



STATE OF NEW JERSEY
Board of Public Utilities
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IN THE MATTER OF THE PROVISION OF	)	ENERGY
BASIC GENERATION SERVICE FOR THE	)	
PERIOD BEGINNING JUNE 1, 2006 -	)	DECISION AND ORDER
AUCTION RESULTS	)	
	)	Docket No. EO05040317

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

By Order dated December 8, 2005, the Board of Public Utilities ("Board" or "BPU") approved, with modifications and clarifications, the joint Basic Generation Service ("BGS") proposal of Public Service Electric and Gas Company ("PSE&G"), Jersey Central Power & Light Company ("JCP&L"), Conectiv Power Delivery ("Conectiv") and Rockland Electric Company ("Rockland") (collectively the "EDCs"), for two descending clock auctions to secure the EDCs' BGS electricity requirements for the period beginning June 1, 2006 ("December 8 Order"). In an attempt to mitigate the risk to ratepayers, the Board directed the EDCs to procure approximately one-third of the EDCs' current fixed-price ("BGS-FP") BGS load for a 36-month period.² The Board also found that a 12-month procurement period for the EDCs' hourly load BGS customers ("BGS-CIEP") is appropriate and reasonable. In its December 8 Order, the Board also committed to review the results of the BGS-FP Auction and the BGS-CIEP Auction (collectively the "BGS Auctions") each in its entirety and certify the results of each auction for all of the EDCs, or for none of them, no later than the second business day after the last Auction closes.

The results of the BGS Auctions, if approved by the Board, would then be converted into revised BGS rates for customers beginning June 1, 2006. This is the fifth year that the Board has authorized a similar auction process to secure BGS supply.

The Auction Manager responsible for conducting the 2006 auction was National Economic Research Associates ("NERA"). NERA brings expertise in the conduct of simultaneous descending clock auctions in the energy and telecommunications industries, and was the Auction Manager for the four previous BGS Auctions. The Auctions were continuously monitored by Staff from the Division of Energy, as well as by the Board's consultant, CRA International ("CRA"). CRA was retained to assist the Board in this process. CRA has extensive experience with simultaneous descending clock auctions and energy industry experience, and has advised the Board and Staff during previous BGS Auctions.

¹ Commissioner Christine V. Bator abstained from voting on this matter.

² Approximately two-third of the EDC's BGS-FP requirements are already under contract through May 31, 2007 and one-third through May 31, 2008 as a result of the 2004 and 2005 BGS-FP Auctions.

BGS-CIEP AUCTION SUMMARY

The BGS-CIEP Auction began on February 3, 2006, and ended on February 6, 2006 after 15 rounds with 75 of the EDCs' 118 tranches³ subscribed. For the 2006 BGS-CIEP Auction the bid product was changed from capacity (as it had been since 2003) to the Default Supply Service Availability Charge ("DSSAC"). The DSSAC is meant to represent the administrative cost of providing the service, including the cost of conducting the BGS-CIEP Auction and the cost of compliance with the Board's Renewable Portfolio Standards. A list of the three BGS-CIEP Auction winners is included in Attachment A to this Order.

During the auction, consistent with the Board-approved Auction Rules, the Auction Manager reduced the number of tranches available in order to maintain the competitiveness of the auction⁴. The EDCs will arrange to serve their unsold tranches in a manner consistent with each EDC's Contingency Plan, previously approved by the Board. Costs associated with serving the unsold CIEP tranches will be accounted for consistent with each EDC's previously approved Company-specific Addendum, and subject to review by the Board.

EDC	Closing Price \$/Mwh	Total Tranches Available	Total Tranches Secured
CONNECTIV	\$.3876	13	9
JCP&L	\$.4787	31	20
PSE&G	\$.4981	73	46
ROCKLAND	\$.6500	1	0

The one available Rockland tranche was not secured through the auction. The Board believes that this likely occurred because of the small number of BGS-CIEP customers in Rockland's service territory. The Board accordingly has determined that the Rockland DSSAC should be set at the highest closing price of the other three EDCs, \$.4981/Mwh. Rockland will arrange to provide this service and will account for the difference between costs and DSSAC revenues as a credit or debit to its reconciliation charge.

BGS-FP AUCTION SUMMARY

The BGS-FP Auction began on February 6, 2006 and ended on February 7, 2006 after 17 rounds with all of the EDCs' 54 tranches⁵ secured with the following closing prices for each EDC:

³ A Tranche in the BGS-CIEP Auction is equivalent to approximately 25 Mw.

⁴ In order to determine whether the bidding environment is competitive, the Auction Manager uses a confidential set of guidelines approved by the Board that considers various factors such as the number of bidders, the volume required, the volume offered, and the characteristics of individual bids. No volume reductions are considered after round 10 of the bidding has been completed.

⁵ A tranche in the BGS-FP Auction is approximately 100 Mw.

EDC	Closing Price ¢/Kwh	Total Tranches Available
CONNECTIV	10.399	7
JCP&L	10.044	17
PSE&G	10.251	29
ROCKLAND	11.114	1

A list of the ten BGS-FP Auction winners is included in Attachment A to this Order.

NERA has provided the Board with a confidential final report that includes an in-depth analysis on how the Auctions were conducted, and also includes a post-Auction evaluation form. The analysis in support of accepting the Auction results indicates, in part, that:

- no issues nor questions were left unresolved prior to the Auctions that created uncertainty for bidders;
- no procedural problems nor errors were observed during the Auctions; all communication protocols were followed;
- no hardware nor software problems with the Auctions and communication systems were observed;
- no security breaches were observed during the Auction process;
- all guidelines for setting or changing the Auction parameters were followed;
- there was no evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auctions in a material manner;
- communications between the Auction Manager and bidders was timely and effective;
- there was no evidence that bidders were rushed;
- no complaints were received from the bidders;
- the Auctions were carried out in a fair and transparent manner;
- there was no evidence of collusion nor gaming by the bidders;
- public and sensitive information were treated appropriately;
- there were no factors exogenous to the Auctions that materially affected the Auctions; and
- the Auctions appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP and BGS-CIEP loads.

NERA explains the volume reductions in the BGS-CIEP Auction and indicates that it is consistent with the Auction Rules.

CRA has also provided the Board with a confidential pre-certification report on how the Auctions were conducted, which includes a post-Auction evaluation form. CRA's analysis is consistent with NERA's analysis. CRA also highlights the BGS-CIEP volume reduction and indicates that this will require that the EDCs implement their Contingency Plans to serve their unsecured tranches. Both consultants recommend that the Board accept the final Auction results.

AUCTIONS' FINDINGS AND CONCLUSIONS

The independent NERA and CRA analyses are consistent with each other and indicate that the Auctions proceeded without meaningful interruption, according to the Board-approved Auction Rules, in an acceptably fair and transparent manner and that the Board should certify the Auction

results. Staff assigned to oversee the Auctions has also briefed the Board on the conduct and results of each auction.

After reviewing the reports from NERA and CRA, and discussing the results and conduct of the Auctions with Staff, the Auction Manager and CRA, the Board FINDS that:

- bidders had sufficient information to prepare for the Auctions;
- information was generally provided to bidders in accordance with the published timetable, and the timetable was adjusted appropriately as needed;
- there were no Auction issues or questions left unresolved prior to the Auctions that created material uncertainty for bidders;
- from what could be observed, there were no procedural problems nor errors with the Auctions, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager;
- from what could be observed, communication protocols between bidders and the Auction Manager were adhered to;
- appropriate data back-up procedures were planned and carried out;
- no security breaches were observed during the Auction process;
- from what could be observed, communication protocols among the EDCs, NERA, Staff, the Board, and CRA were followed during the Auctions;
- protocols were followed for decisions regarding changes in the Auction parameters (e.g. volume, load cap, bid decrements);
- the calculations (e.g. for bid decrements or bidder eligibility) produced by the Auction software were double-checked or reproduced off-line by the Auction Manager;
- there was no evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auctions;
- from what could be observed, the communications between the Auction Manager and bidders was timely and effective;
- there were no complaints received from the bidders about the process;
- the Auctions were carried out in an acceptably fair and transparent manner;
- there was no evidence of gaming on the part of bidders;
- there was no evidence of collusion among bidders;
- information was made public in an appropriate manner, and from what could be observed sensitive information was treated appropriately;
- there were no factors exogenous to the Auctions (e.g. changes in market environment) that materially affected the Auctions in unanticipated ways;
- there are no concerns with the Auctions' outcome with regard to any specific EDC(s);
- the Auctions appears to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP and BGS-CIEP loads; and
- the volume reductions in the BGS-CIEP Auction were implemented in accordance with the Board-approved Auction Rules.

The closing prices in the 2006 BGS-FP Auction are, on average, 55% above the closing prices in the 2005 BGS-FP Auction. This will result in increases to BGS-FP residential customers ranging from 12.0% to 13.7%⁶. While the increase in the BGS-FP Auction closing prices and the resultant rate increases are significant and troubling, they appear to reflect the price increases experienced in the underlying fuel markets as well as the uncertainty in these markets on a

⁶ For the average residential customer, beginning June 1, 2006, the monthly electric bill will increase 12.54% for customers of ACE, 12.4% for JCP&L, 13.7% for PSE&G and 12.0% for Rockland.

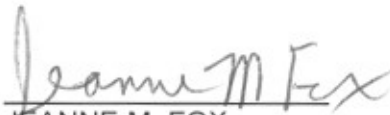
prospective basis. Fortunately, the current rate structure that averages 3 years of auction results has limited the short-term impact on customers for the coming year.

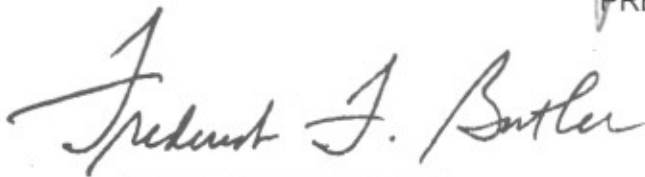
Based on the foregoing, the Board HEREBY CERTIFIES the final results of the BGS-FP and BGS-CIEP Auctions in their entirety and subsequently APPROVES the closing prices for each EDC. As explained herein, service for Rockland BGS-CIEP customers will be provided through Rockland and the Board DIRECTS Rockland to set its DSSAC at \$.4981/Mwh beginning June 1, 2006. Furthermore, the Board ORDERS the EDCs to execute the necessary documents, including the BGS Master Supply Agreements with the winning bidders, to implement the BGS rates resulting from the Auctions beginning June 1, 2006 and to file tariff sheets reflecting those rates by March 1, 2006.

Consistent with past Board practice, the Board is releasing the names of the winning bidders at this time. The Board, however will not, at this time, release the specific tranche and service area details for each successful bidder, so as not to compromise the position of the winning bidders in the marketplace. The Board plans to make this additional information public prior to June 1, 2006.

DATED: 2/23/06

BOARD OF PUBLIC UTILITIES
BY:

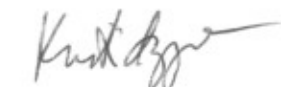

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KRISTI IZZO
SECRETARY

ATTACHMENT A

I/M/O The Provision Of Basic Generation Service For The Period Beginning June 1, 2006 Docket No. EO05040317

Auction Winners Approved by the Board of Public Utilities on February 9, 2006.

BGS-FP Auction Winners

Conectiv Energy Services
Consolidated Edison Energy
Constellation Energy Commodities Group
Energy America
J.P. Morgan Ventures Energy Corp.
Morgan Stanley Capital Group
NRG Power Marketing
PPL EnergyPlus
PSEG Energy Resources & Trade
Sempra Energy Trading Corp.

BGS-CIEP Auction Winners

Constellation Energy Commodities Group
DTE Energy Trading
FPL Energy Power Marketing

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Board of Public Utilities
Basic Generation Service for the Period Beginning June 1, 2006
Docket No. EO05040317
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