charges

There is a natural tendency to compare BGS auction prices from the 2003 auctions with the 2002 auction, notwithstanding that the products and market environments for the two auctions were quite different and therefore not strictly comparable. For example, one can observe that BGS-FP auction prices were slightly higher in the 2003 auction compared to the 2002 auction prices, with the exception of RECO. Yet this comparison could be misleading.⁹ The “differences in year-to-year prices” for the EDCs are explained by differences in the products being auctioned, by changes in market conditions, and by changes (actual and expected) in the regulatory environment. (Also, RECO is a special case because there was additional information available to bidders regarding RECO’s market this year compared to last year.) With regard to differences in products, for example, the BGS-FP products in the February 2003 auction exclude many commercial and industrial customers resulting in lower load factors for BGS-FP and making it more expensive to serve a slice of BGS-FP load from the 2003 auction relative to a slice of BGS load from the 2002 auction.¹⁰ With regard to changes in market conditions, one of the more important changes was the increase in the price of energy in PJM this year compared to last year contemporaneous with the time at which the auctions were held.

Arguably the best summary measure of the daily price of energy in PJM is the PJM West day ahead market. The transactions in this market are for the delivery of a fixed number of megawatts at PJM West buses the next day for either the sixteen peak hours of the day or the

⁹ A comparison of BGS-HEP auction prices from the 2003 auction (specified as capacity charges in \$/MW-day) to the BGS auction prices from the 2002 auction (\$/MWh or cents/kWh) is even more problematic given the difference in the bid units.

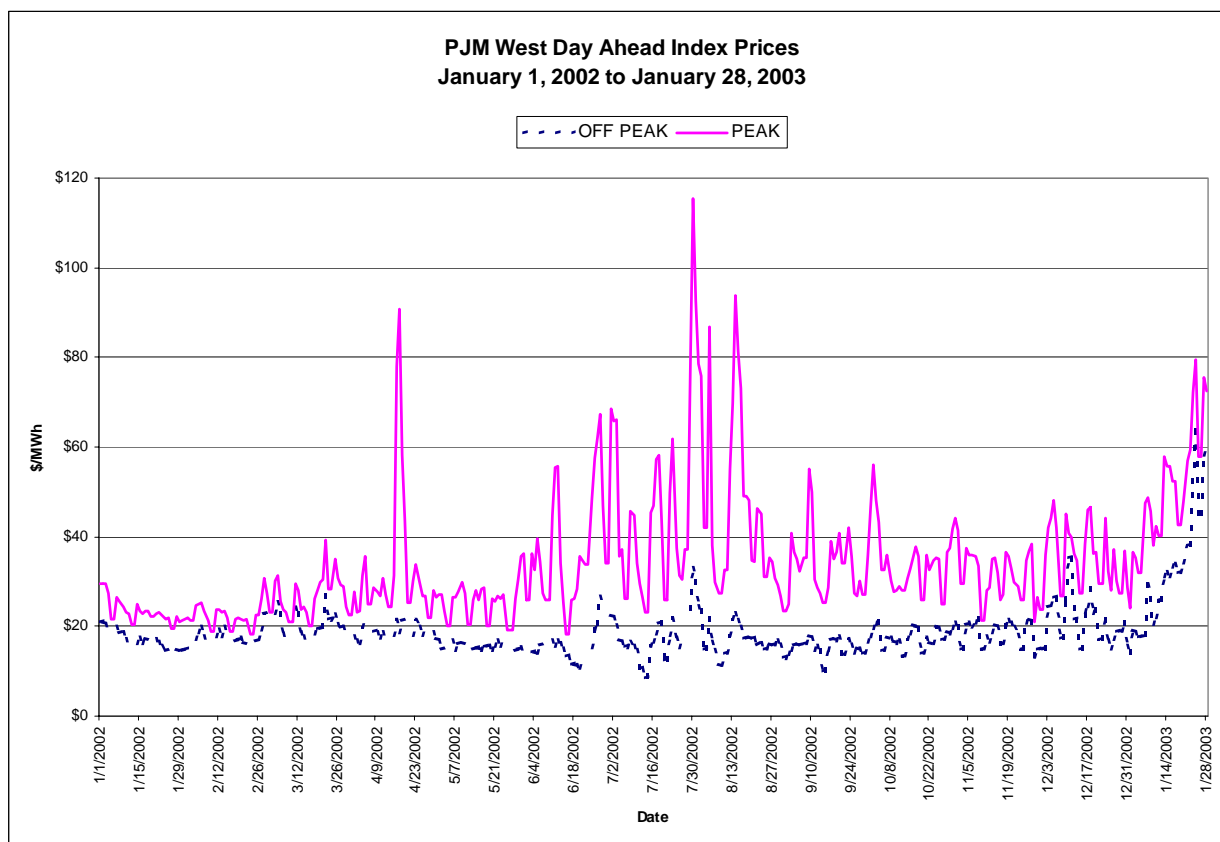
¹⁰ Other factors have a deflating effect on auction prices. For example, the 10-month products in the 2003 BGS-FP auction eliminate two summer months that were included in the 12-month products in the 2002 auction. These two months have higher peaks, and occur when the price of energy is typically higher than in the rest of the year, making it less costly to serve the 10-month product relative to the 12-month product.



Analysis of BGS Auction Prices

eight off-peak hours of the day. This market is very liquid, the product is comparable from day-to-day, and the price is not linked to a specific hour of the day.¹¹ Figure 1 illustrates the day ahead prices for peak and off-peak deliveries from the beginning of 2002 through the end of January 2003.

Figure 1. PJM West Day Ahead Index Prices



¹¹ A time series of forward prices is difficult to construct because the day-to-day prices are for delivery in a given month or set of months in the future. As each day goes by the term to delivery shortens, causing the product to change slightly from day-to-day. In addition, forward markets for many delivery dates are not very liquid, or change substantially in liquidity over time, thus affecting the meaningfulness of price quotes.



Analysis of BGS Auction Prices

The most notable change in Figure 1 is the increase of January 2003 energy prices over January 2002 for both peak and off-peak periods. Indeed, January 2003 prices are two to three times the level of January 2002 prices. In view of the substantial rise in the cost of energy at the time of the 2003 auction it is noteworthy that BGS auction prices in 2003 were not substantially higher than the BGS auction prices in 2002 even taking into account the lack of comparability between the prices for the different auctions.

Another feature of the prices in Figure 1 is how much they vary from day-to-day and from season to season. Together with the recent rise in energy prices, these characteristics reflect the substantial risk to bidders of supplying energy at a fixed price for 10 to 34 months in the future. This is an important element that separates energy prices from BGS auction prices.

As noted previously, the FP and HEP auctions both featured numerous bidders and healthy pre-auction eligibility ratios. The bidding in both auctions was competitive. There were no indications of collusive behavior, price arbitrage occurred across the available products, and the winning bidders won tranches because losing bidders were not willing and able to accept prices as low as the winning bidders. The simultaneous descending clock auctions — in contrast to request for proposal (RFP) processes often used for energy procurement in other jurisdictions — allowed bidders to dynamically pursue preferred aggregations of tranches and minimized possible exposure risks and the likelihood of suffering the “winner’s curse,” thereby encouraging active bidding.

Thus, the winning prices and charges were reflective of the market and tranches were allocated to the bidders with the highest value of supplying BGS load. This conclusion that final prices and charges were consistent with a competitive market is supported by taking into account the differences in products, market conditions, and risks this year compared to last year, and the relationship among auction prices and prices from other markets.



5. Recommendations to Improve Future Auctions

As one would expect, the lessons learned from the first BGS auction¹² resulted in fewer problems and a smoother overall process this year. Now that NERA, the EDCs, the Board, Board Staff, and CRA, as well as many bidders, have two years of experience with BGS auction processes, we expect that auctions in future years can run even more smoothly.

Nonetheless, there are still areas where improvements can be made. Some of our recommendations below are common themes from our recommendations last year, while others are based specifically on events from this year's auction process.

- Policy issues regarding matters that will affect bidders in the auction (e.g., multi-year products, “green” pilots, retail pilots, retail adders, etc.) should be addressed and resolved as early as possible in the auction process to avoid creating uncertainties that will adversely affect the auction. In particular, the opportunity for last minute lobbying on such issues should be circumscribed. To the extent there are such uncertainties and opportunities for participants to game the process, bidders will tend to bid higher prices than they would otherwise.
- While there were fewer problems than last year, on occasion deadlines for providing certain documents or data were missed. In some cases there may be reasons beyond the control of NERA or the EDCs for such delays, but whether this is the case or not, notices should be posted to the BGS auction Web site and/or e-mailed to interested parties that (1) identify the delay and (2) state the new date when the missing documents or data will be provided.
- Fully test auction software well ahead of time. We understand that the system failure in the trial auction – which could have occurred during the real bidding – was due to an “overload” of people logging into the system. We would have expected that a stress test for large numbers of users would be a standard part of early testing, and we recommend that this occur in the future.
- Improve the messages provided to bidders during the auction. It may be useful for the Auction Manager to list various possible events (e.g., a technical problem that prevents bidders from submitting bids), map out the actions that would need to be taken and the information that bidders would want and need in such an event (e.g., what has happened? when will the problem be fixed? what steps must bidders take –

¹² Including recommendations from CRA.



Recommendations to Improve Future Auctions

- refresh the browser window? close and restart the browser? resubmit a bid? etc.), and prepare “stock answers” that can be called up and provided to bidders. Such an exercise would better enable the Auction Manager to provide complete and clear information to bidders, and reduce the demands on the Auction Manager’s time when abnormal events occur.
- Some concern has been expressed that the bid decrements this year may have been too large near the end of the auction, resulting in higher closing prices than otherwise. Even if it were true that the bid decrements were “too large,” this is at least partially mitigated by bidders specifying exit prices that would correspond to smaller decrements. In any case, we recommend that the bid decrement algorithms be revisited.
 - The number of EDC representatives who will have access to sensitive auction information should be minimized to the extent possible to reduce the real or perceived likelihood of either intentional or inadvertent improper exchanges of information. We have no reason to suspect that any improper information exchanges occurred with regard to the FP and HEP auctions, and we recognize that NERA and the EDCs implemented formal communications protocols and regularly sent reminders to EDC staff about what information could, and could not, be shared with whom. However, we also note that the list of EDC staff who had access to various pieces of sensitive auction information was lengthy: for example, 29 different individuals at PSE&G had access to at least some sensitive information. We suggest that in future years NERA and the EDCs attempt to be more restrictive with regard to EDC access to sensitive information, both to minimize the likelihood of inadvertent inappropriate information sharing, and to reinforce the perception of the fact that significant measures are in place to ensure that information does not flow improperly from an EDC to its affiliates.
 - Consideration should be given to changing the deadline of the post-auction Board review — and either acceptance or rejection — of the auction results from two *calendar* days after the day on which the auction closes to two *business* days after the day on which the auction closes. This year, questions were raised about the implications if the post-auction Board review period were to fall on a weekend. There is a tradeoff between avoiding possible Board reviews on weekends and whether bidders would be affected if the Board review were to take up to three or four calendar days (i.e., including weekend days) rather than up to two calendar days.



Appendix A: Product Prices and Tranches by Round

The charts below show the round-by-round EDC-specific prices announced by the Auction Manager, and the round-by-round numbers of active tranches statewide in the two auctions (BGS-FP and BGS-HEP).



Product Prices and Tranches by Round

[REDACTED]

[REDACTED]



Appendix B: Post-Auction Checklists



**POST-AUCTION CHECKLIST
FOR THE NEW JERSEY YEAR ONE BGS-FP AUCTION**

Prepared by: Charles River Associates Incorporated.

Charles River Associates (CRA) was retained by the New Jersey Board of Public Utilities (the NJ BPU, or the Board) to perform a review and oversight of the New Jersey Electric Utilities' Year One Basic Generation Service (BGS) Auction Process (Docket No. EX01110754).

This report is CRA's post-auction checklist of the BGS-FP (BGS-Fixed Price) auction process.

Auction began with the opening of Round 1 at 8:50 a.m. on Monday, February 3, 2003

Auction finished with the close of Round 14 at 6:00 p.m. on Tuesday, February 4, 2003

| | Start of Round 1 | Start of Round 2 * (after volume reduction in Round 1, if applicable) | Start of Round n * (after post-Round 1 volume reduction, if applicable) |
|-------------------|--------------------|--|--|
| # Bidders | █ | N/A | N/A |
| Tranche target | 155 | N/A | N/A |
| Eligibility ratio | █ | N/A | N/A |
| PSE&G load caps | 10mo.=19, 34mo.=10 | N/A | N/A |
| JCP&L load caps | 10mo.=10, 34mo.=5 | N/A | N/A |
| ACECO load caps | 10mo.=5, 34mo.=3 | N/A | N/A |
| RECO load caps | 10mo.=3, 34mo.=1 | N/A | N/A |

For each EDC there are separate load caps for the 10-month and 34-month products.

* No volume adjustment was made during the FP auction, so the pre-auction tranche target and EDC-specific load caps were unchanged for the auction.



Table 1 below shows pertinent indicators and measures for the auction.

Table 4. Summary of BGS-FP Auction

| Product (months): | PSE&G | | JCP&L | | ACECO | | RECO | | Total | |
|--|-------|-------|-------|-------|-------|-------|--------|-------|--------|-------|
| | 10 | 34 | 10 | 34 | 10 | 34 | 10 | 34 | 10 | 34 |
| BGS-FP peak load share (MW) | 5,573 | 2,886 | 2,973 | 1,388 | 1,480 | 691 | 295 | 98 | 10,321 | 5,063 |
| Total tranches needed | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Starting tranche target in auction | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Final tranche target in auction | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Tranche size (% of BGS-FP load) | 1.18% | | 2.27% | | 4.55% | | 25.00% | | | |
| Tranche size (approximate MW) | 99.52 | | 99.11 | | 98.66 | | 98.25 | | | |
| Starting load cap (# tranches) | 19 | 10 | 10 | 5 | 5 | 3 | 3 | 1 | | |
| Final load cap (# tranches) | 19 | 10 | 10 | 5 | 5 | 3 | 3 | 1 | | |
| Quantity procured (# tranches) | 56 | 29 | 30 | 14 | 15 | 7 | 3 | 1 | 104 | 51 |
| Quantity procured (% BGS-FP load) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| # Winning bidders | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Maximum tranches sold to any one bidder | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Minimum and maximum starting prices prior to indicative bids (cents/kWh) | | | | | | | | | ■■■■ | |
| Starting price at start of auction (cents/kWh) * | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ |
| Price paid to winning bidders (cents/kWh) ** | 5.386 | 5.560 | 5.042 | 5.587 | 5.260 | 5.529 | 5.557 | 5.601 | 5.274 | 5.564 |

* Price shown in “Total” column is the average across the EDCs weighted by each EDC’s “Starting tranche target in auction”.

** Price shown in “Total” column is the average across the EDCs weighted by each EDC’s “Final tranche target in auction”.



Table 5. Overview of Findings on BGS-FP Auction

| | Question | Comments |
|---|---|--|
| 1 | CRA’s recommendation as to whether the Board should certify the FP auction results? | CRA recommends that the Board certify the FP auction results. |
| 2 | Did bidders have sufficient information to prepare for the FP auction? | Yes. Bidders received information from auction documents, an electronic data room, questions-and-answers posted to the auction Web site, and bidder information sessions. |
| 3 | Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed? | Generally, yes. |
| 4 | Were there any issues and questions left unresolved prior to the FP auction that created material uncertainty for bidders? | We do not believe that there were any unresolved issues or questions that created material uncertainty for bidders. |
| 5 | From what CRA could observe, were there any procedural problems or errors with the FP auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager? | There was a problem with the FP server that resulted in bidders losing access during the first bidding round on February 4. The round had to be annulled and restarted. The problem was corrected within an hour. Aside from a slight delay, there was no material effect to the auction from this event. Otherwise, we observed no problems or errors. |
| 6 | From what CRA could observe, were protocols for communication between bidders and the Auction Manager adhered to? | Yes. |
| 7 | From what CRA could observe, were any hardware or software problems or errors observed, either with the FP auction system or with its associated communications systems? | Yes, see #5 above. |
| 8 | Were there any unanticipated delays during the FP auction? | Yes - see #5 above. |



| Question | | Comments |
|----------|---|--|
| 9 | Did unanticipated delays appear to adversely affect bidding in the FP auction? What adverse effects did CRA directly observe and how did they relate to the unanticipated delays? | No – see #5 above. |
| 10 | Were appropriate data back-up procedures planned and carried out? | Appropriate data back-up procedures were planned. The Auction Manager informs us that these procedures were indeed carried out. |
| 11 | Were any security breaches observed with the FP auction process? | We observed no such breaches, nor were we informed of any such breaches. |
| 12 | From what CRA could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and CRA during the FP auction? | Yes. |
| 13 | From what CRA could observe, were the protocols followed for decisions regarding changes in FP auction parameters (e.g., volume, load caps, bid decrements)? | Yes. |
| 14 | Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the FP auction software double-checked or reproduced off-line by the Auction Manager? | The Auction Manager informs us that these procedures were carried out. |
| 15 | Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction? | We saw no such evidence. |
| 16 | From what CRA could observe, were the communications between the Auction Manager and bidders timely and effective? | Generally, yes. In certain cases the clarity of messages to bidders could have been improved, but we do not believe that these instances had any material impact on the auction. |



| | Question | Comments |
|----|---|---|
| 17 | Was there evidence that bidders felt unduly rushed during the process? | We saw no such evidence. We understand that some bidders asked for more time to review results during the later rounds of the auction. The Auction Manager agreed to this request and altered the schedule accordingly. |
| 18 | Were there any complaints from bidders about the process that CRA believed were legitimate? | We are unaware of any such complaints. |
| 19 | Was the FP auction carried out in an acceptably fair and transparent manner? | Yes. |
| 20 | Was there evidence of non-productive “gaming” on the part of bidders? | We saw no such evidence. |
| 21 | Was there any evidence of collusion or improper coordination among bidders? | We saw no such evidence. |
| 22 | Was there any evidence of a breakdown in competition in the FP auction? | We saw no such evidence. |
| 23 | Was information made public appropriately? From what CRA could observe, was sensitive information treated appropriately? | From what we could observe, auction information was treated with appropriate sensitivity. |
| 24 | Does the FP auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP load? | Yes. |
| 25 | Were there factors exogenous to the FP auction (e.g., changes in market environment) that materially affected the FP auction in unanticipated ways? | We observed no such effects. |
| 26 | Are there any concerns with the FP auction’s outcome with regard to any specific EDC(s)? | No. |



**POST-AUCTION CHECKLIST
FOR THE NEW JERSEY YEAR ONE BGS-HEP AUCTION**

Prepared by: Charles River Associates Incorporated.

Charles River Associates (CRA) was retained by the New Jersey Board of Public Utilities (the NJ BPU, or the Board) to perform a review and oversight of the New Jersey Electric Utilities' Year One Basic Generation Service (BGS) Auction Process (Docket No. EX01110754).

This report is CRA's post-auction checklist of the BGS-HEP (BGS-Hourly Energy Price) auction process.

Auction began with the opening of Round 1 at 8:30 a.m. on Monday, February 3, 2003

Auction finished with the close of Round 15 at 11:45 a.m. on Tuesday, February 4, 2003

| | Start of Round 1 | Start of Round 2 * (after volume reduction in Round 1, if applicable) | Start of Round n * (after post-Round 1 volume reduction, if applicable) |
|--------------------|------------------|--|--|
| # Bidders | █ | N/A | N/A |
| Tranche target | 107 tranches | N/A | N/A |
| Eligibility ratio | █ | N/A | N/A |
| Statewide load cap | 36 tranches | N/A | N/A |

* No volume adjustment was made during the HEP auction, so the pre-auction tranche target and the statewide load cap were unchanged for the auction.



Table 1 below shows pertinent indicators and measures for the auction.

Table 6. Summary of BGS-HEP Auction

| | PSE&G | JCP&L | ACECO | RECO | Total |
|--|------------------|------------------|--------------|-------------|--------------|
| BGS-HEP peak load share (MW) | 1,514.3 | 923.2 | 205.4 | 29.0 | 2,671.9 |
| Total tranches needed | 61 | 37 | 8 | 1 | 107 |
| Starting tranche target in auction | 61 | 37 | 8 | 1 | 107 |
| Final tranche target in auction | 61 | 37 | 8 | 1 | 107 |
| Tranche size (% of BGS-HEP load) | 1.64% | 2.70% | 12.50% | 100.00% | |
| Tranche size (approximate MW) | 24.8 | 25.0 | 25.7 | 29.0 | |
| Starting load cap (# tranches) | | | | | 36 |
| Final load cap (# tranches) | | | | | 36 |
| Quantity procured (# tranches) | 61 | 37 | 8 | 1 | 107 |
| Quantity procured (% BGS-HEP load) | 100% | 100% | 100% | 100% | 100% |
| # Winning bidders | ■ | ■ | ■ | ■ | |
| Maximum tranches sold to any one bidder | ■ | ■ | ■ | ■ | ■ |
| Minimum and maximum starting prices prior to indicative bids (\$/MW-day) | | | | | ■ ■ |
| Starting price at start of auction (\$/MW-day)* | ■ | ■ | ■ | ■ | ■ |
| Price paid to winning bidders (\$/MW-day)** | \$60.00 | \$65.25 | \$56.10 | \$59.80 | \$61.52 |

* Price shown in “Total” column is the average across the EDCs weighted by each EDC’s “Starting tranche target in auction”.

** Price shown in “Total” column is the average across the EDCs weighted by each EDC’s “Final tranche target in auction”.



Table 7. Overview of Findings on BGS-HEP Auction

| Question | | Comments |
|-----------------|--|---|
| 1 | CRA's recommendation as to whether the Board should certify the HEP auction results? | CRA recommends that the Board certify the HEP auction results. |
| 2 | Did bidders have sufficient information to prepare for the HEP auction? | Yes. Bidders received information from auction documents, an electronic data room, questions-and-answers posted to the auction Web site, and bidder information sessions. |
| 3 | Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed? | Generally, yes. |
| 4 | Were there any issues and questions left unresolved prior to the HEP auction that created material uncertainty for bidders? | We do not believe that there were any unresolved issues or questions that created material uncertainty for bidders. |
| 5 | From what CRA could observe, were there any procedural problems or errors with the HEP auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager? | We observed no such problems or errors. |
| 6 | From what CRA could observe, were protocols for communication between bidders and the Auction Manager adhered to? | Yes. |
| 7 | From what CRA could observe, were there any hardware or software problems or errors, either with the HEP auction system or with its associated communications systems? | No. |
| 8 | Were there any unanticipated delays during the HEP auction? | No. |
| 9 | Did unanticipated delays appear to adversely affect bidding in the HEP auction? What adverse effects did CRA directly observe and how did they relate to the unanticipated delay? | No. |



| Question | | Comments |
|----------|---|--|
| 10 | Were appropriate data back-up procedures planned and carried out? | Appropriate data back-up procedures were planned. The Auction Manager informs us that these procedures were indeed carried out. |
| 11 | Were any security breaches observed with the HEP auction process? | We observed no such breaches, nor were we informed of any such breaches. |
| 12 | From what CRA could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and CRA during the HEP auction? | Yes. |
| 13 | From what CRA could observe, were the protocols followed for decisions regarding changes in HEP auction parameters (e.g., volume, load cap, bid decrements)? | Yes. |
| 14 | Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the HEP auction software double-checked or reproduced off-line by the Auction Manager? | The Auction Manager informs us that these procedures were carried out. |
| 15 | Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction? | We saw no such evidence. |
| 16 | From what CRA could observe, were the communications between the Auction Manager and bidders timely and effective? | Generally, yes. In certain cases the clarity of messages to bidders could have been improved, but we do not believe that these instances had any material impact on the auction. |
| 17 | Was there evidence that bidders felt unduly rushed during the process? | We saw no such evidence. |
| 18 | Were there any complaints from bidders about the process that CRA believed were legitimate? | We are unaware of any such complaints. |
| 19 | Was the HEP auction carried out in an acceptably fair and transparent manner? | Yes. |
| 20 | Was there evidence of non-productive “gaming” on the part of bidders? | We saw no such evidence. |
| 21 | Was there any evidence of collusion or improper coordination among bidders? | We saw no such evidence. |



| Question | | Comments |
|-----------------|---|---|
| 22 | Was there any evidence of a breakdown in competition in the HEP auction? | We saw no such evidence. |
| 23 | Was information made public appropriately? From what CRA could observe, was sensitive information treated appropriately? | From what we could observe, auction information was treated with appropriate sensitivity. |
| 24 | Does the HEP auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-HEP load? | Yes. |
| 25 | Were there factors exogenous to the HEP auction (e.g., changes in market environment) that materially affected the HEP auction in unanticipated ways? | We observed no such effects. |
| 26 | Are there any concerns with the HEP auction's outcome with regard to any specific EDC(s)? | No. |



Appendix C: Press Articles on the BGS Auctions

A number of press articles on the BGS auction processes are reproduced below.



Press Articles on the BGS Auctions

Copyright 2003 Bloomberg L.P.

Bloomberg News

February 5, 2003 Wednesday 7:03 PM Eastern Time

LENGTH: 295 words

HEADLINE: New Jersey Utilities Buy \$5.2 Bln of Electricity in Auction

BYLINE: Andrew Pratt in Trenton, New Jersey, at (609) 278-1270 or at apratt@bloomberg.net, through the Chicago newsroom (312) 692- 3720. Editor: Stroth.

DATELINE: Trenton, New Jersey, Feb. 5

KEYWORD: United States; New Jersey; Commodity News; Energy; Electricity Market; Utilities; New York City; Company News; New York; Ohio

BODY:

Pepco Holdings Inc., FirstEnergy Corp., Public Service Enterprise Group Inc. and Consolidated Edison Inc. bought \$5.2 billion of electricity in a New Jersey auction designed to lock in prices for much of the state's supply.

The four utility owners bought 95 billion kilowatt-hours during a two-day auction on the Internet that ended yesterday, the New Jersey Board of Public Utilities said in a statement. A kilowatt is 1,000 watts, or enough to power a single home.

New Jersey is the only state to buy all its power through an annual Internet auction. The sale is designed to prevent huge price fluctuations like those experienced during the California energy crisis, the BPU said in a statement.

"Today's action provides an effective mechanism for securing the best possible price," BPU President Jeanne M. Fox said.

The utilities agreed to 10-month contracts for hourly power ranging from \$56.10 to \$65.25 a megawatt. The hourly power will go to large customers, the BPU said. A megawatt is a million watts, or enough to power for 800 homes.

The price of spot power on the Pennsylvania, New Jersey and Maryland grid averaged \$38.78 a megawatt for peak-demand power during the past year, Bloomberg data shows. Prices for off-peak power averaged \$20.13 during the past year.



Press Articles on the BGS Auctions

New Jersey utilities bought power for small to medium-sized customers under 10-month contracts at fixed prices ranging from 5.042 cents to 5.557 cents a kilowatt-hour. Thirty-four month contracts locked in prices of 5.529 cents to 5.601 cents a kilowatt-hour.

Utilities participating in the auction were Pepco's Conectiv Power Delivery, FirstEnergy's Jersey Central Power & Light, Public Service Enterprise Group and Consolidated Edison's Rockland Electric.



Press Articles on the BGS Auctions

The Record (Bergen County, NJ)

February 6, 2003 Thursday All Editions

SECTION: BUSINESS; Pg. B01

LENGTH: 550 words

HEADLINE: Electric bills will go up for many, down for others;

State OKs auction results that lock in rates till '04

SOURCE: North Jersey Media Group

BYLINE: KEVIN G. DeMARRAIS, STAFF WRITER

BODY:

Starting in August, New Jersey residents will pay as much as 7.3 percent more for their electricity, but some will also see prices drop more than 4 percent.

The changes are based on bids made at a two-day statewide energy auction conducted over the Internet by the state's four utilities and overseen by the Board of Public Utilities. The auction, for 95 billion kilowatt hours of electricity, worth \$5.2 billion, was created to secure electricity and lock in rates for the 10 months starting Aug. 1.

The auction involves the commodity portion of bills only - the kilowatts themselves - and not delivery. Commodities and delivery each account for about half of a residential customer's bill, so the higher commodity prices means the average residential customer will see bills increase by about \$25 a year.

The exception is customers of Orange and Rockland Utilities. They would see the electricity portion of their bills cut by a small amount.

At the same time, each of the state's utilities has filed a separate rate-increase request with the BPU to cover higher operating expenses as well as costs they have been unable to recover in recent years because of mandated rate caps. Those increases, also effective Aug. 1, would add 10 percent more per year to customer bills.

Combined, the two increases will eliminate four-step rate cuts of 11 percent to 14 percent mandated under the state's energy deregulation bill, which took effect Aug. 1, 1999.



Press Articles on the BGS Auctions

This year, the four-year phase-in ends and the state lifts controls on the commodity prices for electricity, even as it continues to oversee delivery and service. The auction is the state's attempt to protect customers from the volatility of commodity prices.

BPU President Jeanne Fox, who last week expressed some apprehension about the auction because of the uncertainties in the world - and the impact that would have on electricity prices - said the auction went well.

"While the retail market is still evolving, this innovative process allows New Jersey's consumers to receive the benefits of competition at the wholesale level," Fox said after the board approved the auction results at its monthly meeting Wednesday.

This was the second year the state has conducted an auction for basic generation service, or BGS. It covers prices only for customers who elect to remain with their utility, rather than buying power from a third-party generator. However, few people have switched in the 3 1/2 years customer choice has been allowed, so the rates affect almost every residential and small-business customer in the state.

The residential/small business part of the auction was in two parts, with two-thirds of the bidding for power needs from Aug 1, 2003, to May 31, 2004, and the remainder was to lock in some supplies - as well as prices - through June 2005.

Rates will be a blend of the two amounts.

Based on that, three of the four utilities will have higher rates, with customers of Public Service Electric and Gas Co., the state's largest utility, facing a 6.54 percent increase. Jersey Central Power & Light customers face the biggest increase, 7.3 percent, but its rate is still the lowest of the four.

Conectiv customers will see a 4.5 percent hike, but O&R customers will pay 4.3 percent less.



Press Articles on the BGS Auctions

The Associated Press State & Local Wire

The materials in the AP file were compiled by The Associated Press. These materials may not be republished without the express written consent of The Associated Press.

February 6, 2003, Thursday, BC cycle

SECTION: State and Regional

LENGTH: 265 words

HEADLINE: Electric rates to rise for most New Jerseyans

DATELINE: TRENTON, N.J.

BODY:

A majority of New Jerseyans will see their electric rates increase by as much as 7.3 percent this summer because of higher charges approved this week by the state Board of Public Utilities.

The higher rates are based on bids made at a two-day energy auction conducted over the Internet by the state's four utilities and overseen by the BPU. The auction, which covered 95 billion kilowatt hours of electricity worth \$5.2 billion, was held in two parts and was approved by the BPU last year in an attempt to protect customers from rate spikes.

The first auction stage covers two-thirds of the utilities' energy needs and locks in rates for a 10-month period starting Aug. 1. The second part covers a 34-month period and locks in some supplies and prices through June 2005.

Officials said the auctions only involve the commodity portion of bills - the kilowatts themselves - and not delivery charges. They also said each utility has filed a separate rate-increase request with the BPU to cover higher operating expenses as well as costs they have been unable to recover in recent years because of mandated rate caps.

The new rates will be a blend of the auction amounts, so customers of Public Service Electric and Gas Co., the state's largest utility, will face a 6.54 percent increase. Jersey Central Power & Light customers will pay 7.3 percent more, while Conectiv customers will see a 4.5 percent hike.

However, customers of the Orange and Rockland Utility will see their rates fall by 4.3 percent because the electricity portion of their bills will drop slightly.



Press Articles on the BGS Auctions

Copyright 2003 Bergen Record Corporation

The Record (Bergen County, NJ)

February 6, 2003 Thursday All Editions

SECTION: BUSINESS; Pg. B01

LENGTH: 550 words

HEADLINE: Electric bills will go up for many, down for others; State OKs auction results that lock in rates till '04

SOURCE: North Jersey Media Group

BYLINE: KEVIN G. DeMARRAIS, STAFF WRITER

BODY:

Starting in August, New Jersey residents will pay as much as 7.3 percent more for their electricity, but some will also see prices drop more than 4 percent.

The changes are based on bids made at a two-day statewide energy auction conducted over the Internet by the state's four utilities and overseen by the Board of Public Utilities. The auction, for 95 billion kilowatt hours of electricity, worth \$5.2 billion, was created to secure electricity and lock in rates for the 10 months starting Aug. 1.

The auction involves the commodity portion of bills only - the kilowatts themselves - and not delivery. Commodities and delivery each account for about half of a residential customer's bill, so the higher commodity prices means the average residential customer will see bills increase by about \$25 a year.

The exception is customers of Orange and Rockland Utilities. They would see the electricity portion of their bills cut by a small amount.

At the same time, each of the state's utilities has filed a separate rate-increase request with the BPU to cover higher operating expenses as well as costs they have been unable to recover in recent years because of mandated rate caps. Those increases, also effective Aug. 1, would add 10 percent more per year to customer bills.

Combined, the two increases will eliminate four-step rate cuts of 11 percent to 14 percent mandated under the state's energy deregulation bill, which took effect Aug. 1, 1999.



Press Articles on the BGS Auctions

This year, the four-year phase-in ends and the state lifts controls on the commodity prices for electricity, even as it continues to oversee delivery and service. The auction is the state's attempt to protect customers from the volatility of commodity prices.

BPU President Jeanne Fox, who last week expressed some apprehension about the auction because of the uncertainties in the world - and the impact that would have on electricity prices - said the auction went well.

"While the retail market is still evolving, this innovative process allows New Jersey's consumers to receive the benefits of competition at the wholesale level," Fox said after the board approved the auction results at its monthly meeting Wednesday.

This was the second year the state has conducted an auction for basic generation service, or BGS. It covers prices only for customers who elect to remain with their utility, rather than buying power from a third-party generator. However, few people have switched in the 3 1/2 years customer choice has been allowed, so the rates affect almost every residential and small-business customer in the state.

The residential/small business part of the auction was in two parts, with two-thirds of the bidding for power needs from Aug 1, 2003, to May 31, 2004, and the remainder was to lock in some supplies - as well as prices - through June 2005.

Rates will be a blend of the two amounts.

Based on that, three of the four utilities will have higher rates, with customers of Public Service Electric and Gas Co., the state's largest utility, facing a 6.54 percent increase. Jersey Central Power & Light customers face the biggest increase, 7.3 percent, but its rate is still the lowest of the four. Conectiv customers will see a 4.5 percent hike, but O&R customers will pay 4.3 percent less.



Press Articles on the BGS Auctions

Copyright 2003 Bloomberg L.P.

Bloomberg News

February 7, 2003 Friday 4:04 PM Eastern Time

LENGTH: 1554 words

HEADLINE: New Jersey Board of Utilities' Fox on Auction (Transcript)

DATELINE: Trenton, New Jersey, Feb. 6, 2003

KEYWORD: General Government News; Energy; Commodity News; Electricity Market; Utilities; New Jersey; Company News; Ohio; New York; United States; New York City

BODY:

Jeanne Fox, president of the New Jersey Board of Public Utilities, talks with Bloomberg's Jim Polson via telephone about \$5.2 billion worth of electricity purchases by Pepco Holdings Inc., FirstEnergy Corp., Public Service Enterprise Group Inc. and Consolidated Edison Inc. in an Internet auction designed to stabilize prices.

(This is not a legal transcript. Bloomberg LP cannot guarantee its accuracy.)

POLSON: Welcome to the Bloomberg Forum. I'm Jim Polson. I'm on the telephone with Jeanne Fox. She is the president of the New Jersey Board of Public Utilities, which certified an auction this week for \$5.2 billion worth of electricity, which will be the bulk of the state's needs for at least the next - for about 10 months coming after August the 1st.

Jeanne, welcome to the Bloomberg Forum.

FOX: Thanks, Jim. I appreciate you having me.

POLSON: What had you expected going into this - into this auction? You'd held an auction last year. Were you expecting prices to be up or down or what idea did you have?

FOX: Well, to be honest, we thought that prices were likely to be up. We weren't sure, though, because people want to sell energy, I mean, companies want to sell energy. But you had the oil strike in Venezuela, you had the threat of war, what happened with Enron, so we were really, you know, a little bit nervous about that. But we knew at the end, the suppliers wanted to sell energy in New Jersey. And if you want to sell in New Jersey, you basically have to be in this auction.



Press Articles on the BGS Auctions

POLSON: Natural gas prices, which is a crucial fuel, have also just about doubled in the last year, right?

FOX: Right, which also made us a little nervous. And generating costs are up about 5 percent from last year as a whole, so, there were a little bit of nerves.

POLSON: And it looks like there was a little bit of a split. Four utilities bid. It looks like generally the price was about 5 to 7 percent higher than last year. Is that what you're.

FOX: I didn't think it's that much higher than last year. It's hard to do a comparison, because it's not apples and apples, it's more like oranges and tangerines. So - but it was a little bit higher for three of the electric companies. Actually, it was lower, generally speaking, for Rockland Electric.

POLSON: Which is owned by Commonwealth Edison in New York.

FOX: Yes.

POLSON: Do you have an idea of why their prices were down?

FOX: Well, they were higher this past year than the other three utilities. PSE&G, Conectiv and Jersey Central Power & Light were about 4 percent higher maybe than last year. Again, though, it's tangerines and oranges. Rockland Electric was about 4.5 percent lower than last year, but last year Rockland was the highest. It's in a different - it's not in the PGM (ph) group, most of it, most of the others are.

POLSON: Do you have any sense at this point - the idea here was to avoid the sort of power price shocks that California went through two years ago. Do you have any sense that you may have dodged the bullet this time, or is there really any way to tell?

FOX: Well, I don't think we had a bullet there, but we were pleasantly surprised when the prices came in where they were, because of just the national and international situation with energy costs and prices. We really think that this shows now, after the successful auction last year, that this innovative process really lets our consumers in New Jersey get the benefits of competition at the wholesale level, for the electric providers, the utilities, as we call them, to get their energy wholesale in mass quantities for a ten-month period and for a thirty-four-month period. And the best price possible is through a declining block auction, which is what we did. And it's the lowest possible rates that the customers could pay for. So we're very satisfied with the results.

POLSON: The state of Maine tried something like this last month, and didn't fare so well. Do you think it's a matter of how the auction's structured? Or are you fortunate to be in an area where you've got a very active power market and a lot of crisscrossing power lines and players?



Press Articles on the BGS Auctions

FOX: I think it's a combination. My understanding from Maine, from my staff, is that they did not do an auction like we did. They did a Request for Proposal, an RFP. This was an auction that went on for two days. They started with how much energy each of the four utilities needed. A lot of supply came in, much more than we needed. And they kept on lowering the price and seeing how many suppliers would bid to provide at that price. So we kept on going down until we hit the bottom. They put out a Request for Proposal. So there wasn't another opportunity for suppliers to compete and lower the price, as in a declining auction.

POLSON: Did you have more participants in the auction from the supply side this year than last year?

FOX: Yes, we actually had more. We had 22 bidders last year, we had more than that this year. And in fact seven of the 15 winning bidders were new bidders who did not bid last year, so that's exciting.

POLSON: So overall, you're pleased with the slight increase that most people are going to wind up paying?

FOX: Yes. It is a slight increase. And especially based on what the cost of energy is out there, it certainly is the lowest cost that our customers would pay. And you have to look at it that the utilities, if we didn't do this auction, would have to go out and do an RFP or some other way of acquiring the supply. That certainly couldn't have gotten to this low level of price as we succeeded with the auction.

POLSON: Given the progress of New Jersey's regulatory system, is the price reflected here the most that ratepayers can expect to see? Or are there some what utilities consider overdue costs that you're going to have to consider.

FOX: Yes, New Jersey.

POLSON: As rate increases then?

FOX: In New Jersey in 1999, the legislature deregulated energy supplies. And we're going through a transition period, which ends August 1st of this year. In addition to the cost of supply, energy supply, which is what the auction was about, they also have rate cases that most of them are in for. They have been in for rate cases 10, 12 years. So your basic cost increases for the utilities are being now litigated in our office of administrative law. We also have under the dereg law of '99, which does a lot of good things but it had some not so good things, the legislature in that law required that there be rate decreases and rate caps. And when the utilities, if they would have to buy more energy at a higher cost, they couldn't charge the customer for that cost of supply. And the law allowed them to defer that cost, which customers have to start paying back August 1st.



Press Articles on the BGS Auctions

So basically the legislature allowed rate caps to be set, but then had the utilities borrowing money to pay for that energy that they had to purchase to serve the customers. The customers will now have to pay that back, with interest, starting August 1st.

So we have the deferred balances that they're going to have to start paying for as mandated by law, we have the rate cases that are pending, and then we also have the cost of supply from the auction. So it gives us some relief, we now know where we are with that one cost to the customers which will start August 1st, and it is close to what it was last year, a little bit higher but much better than we would have expected to do on the open market. And I think it's because the innovative way that we did this auction.

POLSON: When will you need to determine how much customers need to begin paying for these deferred costs?

FOX: It'll factor in with the rate cases. And August 1st is when the law requires that we have to take off all the transition rate tax, et cetera, and requires that the customer start paying back the deferred balances. So August 1st is really the date.

And we don't know how much of an increase that will be yet, because we haven't - we have a proceeding on the deferred balances as well, to make sure that those costs were reasonable. And that's being litigated as well.

POLSON: So it could be as late as August 1st before anybody really knows for sure?

FOX: Yes.

POLSON: Thank you. Jeanne Fox is president of the New Jersey Board of Public Utilities.

FOX: Thank you.

POLSON: Thank you for joining us on the Bloomberg Forum.

END OF TRANSCRIPT

THIS TRANSCRIPT MAY NOT BE 100% ACCURATE AND MAY CONTAIN MISPELLINGS AND OTHER INACCURACIES. THIS TRANSCRIPT IS PROVIDED "AS IS," WITHOUT EXPRESS OR IMPLIED WARRANTIES OF ANY KIND. BLOOMBERG RETAINS ALL RIGHTS TO THIS TRANSCRIPT AND PROVIDES IT SOLELY FOR YOUR PERSONAL, NON-COMMERCIAL USE. BLOOMBERG, ITS SUPPLIERS AND THIRD-PARTY AGENTS SHALL HAVE NO LIABILITY FOR ERRORS IN THIS TRANSCRIPT OR FOR LOST PROFITS, LOSSES OR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL OR PUNITIVE DAMAGES IN CONNECTION WITH THE FURNISHING, PERFORMANCE, OR USE OF SUCH TRANSCRIPT. NEITHER THE



Press Articles on the BGS Auctions

INFORMATION NOR ANY OPINION EXPRESSED IN THIS TRANSCRIPT
CONSTITUTES A SOLICITATION OF THE PURCHASE OR SALE OF SECURITIES OR
COMMODITIES. ANY OPINION EXPRESSED IN THE TRANSCRIPT DOES NOT
NECESSARILY REFLECT THE VIEWS OF BLOOMBERG LP.



Press Articles on the BGS Auctions

Copyright 2003 The McGraw-Hill Companies, Inc. www.mcgraw-hill.com

All rights reserved

Power Markets Week

February 10, 2003

SECTION: Pg. 1

LENGTH: 1070 words

HEADLINE: 16 WIN BIDS TO SUPPLY N.J. FOR \$ 5.2-BILLION AFTER UTILITY AUCTION STIRS PJM MARKET

BODY:

New Jersey utilities last week picked 16 winning bidders to supply about 18,000 MW of "basic generation service" to non-shopping customers. The winners, chosen in an online auction, are to sell 95 million MWh under 10- and 34-month contracts with a total value of roughly \$ 5.2-billion, according to the state Board of Public Utilities.

Deliveries are to begin Aug. 1. In New Jersey, most customers will be served by the basic generation service (BGS), since less than 1% buy competitively (PMW, 16 Sept '02, 24).

PJM forward prices had jumped in anticipation of the auction results, and continued to adjust through the week but were steadier after traders decided they may have overreacted at first.

Standard on-peak packages for July/August 2003 climbed about \$ 4/MWh in the week before the auction, to close at \$ 64/MWh on Wednesday, Feb. 5, the day results were announced. Packages for the fourth quarter of this year rose about \$ 3.50 over that same period, to \$ 41/MWh. Packages for January/February 2004 increased about \$ 8 to \$ 49.50.

Thursday, however, the back end of the forward curve fell off from 25 cents to \$ 1.25: The January/February '04 package was off \$ 1.25, for example, settling at \$ 48.25/MWh. "Some think gas will crash for the second half of the year," one source said. The front end stayed strong, though, as packages covering March through May gained as much as 55 cents.

In the "descending clock" auction, which ran Feb. 3 and 4, suppliers started bidding with their highest prices, offering more power than the utilities needed. Then, in steps, the utilities reduced the prices they would accept, causing some bidders to drop out at each round. Bidding stopped



Press Articles on the BGS Auctions

for each utility when it had the right amount power to cover its load, and the price at that point became the clearing price for all others, explained Peter Yochum, chief of market development at the BPU.

Suppliers must provide energy, capacity, ancillary services and transmission, thus assuming the responsibilities of load-serving entities in the PJM Interconnection. They bid 100-MW load "slices" to provide Hourly Energy Prices (HEP), for large commercial and industrial users, or Fixed Price (FP) power, for smaller customers.

In the HEP category -- representing 15-20% of load -- utilities judged bids by the capacity price, since suppliers will provide energy at hourly market prices. Conectiv's clearing price was \$56.10/MW/day, while Jersey Central Power & Light's was \$ 65.25/MW/day, Public Service Electric & Gas \$ 60/MW/day, and Rockland Electric \$ 59.80/MW/day. Contracts will run for 10 months.

The FP category was broken into 10-month contracts (two-thirds of the total) and 34-month contracts, to provide some stability, but to also provide flexibility to take advantage of lower prices if the market declines after 10 months. For the 10-month contracts, Conectiv will pay the clearing price of 5.26 cents/kWh, while JCP&L will pay 5.042 cents/kWh, PSE&G 5.386 cents/kWh, and Rockland 5.557 cents/kWh.

For 34-month fixed-price contracts, Conectiv will pay 5.529 cents/kWh, while JCP&L will pay 5.587 cents/kWh, PSE&G 5.560 cents/kWh and Rockland 5.601 cents/kWh. The blended fixed-price rates (10 and 34 months) are: Conectiv, 5.350 cents/kWh; JCP&L, 5.224 cents/kWh; PSE&G 5.444 cents/kWh and Rockland 5.572 cents/kWh.

Winning bidders in the hourly auction were: Consolidated Edison, Constellation Power Source, Dominion Retail, FirstEnergy Solutions, Morgan Stanley Capital Group, PSEG Energy Resources & Trade, PPL EnergyPlus and WPS Energy Services.

In the FP category, the winners were Conectiv Energy Supply, Consolidated Edison Energy, Constellation Power Source, Coral Power, DTE Energy Trading, FirstEnergy Solutions, J. Aron & Co., Morgan Stanley Capital Group, NRG New Jersey Energy Sales, PPL EnergyPlus, Reliant Energy Services, Select Energy, Sempra Energy Trading, Tractebel Energy Marketing and WPS Energy Services.

The BPU's Yochum said prices rose about 4% for most of the load, compared with last year, largely because of conditions in the power market. In addition, the BPU may have added an element of risk for suppliers -- putting upward pressure on prices -- when it gave customers more freedom to switch away from the utility. In 2002, non-residential customers that were buying



Press Articles on the BGS Auctions

from utilities could not switch to marketers after the auction. This year, they may, and if a significant number move to marketers, the utilities will reduce their purchases from suppliers, on a pro-rata basis. There is also more uncertainty about the electric industry this year, and suppliers earlier demanded financial guarantees to assure that they would get paid for power they deliver. Though no New Jersey utilities are in financial trouble, the BPU agreed that "turmoil in the energy industry" justified the suppliers' concerns, and required utilities to take certain steps if they face credit downgrades (PMW, 23 Dec '02, 5).

Utilities will probably hold another auction to obtain power at the end of the 10-month period, Yochum said.

The New Jersey auction "is one of the great successes of deregulation," said Jaya Bajpai, Northeast power analyst at Energy Security Analysis Inc. The Electric Power Supply Assn. was happy with the auction process, and some of its members will be supplying utilities, said Samantha Slater, manager of state and regional affairs at the generators and marketers group. She noted that some state officials feared high prices, considering current market prices and turmoil in the industry. But auction prices cleared lower than expected, Slater noted, adding that suppliers are not very concerned about load lost from big users switching. Most states are watching New Jersey's approach, she said, and Arizona is considering ordering a similar auction for at least part of utilities' load.

Jersey Central Power & Light split off 200 MW from its 5,400 total, and will take separate bids for "green" power. In New Jersey, all suppliers must meet a "renewable portfolio standard" by including 3.25% of green sources in their mix (rising to 6.25% in 2012), but JCP&L asserted that a separate auction would help renewable energy companies. It will hold a sealed-bid auction Feb. 13. Bidders will not be required to offer 100% green power, but must certify that 10% is from renewables.

