

Basic Generation Service (BGS) Load

Statewide Auction Process

October 22, 2020

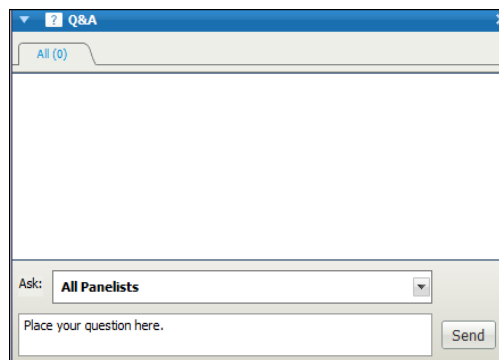
bgs-auction.com

NEW JERSEY STATEWIDE BASIC GENERATION SERVICE ELECTRICITY SUPPLY AUCTION



HOW TO ASK A QUESTION

- **Questions are taken in writing through the WebEx interface:**
 - Locate the “Q&A” on the right-hand side of your screen
 - Select “All Panelists” in the “Ask” box
 - Type in your question
 - Click “Send” to submit your question



DISCLAIMER

- **Disclaimer.**

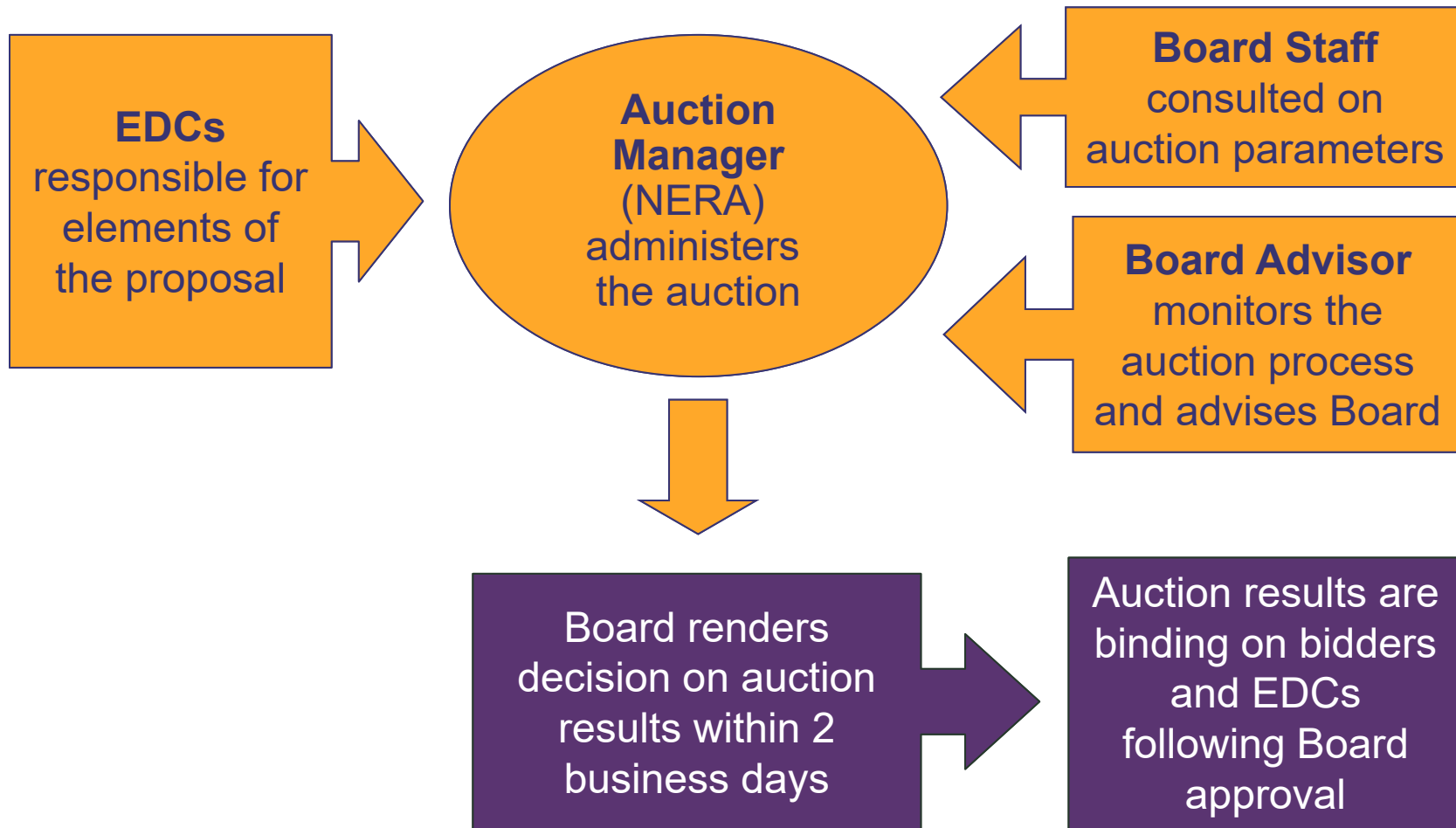
Any statements herein describing or referring to documents and agreements are summaries only, and are **qualified in their entirety** by our reference to the governing documents, which are all of the documents included in the EDCs' July Filing dated July 01, 2020, posted to the *BGS Proceeding page* of the *Auction tab* on the *BGS Auction website*, www.bgs-auction.com :

- **EDCs' Joint Proposal**
- **BGS-CIEP and BGS-RSCP Provisional Auction Rules**
- **BGS-CIEP and BGS-RSCP Supplier Master Agreements**
- **Each EDC's Company-Specific Addendum, including draft tariff sheets and pricing factors**

THE PRESENTATION WILL COVER:

- Roles
- Overview of the EDCs' Proposal (July Filing)
- Products and Rates
- Overview of Bidding in the Auctions
- Auction Process
- BGS Auction Website and Other Sources of Information

ROLES



1. OVERVIEW OF JULY FILING

GOALS OF THE BGS AUCTION PROCESS

Two essential goals of the BGS Auction Process:

- To procure supply for Basic Generation Service (“BGS”) customers at a cost consistent with market conditions
- To enable the participation of a broad spectrum of entities, including energy trading and marketing companies, by aggregating a portfolio of wholesale products and providing price-risk management services

TIMELINE THROUGH PART 1 APPLICATION (REGULATORY MILESTONES)

July 01, 2020	EDCs' Proposal filed
September 04, 2020	Deadline for initial comments
September 11, 2020	Legislative-type Board hearing
October 05, 2020	Deadline for final comments
November 18, 2020 (Expected)	Board decision on BGS proposals
December 15, 2020	Deadline to submit the Part 1 Application

EDCs PROPOSE TWO AUCTIONS

- **BGS-RSCP Auction:** Residential and smaller commercial customers on a stable price
 - Auction determines all-in price in ¢/kWh
 - Suppliers are paid this price for every kWh of load served
 - **3-year supply period: June 1, 2021 to May 31, 2024**
 - **Laddered contracts:** procure approximately 1/3 of supply each year
 - **4 products:** the BGS-RSCP load for each EDC

- **BGS-CIEP Auction:** Larger commercial and industrial customers on an hourly price plan
 - Auction determines a CIEP Price in \$/MW-day that suppliers are paid based on the capacity obligation
 - Suppliers are paid for energy at the real-time hourly spot price and are paid a pre-determined rate for ancillary services
 - Suppliers also paid the CIEP standby fee levied on all CIEP customers
 - **1-year supply period: June 1, 2021 to May 31, 2022**
 - **4 products:** the BGS-CIEP load for each EDC

PROPOSED AUCTION FORMAT IS A CLOCK AUCTION

- **Multi-product** design
 - Procure supply for all EDCs at once
- **Multi-round** design: bidding proceeds in rounds
 - Suppliers state how much they want to supply at prices suggested by the Auction Manager
 - Prices tick down if there is excess supply
 - Suppliers can switch their bids from one EDC to another in a given Auction
- **Auction ends** when the amount bid falls to the amount needed for each of the EDCs
- **Single price** determined through the Auction for each EDC

SUPPLIER OBLIGATIONS SPECIFIED IN BGS SUPPLIER MASTER AGREEMENTS

- Contract is between BGS Supplier and EDC acting as agent for retail customers
- Final Agreements will be approved by Board prior to the Auction and will be **non-negotiable**
- Opportunities for comments during the regulatory proceeding

September 04, 2020

Deadline for initial comments

September 11, 2020

Legislative-type Board hearing

October 05, 2020

Deadline for final comments

THE EDCs PROPOSE TO REMOVE TRANSMISSION FROM THE BGS PRODUCT

- Board Order approving 2020 BGS Auction called for parties to work to resolve the issues in regard to the disparity in timing between BGS Suppliers' payment to PJM for transmission costs and receipt of payment for such costs from the EDCs
- The EDCs are proposing that the EDCs, rather than BGS Suppliers, be responsible **for transmission and transmission-related costs**
- The EDCs are proposing to provide each current BGS Supplier with the option to remove transmission from **existing BGS contracts**
- In a separate proceeding, Staff has requested comments on a potential mechanism for the release of the “collect, don't pay” amounts

BGS SUPPLIERS PROVIDE FULL REQUIREMENTS SERVICE

- BGS Suppliers will be physically and financially responsible for the hour-by-hour provision of electricity to BGS customers
- BGS Suppliers will be the **Load Serving Entities** (“LSEs”)
- BGS Suppliers provide energy, capacity, ancillary services, fulfill the obligations under the Renewable Portfolio Standards, and provide any other services as may be required by PJM

BGS-RSCP: SETTING OF CAPACITY PROXY PRICES

- **Last year:** For the 2020 BGS-RSCP Auction, the Board approved the use of a capacity proxy price for the Delivery Year 2022/23 because the actual capacity price for that delivery year was not known prior to the Auction
- The BGS-RSCP Supplier is paid (or pays) the difference between the rate it pays for capacity and the capacity proxy price in that delivery year
- **This year:** The Base Residual Auctions (“BRAs”) for Delivery Years 2022/23 and 2023/24 are **delayed** and capacity prices for these delivery years not be known at the time of the Auction
- EDCs propose to set **capacity proxy prices** for Delivery Years 2022/23 and 2023/24 and propose to true up to the rate paid for capacity in each of these two Delivery Years

CUSTOMER RATES BASED ON AUCTION PRICES

- The EDCs' rate design allows BGS rates to be market-based and reflect auction prices
 - **BGS-RSCP**: Auction price determines customer rates for an EDC; transmission is charged separately
 - **BGS-CIEP**: Auction determines a final CIEP price which customers pay based on their capacity obligation; customer charged for other components of supply separately
- The rate design is part of the EDCs' Proposal and would be approved in advance by the Board

TIMELINE OF PRELIMINARY POSTINGS AND COMMENT PROCESS

October 22, 2020	Illustrative Part 1 and Part 2 Application Forms posted
October 27, 2020	Deadline for Expression of Interest in Alternate Guaranty Process
October 27, 2020	Deadline to propose modifications to the standard form of the Pre-Auction and Post-Auction Letters of Credit
November 05, 2020	Auction Manager responds to parties proposing modifications to the Letters of Credit
November 09, 2020	Posting of modifications to the Letters of Credit that are acceptable on an optional basis
November 18, 2020 (Expected)	Board decision on Auction proposal
November 20, 2020	Statewide minimum and maximum starting prices announced
December 15, 2020	Deadline to submit the Part 1 Application

OPPORTUNITY TO COMMENT ON LETTERS OF CREDIT

- **Two forms** of draft Pre-Auction Letters of Credit are available for comments on the Contract and Credit page: <http://bgs-auction.com/bgs.bidinfo.cc.asp>
 - Draft **Hardcopy** Pre-Auction Letter of Credit that provides for **hardcopy delivery** of the Pre-Auction Letter of Credit to the BGS Auction Manager
 - Draft **Electronic** Pre-Auction Letter of Credit that provides for delivery to the BGS Auction Manager via **electronic means only**
- Draft Post-Auction Letter of Credit is also available for comment
- Bidders propose modifications by submitting a redline of these documents in Microsoft Word by the deadline of **Tuesday, October 27, 2020**

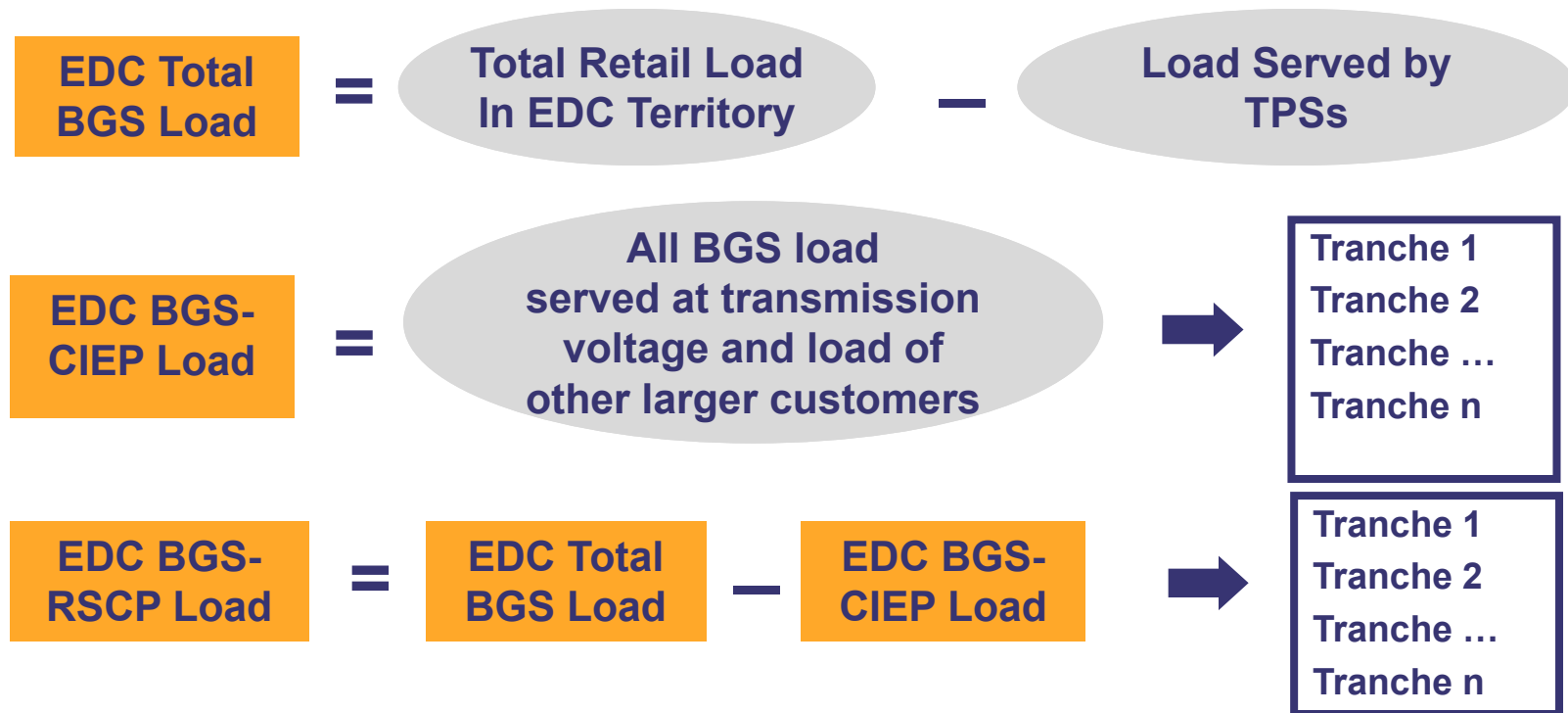
COVID-19

- If emergency measures enacted in the wake of **COVID-19** are maintained through the BGS Auction process, bidders, personnel from the EDCs, and the Auction Manager could be working from home during the application period and the auctions
- Any modifications to procedures will be discussed in detail in the Bidder Information Webcast tentatively scheduled for **Thursday, December 3, 2020**

If you have concerns related to COVID-19 and the BGS Auctions, please send any comments to the BGS Auction Manager by email at BGS-Auction@nera.com

2. PRODUCTS AND RATES

LOAD DIVIDED INTO TRANCHES



- BGS customers are **free to come and go from BGS** with appropriate **notice to the EDC** (13 days before next scheduled meter reading date)
- BGS Suppliers are **Load Serving Entities** for a percentage of an EDC's load

THE BGS-RSCP PRODUCTS

- The RSCP load is expected to be about 5120 MW on an eligible basis
- A **tranche** is a fixed percentage of BGS-RSCP Load for an EDC that represents about 100 MW on an eligible basis
- The EDCs propose a statewide load cap as well as EDC-specific load caps

Tranche Targets and Sizes				
EDC	RSCP Peak Load Share (MW)	Tranche Target	Tranche Size (%)	MW-Measure (MW)
PSE&G	2,611.48	29	1.18	90.05
JCP&L	1,830.67	20	1.93	91.53
ACE	604.58	7	4.55	86.37
RECO	75.68	1	25.00	75.68

BGS-RSCP CUSTOMER RATES BASED ON AUCTION PRICES

- Auction prices determine an average cost for each EDC
 - **Seasonally-adjusted:** average of winter and summer costs
 - **Tranche-weighted:** average of prices from three auctions
- A ratio translates average cost into rate for a particular class:
 - All classes have seasonal rates
 - Some classes also have time-of-day rates
- Customers will also pay an **EDC-specific transmission charge**

BGS-RSCP SUPPLIER ROLE AND RISKS

- Under the EDCs' Proposal, BGS-RSCP Suppliers will provide a **full requirements product** which includes energy, capacity, ancillary services, fulfillment of the obligations under the RPS, and any other services as may be required by PJM
- BGS-RSCP Suppliers for an EDC are **paid the final auction price** for that EDC for each kWh of load served
- BGS-RSCP Suppliers assume the **risks** of providing the full requirements product

Role

- Aggregate supply portfolio from wholesale sources
- Assess and price load variability, market price volatility, and migration risk
- Provide price-risk management services

Risks

- Migration risk
- Load and weather risks
- Longer-term changes to RSCP class composition
- Change to rate design
- Change to RPS

EDCs' PROPOSAL TO SET CAPACITY PROXY PRICES

EDC	2022/23 Capacity Proxy Price (\$/MW-day)	2023/24 Capacity Proxy Price (\$/MW-day)
PSE&G	162.13	166.64
JCP&L	152.06	146.51
ACE	152.06	146.51
RECO	152.06	146.51

- In addition to the auction price, in the 2022/23 and 2023/24 delivery years, winning BGS-RSCP suppliers will be paid (or will pay) the **difference between the rate paid** by BGS-RSCP suppliers for capacity **and the Capacity Proxy Price** for that delivery year
- These additional payments occur only during the applicable delivery year
- These provisions are provided in **Supplements A and B** to the BGS-RSCP SMA

THE BGS-CIEP PRODUCTS

- The CIEP load is expected to be about 3,000 MW on an eligible basis
- A **tranche** is a fixed percentage of BGS-CIEP Load for an EDC that represents approximately 75 MW on an eligible basis

Tranche Targets and Sizes (provisional)

EDC	CIEP Peak Load Share (MW)	Number of Tranches	Tranche Size (%)	MW-Measure (MW)
PSE&G	1,811.15	24	4.17	75.46
JCP&L	846.80	11	9.09	76.98
ACE	311.40	4	25.00	77.85
RECO	56.74	1	100.00	56.74

BGS-CIEP CUSTOMER RATES BASED ON AUCTION PRICES

- Auction determines a final CIEP price which **customers pay** based on their capacity obligation
- **BGS-CIEP Customers also pay:**
 - The real-time **hourly spot price** for energy
 - A pre-determined EDC-specific **ancillary services rate**
 - An **EDC-specific transmission charge**
- All CIEP customers pay the **CIEP standby fee**

BGS-CIEP SUPPLIER REWARDS AND RISKS

- **Supplier** provides full requirements service with energy priced at the real-time market
- **Supplier is paid the auction-determined CIEP price** for the BGS-CIEP customers' capacity obligation, the **CIEP standby fee** levied on all CIEP customers at retail meter, the real-time hourly spot **price for energy** at the EDC zone, and **pre-determined EDC-specific rates** for ancillary services

Rewards

- Stable revenue on entire CIEP customer base via CIEP Standby Fee
- Ability to arbitrage day-ahead and real-time markets

Risks

- Migration risks
- Ancillary services cost risk
- Change to RPS

BGS-RSCP AND BGS-CIEP TRANSMISSION-RELATED COSTS

- The EDCs' have proposed that the EDCs be responsible for payment of **transmission-related costs** to PJM
- The EDCs will collect from their BGS customers the amounts required to meet their transmission payment obligations to PJM through a specific transmission charge
- Transmission-related **PJM Billing Line Items will be transferred from the BGS Supplier to the EDC** as provided in each SMA's Sample PJM Invoice

ID #	Billing Line Item
1100	Network Integration Transmission Service
1108	Transmission Enhancement
1115	Transmission Enhancement Settlement (EL05-121-009)
1930	Generation Deactivation
1932	Generation Deactivation Refund
2108	Transmission Enhancement
2140	Non-Firm Point-to-Point Transmission Service

BGS-RSCP AND BGS-CIEP SMA MODIFICATIONS – OVERVIEW

- Removal of mechanism to **track and pay** amounts for changes in the transmission rate that had received a Final FERC Order (Definitions, Sections 15.9 and 4.3)
- Give **responsibility for transmission to the EDCs** (stated in Section 2.2, Obligations of the Parties)
 - Section 2.7: necessary PJM E-Accounts established
 - Section 9.1 (CIEP only) separate payment for transmission removed
 - Section 9.2: PJM to invoice the EDC for transmission
 - Section 15.9: Parties to make conforming changes to the SMA if changes occur to PJM Agreements
- Various sections: **electronic transmission** of documents (rather than fax)

BGS-RSCP AND BGS-CIEP

COMPLIANCE WITH RPS THROUGH RECs

- BGS Suppliers are responsible for fulfilling RPS during the supply period
 - Compliance with Class I and II requirements and solar must be demonstrated using **RECs** issued by PJM-EIS GATS
 - Suppliers must **register into GATS** and open a Retail LSE Account to be able to transfer RECs and SRECs to the EDCs

SOLAR OBLIGATIONS UNDER CLEAN ENERGY ACT

- BGS contracts executed prior to the enactment of the Act are **exempt** from the increased solar percentage requirement
- The increased solar obligations avoided by exempt BGS contracts in an EY are allocated to non-exempt BGS contracts in the following two EYs
- **For example**, the increased solar obligations avoided by exempt BGS contracts in EY 2021 is made up by non-exempt BGS contracts in EY 2022 and non-exempt BGS contracts in EY 2023
- **Starting with EY 2024**, there are no increased solar obligations to be made up by non-exempt BGS contracts
- Fulfillment of solar obligations for non-exempt BGS contracts will be counted toward the Class I requirement
- The BGS Auction Manager will make available to bidders an example of the calculation of obligations

3. OVERVIEW: BIDDING IN THE AUCTIONS

PROPOSED AUCTION FORMAT IS A CLOCK AUCTION

- **Multi-product** design
 - Tranches for all EDCs are procured at once
- **Multi-round** design: bidding proceeds in rounds
 - Suppliers state how many tranches they want to supply at prices suggested by the Auction Manager
 - Prices tick down if there is excess supply
 - Suppliers can switch their bids from one EDC to another

BGS-RSCP

“Price” is a ¢/kWh all-in price

BGS-CIEP

“Price” is a \$/MW-day CIEP Price

RSCP EXAMPLE: PRICES TICK DOWN WHEN THERE IS EXCESS SUPPLY

Round 1

EDC	Price (¢/kWh)	#bid	#to buy	Excess Supply	Oversupply Ratio
PSE&G	15.000	79	29	50	0.714
JCP&L	15.000	37	20	17	0.243
ACE	15.000	9	7	2	0.036
RECO	15.000	1	1	0	0.000

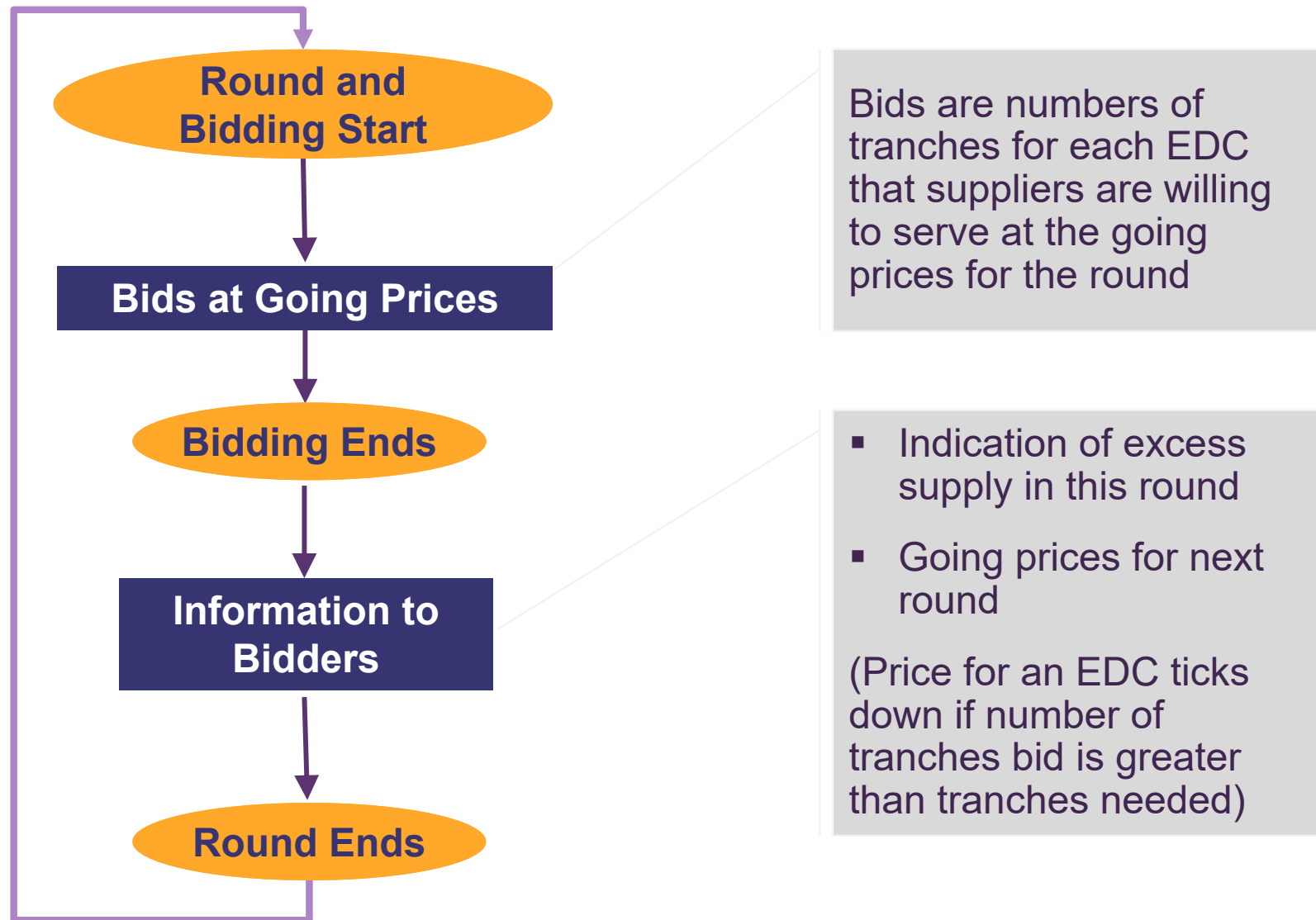
Round 2

EDC	Price (¢/kWh)	#bid	#to buy	Excess Supply	Oversupply Ratio
PSE&G	14.250	61	29	32	0.533
JCP&L	14.550	40	20	20	0.333
ACE	14.775	9	7	2	0.036
RECO	15.000	5	1	4	0.200

FOUR MAIN AUCTION FEATURES

- **Offers are binding:** If the price on an EDC is not reduced in a round, a bidder cannot reduce the number of tranches bid on that EDC
- **Total number of tranches bid cannot increase:** Bidders can maintain or reduce their total number of tranches bid, but bidders cannot increase the total number of tranches bid from one round to the next
- **Auction closes on all EDCs at once:** Winners are determined for all EDCs at once within each auction
- **Uniform price:** All winners on an EDC receive the same price

TYPICAL ROUND



ROUND 1 BID AND POSSIBLE VOLUME REDUCTION

- In round 1, a **bid** is a number of tranches for each EDC
- Volume is reduced if it is necessary to do so to ensure competitiveness of bidding environment
 - Whether an adjustment is necessary is decided on the basis of interest in the first round of bidding
- If volume must be reduced, it is reduced to:
[# tranches bid] / [target eligibility ratio]
- Ensures sufficient tranches bid for each tranche to be procured

BIDDING IN SUBSEQUENT ROUNDS

- **In response to reduced prices, bidders**
 - Leave bids unchanged
 - Or if price for an EDC has ticked down, reduce the number of tranches they wish to provide for that EDC by
 - Withdrawing tranches from Auction
 - Bidding those tranches on one other or several other EDCs (switching)
- Bidders cannot increase the total number of tranches on which they bid

SAMPLE ROUND REPORT FOR BGS-CIEP

- Each bidder also gets an individual report about the bidder's own bids
- A bidder has no information about bids or eligibilities of other bidders

Round Report: Round 5	
Total Excess Supply: 76-80	
EDC	Round 6 Price \$/MW-day
PSE&G	517.50
JCP&L	517.50
ACE	499.55
RECO	499.55

AUCTION CLOSES

- Auction closes on **all EDCs at once**
 - Bidding must have stopped on all EDCs
 - Total excess supply is zero

- **Same final price** for all winners of a given EDC

POST-AUCTION

- **Board renders a decision** on auction results within two business days of close of last Auction
 - The Board has the option of rendering a decision on the results of each Auction at different times
- **If Board accepts results: SMAs executed within three business days of Board decision**
 - If any security is required under the creditworthiness standards of the Agreement, it is posted upon execution of the Agreement
 - Pre-auction security “expires” upon execution of the Agreement
- Power flows on **June 1, 2021**

4. AUCTION PROCESS

BOARD ORDER IS FINAL WORD ON PROCESS

Approved Rules, Agreements, process and terms may be different than presented here

- Board will decide on all aspects of the EDCs' Proposal
- Board Order will determine if EDCs' Proposal is approved or how it may be amended
- **Bidder is responsible** for reading all final documents which will be provided on the BGS Auction website

AUCTION PROCESS: TENTATIVE CALENDAR

Nov 18, 2020 (Expected)	Board Decision on EDCs' Proposal
Nov 20, 2020	Auction Manager announces minimum and maximum starting prices, tranche sizes and load caps
Dec 01, 2020	Part 1 Application made available to Applicants
Dec 15, 2020 By NOON	Part 1 Application deadline (to become a Qualified Bidder)
Jan 14, 2021 by NOON	Part 2 Application deadline (to become a Registered Bidder)
Feb 02, 2021	Auction Manager informs Bidders registered in BGS-CIEP Auction of starting prices
Feb 03, 2021	Auction Manager informs Bidders registered in BGS-RSCP Auction of starting prices
Feb 05, 2021	BGS-CIEP Auction starts
Feb 08, 2021	BGS-RSCP Auction starts

PART 1 AND PART 2 APPLICATIONS

- **Part 1 and Part 2 Applications** will be submitted via two separate online forms
- Returning bidders' login credentials are reissued automatically, but **NEW** bidders must request an account
- **General Requirements of Applications**
 - Provide information
 - Upload supporting documents, including “Inserts” (separate forms in Microsoft Word that Applicants complete and upload to the online form)
 - Make certifications regarding the Auction Rules and SMAs (Final versions of Auction Rules and SMAs are filed to be in compliance with the Board decision on the BGS Proposals)

<https://www.BGS-Application.com>

PART 1 AND PART 2 APPLICATIONS

Part 1 Application

- **Contact Information** for Applicant
- Authorized Representative and Nominees (“**Bidder Team**”)
- Name a **Legal Representative**
- Name a **Credit Representative**
- No state licensing required but BGS Supplier must be **LSE in PJM** by start of supply period
- **Financial Information** for Applicant and Guarantor (if applicable)

Part 2 Application

- **Indicative Offer** (number of tranches at the Minimum and Maximum Starting Prices)
- Provide **Pre-Auction Security** proportional to indicative offer at maximum starting price
- **BGS-CIEP: \$375,000 per tranche**
- **BGS-RSCP: \$500,000 per tranche** (Some Qualified Bidders provide additional security: Letter of Reference or Letter of Intent to Provide a Guaranty)

<https://www.BGS-Application.com>

LETTERS OF CREDIT COMMENT PROCESS TIMELINE

- Potential bidders are invited to **propose modifications to each of the two forms provided**
- Comments (clearly **redlined** in Microsoft Word) must be submitted by email to the BGS Auction Manager at the following address:
BGS-Auction@nera.com
- For **each proposed modification**, the EDCs will
 - Revise the standard form; or
 - Approve the use of the modification on an optional basis; or
 - Reject the proposed modification

October 27, 2020

Deadline to provide comments

November 05, 2020

Potential bidders will receive individual responses to their comments

November 09, 2020

BGS Auction Manager will post all modifications that are acceptable on an optional basis

ALTERNATE GUARANTY PROCESS

- For potential bidders that may have corporate policies that prevent them from using the standard form of guaranty appended to the SMA
- Potential bidders planning to participate in the alternate guaranty process must provide an expression of interest to the Auction Manager by Tuesday, **October 27, 2020**
 - Additional deadlines and requirements will be made available to parties that express interest
- There is a specified **list of minimum requirements** that any alternate form of guaranty must satisfy (<http://www.bgs-auction.com/bgs.bidinfo.cc.asp>)
- In particular, the alternate form of guaranty must be for unlimited liability (while the standard guaranty has a liability limit)

5.

**BGS AUCTION WEBSITE
AND OTHER SOURCES OF
INFORMATION**

BGS AUCTION WEBSITE FEATURES

- **BGS Auction website:** www.bgs-auction.com
- **Announcements** (upcoming deadlines and events)
- **Frequently Asked Questions**
- **Auction documents**
 - Auction Rules
 - Supplier Master Agreements
- **BGS Data Room**
 - Eligible Hourly Load & Eligible Peak Load Allocation
 - BGS Hourly Load & BGS Peak Load Allocations
 - Switching Statistics (data on customer migration when customers switch from taking BGS to taking service from a Third Party Supplier)

BIDDER QUESTIONS

- Questions may be submitted to the Auction Manager
 - Via web form at:
<http://www.bgs-auction.com/bgs.contactus.asp>
 - By email: BGS-Auction@nera.com
- When needed, the Auction Manager will direct questions to appropriate EDC representatives (e.g., data questions)
- Answers will be routed back through the Auction Manager
- Questions and answers are posted to BGS Auction website **on a rolling basis**

PJM WEBSITE IMPORTANT SOURCE OF INFORMATION

- Home page:
<http://www.pjm.com/>
- Reliability Pricing Model
<http://www.pjm.com/markets-and-operations/rpm.aspx>
- PJM OASIS
<http://www.pjm.com/markets-and-operations/etools/oasis.aspx>
- PJM-EIS GATS
<http://www.pjm-eis.com>

HOW TO ASK A QUESTION

- **Questions are taken in writing through the WebEx interface:**
 - Locate the “Q&A” on the right-hand side of your screen
 - Select “All Panelists” in the “Ask” box
 - Type in your question including the relevant slide number
 - Click “Send” to submit your question

