
IN THE MATTER OF THE PROVISION OF
BASIC GENERATION SERVICE
FOR THE PERIOD BEGINNING JUNE 1, 2010

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Docket No. EO09050351

Public Service Electric and Gas Company, Jersey Central Power
& Light Company, Atlantic City Electric Company, and Rockland
Electric Company

**PROPOSAL FOR
BASIC GENERATION SERVICE
REQUIREMENTS TO BE PROCURED EFFECTIVE
JUNE 1, 2010**

July 1, 2009

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I. INTRODUCTION

The New Jersey electric distribution companies (“EDCs”) – Public Service Electric and Gas Company (“PSE&G”), Jersey Central Power & Light Company (“JCP&L”), Atlantic City Electric Company (“ACE”), and Rockland Electric Company (“RECO”) – first filed a joint proposal for the procurement of electric power for basic generation service (“BGS”) customers on July 1, 2001. On December 10, 2001, after allowing various stakeholders to comment and holding public hearings, the New Jersey Board of Public Utilities (“BPU” or “Board”) approved the EDCs’ joint proposal to implement a statewide simultaneous descending clock auction (“clock auction”). The first BGS clock auction was held in February 2002. In the ensuing years, the EDCs have jointly filed an annual auction proposal to procure BGS Supply, which has been consistently approved by the Board and successfully implemented through the combined efforts of the Board, its Staff, the Auction Manager, the Board’s Advisor, and the EDCs. Since 2002, the annual energy auctions created and administered by the New Jersey BPU have been used to efficiently meet the demand of BGS customers.

In the instant filing, the EDCs present their proposal for a ninth BGS Auction to be held in February 2010 and explain how the Auction Process remains uniquely suited to procuring supply for customers that remain on BGS.

II. GOALS OF THE BGS PROCUREMENT PROCESS

The BGS Auction Process has benefited New Jersey customers, and the EDCs review below why the BGS Auction Process continues to best meet the interests of New Jersey customers. The starting point of the explanation is a review of the goals of the BGS procurement process. In the Electric Discount and Energy Competition Act of 1999 (“EDECA”), the Legislature found and declared that it is the policy of the State, consistent with other important policy objectives, to rely upon competitive markets, where such markets exist, to deliver energy services to consumers (N.J.S.A. 48:3-50.a(2)). To accomplish these policy objectives, EDECA directed the Board to implement “retail choice.” Retail choice allows retail electric customers to be given the choice of shopping directly for their electric service or opting not to shop and to receive BGS.

EDECA is quite clear on the subject of power procurement for BGS: “Power procured for basic generation service by an electric power supplier shall be purchased at prices consistent with market conditions.” (N.J.S.A. 48:3-57.d). The same section goes on to note that “charges assessed to customers for basic generation service shall be regulated by the Board, and shall be based on the reasonable and prudent cost to the supplier of providing such service, *including the cost of power purchased at prices consistent with market conditions, by the supplier in the competitive wholesale marketplace.*” (Emphasis added.) BGS is a regulated *market-priced* service.

The goal of having BGS reflect market conditions and competitive power market prices not only is consistent with EDECA, but also is consistent with several other important objectives. Retail choice can only develop and proliferate efficiently if the alternative to retail choice – BGS – is efficiently priced.¹ As currently structured by the BPU, the BGS Auction Process ensures that BGS is efficiently priced. The BGS product is a full requirements product. Suppliers bear and include in their price a wide variety of risks including load variability, market volatility, fuel price increases, migration, and changes in the PJM marketplace. These risks are not managed by regulation; rather, these risks are managed by competitive entities that can employ creative risk management strategies. Hence, the price that retailers compete against is the risk-adjusted price of competitive BGS suppliers providing full requirements service. A market price means the best or lowest market price that can be reasonably obtained, a price that will vary with market conditions including conditions in world energy markets. This is exactly what EDECA intended.

Intrinsic characteristics of the customer classes must also be considered in an examination of the appropriate BGS procurement process. In implementing the BGS Auction Process, the Board recognizes that some customer classes are able to understand the risks of price movements in competitive power markets and will be able to absorb risks or contract for the management of those risks. On the other hand, other customer classes may neither

¹ “Efficient proliferation of retail choice” should not be confused with artificially stimulating retail choice or maximizing switching. Rather, efficient proliferation of retail choice occurs when Third Party Suppliers (“TPSs”) are able to offer added value that can induce customers to switch away from a market-priced BGS offering.

understand nor be able to manage these price risks in a way that yields a more economical result than the BGS offering.

In this regard, the BGS-FP product is designed to provide residential customers and smaller commercial and industrial customers with fixed-price BGS that reflects competitive, market-based costs for a price-risk managed service. While it is entirely appropriate that such customers receive a stable market price, larger, more sophisticated, commercial and industrial customers can react to real-time electricity price signals to facilitate demand response and can contract for price-risk management in the competitive market. The BGS-CIEP product, which reflects hourly real time energy prices, has been implemented for such larger, more sophisticated customers.

These broad policy goals of the BGS procurement process are reflected in and expanded upon by a number of specific goals that apply to the BGS procurement process:

- To obtain reliable supply on behalf of BGS customers, at prices consistent with market conditions.
- To establish a fair and transparent competitive process that will maximize participation. The process should be transparent in terms of the requirements for participation, the supply contract, the retail rates that will result from the auction, and the manner in which final auction prices are determined and in which winners emerge at the auction. The process should be fair and transparent in terms of providing timely and equal access to information for all bidders.
- To allocate supply responsibility efficiently over the loads of the multiple EDCs. An efficient allocation of supply helps to ensure that prices best reflect the market, so that any market perceptions regarding differences in serving various EDCs are reflected in the prices.
- To have competitive entities take, manage and price BGS risks. BGS is a price-risk management service where competitive entities assemble supply components in the competitive power market, and assess and price these risks.

This ensures that customers obtain the full benefits of competition by opening the price-risk management function to competitive discipline.

- To implement BGS at market rates that reflect customer class, seasonal and time-of-day market differences in order to encourage efficient consumption and conservation decisions, and in order to encourage the development of efficient retail competition. BGS rates should also minimize customer switching in response to rate design inefficiencies.
- To minimize customer confusion by presenting customers who stay on BGS with the appropriate type of retail rate structure and design.
- To design a BGS product consistent with the ability of various customer classes to react to price and manage energy price risks.
- To preserve the financial integrity of the EDCs. BGS costs and revenues exceed 60% of total EDC cost and revenues. BGS costs are an order of magnitude greater than EDC earnings. It is imperative that the BGS process protects the financial integrity of the EDCs.

III. THE ESTABLISHED BGS AUCTION PROCESS IS UNIQUELY SUITED TO THE GOALS OF BGS PROCUREMENT

The Board's BGS Auction Process fully specifies and provides structure to all necessary aspects of a procurement process. In addition, all of the elements of the BGS Auction Process work together to achieve the goals identified in and flowing from EDECA's mandate. The remainder of this section discusses briefly how the principal elements of the BGS Auction Process work together to achieve these goals.

A. Product Definition

The BGS Auction Process defines the product as a full requirements product. BGS suppliers are responsible for serving a percentage of an EDC's default service load, whatever that load may be at any given point in time. Bidders compete to serve BGS customers by striving to be the best at assembling supply components (energy, capacity, renewable attributes, etc.) in the competitive power market, and at assessing and pricing the risks associated with serving a percentage of BGS load. Having a full requirements product places the portfolio acquisition and price-risk management function in the hands of the competitive entities that can most efficiently carry out these tasks. The full requirements product is designed so that all aspects of BGS Supply that can be provided through the competitive market, including risk assessment and management, are provided and priced through the competitive market. The full requirements product is fully consistent with EDECA's preference for reliance on competitive forces. The full requirements product also obtains a full service price for BGS that serves as an efficient competitive benchmark for efficient retail choice and enables potential BGS suppliers to bid with knowledge as to what retail rates will result from the auction. The full requirements product thus also encourages the development and efficient working of competitive retail markets.

Currently, the full requirements product is procured separately for residential and smaller commercial and industrial customers (the "BGS-FP product") and for larger commercial and industrial customers (the "BGS-CIEP product"). The BGS-FP product is procured on a three-year rolling portfolio and the BGS-CIEP product is procured on an annual basis. The use of an appropriate term structure enables smaller commercial and residential

customers to benefit from a stable yet market-based rate that is appropriate for these customers, consistent with EDECA, and helps to minimize customer confusion. Providing larger customers the certainty of a fixed price for capacity, RPS compliance and ancillary services also helps to minimize customer confusion and provides for an environment where the retail offerings can develop efficiently. This dual structure provides appropriate stability and a hedge against volatility for each customer type, and achieves the goal of designing a product that is consistent with the ability of various customer classes to react to price and manage energy price risks.

B. Auction Format

The BGS Auction Process solicits bids through a clock auction: a multiple round process with dynamic information feedback. Bidders submit bids each round as prices tick down, and each round bidders get information about how the market views the auction opportunity. On the basis of that information, bidders have an opportunity to revise their bids, and switch their bids from one EDC to another. The information that bidders receive during the BGS Auction reduces the uncertainty that bidders face and leads to more aggressive bidding. In this way, the BGS clock auction format encourages competitive bidding and efficient market prices consistent with EDECA. The fact that bidders can switch from one EDC to another means that any price differences among the EDCs reflect the market's view of differences in the cost to serve each EDC's BGS load. Hence, the BGS Auction achieves efficient relative prices and an efficient allocation of supply responsibility among the EDCs. As explained later in greater detail, the BGS Auction also provides a large degree of transparency as all bidders understand how prices are determined and how winners emerge. This transparency encourages participation and further helps obtain reliable supply at prices consistent with market conditions.

C. Competitive Safeguards

In addition to the fact that a clock auction format promotes competitive bidding, several competitive safeguards are part and parcel with the BGS Auction Process: (i) the Association

and Confidential Information Rules; (ii) the setting of load caps; and (iii) the ability to reduce the volume at the auction.

The Association and Confidential Information Rules ensure that bidders independently and vigorously compete against each other at the auction, resulting in competitive bidding, and leading to the procurement of reliable supply at an efficient market price. Additionally, the Association and Confidential Information Rules ensure that the bidders' confidential information is properly kept confidential so that participation in the BGS procurement process does not damage or hinder any other market activities that the bidder undertakes. Through its Auction Orders, the Board has consistently upheld the confidentiality of bidders' information as an exception to OPRA. Bidders' certainty that their competitively-sensitive information will be protected as confidential encourages participation. Robust participation in turn leads to efficient market prices.

The load cap limits the number of tranches that a bidder can bid and win at the auction. This competitive safeguard not only controls the ability of any entity to unduly influence the auction clearing price but also provides for needed diversity in the pool of BGS suppliers. This diversity limits the exposure of the EDCs and their customers to the credit risk of any one entity, providing reliable supply sources to BGS customers.

D. Qualification Procedures

The BGS Auction Process provides for a standardized qualification process. As part of the qualification process, all prospective bidders must accept in advance the terms of a form of master contract between the BGS supplier and the EDC acting as agent for its customers, and the terms of the auction rules under which BGS is procured. All prospective bidders also must meet standard credit provisions, which ensure that customers receive the benefit of the BGS bargain in terms of reliable service for the term of the contract. The standard contract terms, qualification process, credit terms, and the price-only basis for the evaluation of bids, directly contribute to the transparency of the process as bidders understand the terms under which they participate in the BGS process. These features also contribute to the fairness of the process. Once a prospective supplier has been qualified, and registered as a bidder, its bids are evaluated on a price-only basis, which ensures that all bidders compete on a "level playing field." The

transparency and fairness of the process encourage maximum participation, and maximum participation is what leads to efficient market prices.

E. Rate Design

The BGS Auction Process features a method for translating the auction closing prices into retail rates. For residential and smaller commercial and industrial customers, the rate design methodology properly reflects time-of-use pricing differentials. For larger commercial and industrial customers, the rate design methodology reflects energy prices at the hourly market. In both cases, the methodologies employed provide the proper benchmarks to advance the goal of efficient retail pricing and development of competitive retail markets. The EDCs specify and communicate the rate design methodology to bidders in advance of the auction. Thus, the bidders can properly assess the risk in serving BGS load, reducing bidders' uncertainty and encouraging participation in the process.

F. Roles

The EDCs, the BGS Auction Manager, Board Staff, and the Board's Advisor all have clearly defined roles that allow them to contribute to the management of the BGS procurement process. The EDCs file with the Board their procurement proposal each year, provide bidders with data and documents needed to prepare their bids, assess the financial and creditworthiness qualifications of suppliers, support the promotion of the auction opportunity, and manage the contracts with BGS suppliers on behalf of their customers. These activities maximize the participation in the process and ensure efficient market prices. The Board considers the procurement proposal as well as accounting, contingency plans, and cost recovery. Approval of these items helps to further the goal of protecting the financial integrity of the EDCs.

The BGS Auction Manager serves as a single point of contact for bidder questions and concerns, maintains a web site through which bidders are kept informed about the process, ensuring the fairness of the process by providing equal access to information for all bidders. Additionally, the BGS Auction Manager manages the qualification procedure and the bid process. Board Staff and the Board Advisor monitor the entire process and monitor the bids

round by round. This oversight further enhances the fairness and the transparency of the process, promoting participation.

Further, the BGS Auction Manager and the Board's Advisor each submit a report to the Board promptly at the close of the auction so that the Board can be in a position to evaluate whether the process was competitive and whether the process was conducted as approved. The Board has in the past committed to make this assessment within two business days. This prompt Board review of auction results enables suppliers to give their best bids and contributes to the goal of obtaining reliable supply at prices consistent with market conditions. The way in which the BGS Auction Process is managed and the oversight provided by the Board and its Advisor are important factors in its success and in the ability of the process to meet its goals.

IV. ISSUES RAISED BY BOSTON PACIFIC

In its Post-Auction Final Report dated March 27, 2009 (the “Final Report”), Boston Pacific Company, Inc. (“Boston Pacific”) suggested that the EDCs consider several changes to the BGS Auction Process. The EDCs address these suggestions in this section. Further, the EDCs address the retail margin.

A. Credit Levels

In the Final Report, Boston Pacific notes that, given the overall tightening of the credit markets, the EDCs might consider altering the credit requirements for suppliers in the BGS-FP Auction, especially the provision that requires BGS-FP suppliers to post additional credit when projected future electricity prices rise above the winning auction prices. Specifically, Boston Pacific recommends consideration of the following two changes: “(a) putting a total cap on the amount of collateral any bidders must post and/or (b) increasing the amount of unsecured credit offered to highly-rated firms.” Boston Pacific does acknowledge that requiring suppliers to post additional credit while increasing costs to suppliers does serve as a protection to ratepayers.

As in every BGS proceeding, the EDCs are willing to entertain and discuss recommendations to improve the BGS Auction Process, including changes to the credit provisions of the BGS-FP Supplier Master Agreement. However, after considering these changes, the EDCs believe that they are ill-advised at this time.

The EDCs strongly believe that it is essential that for each BGS supplier to be responsible for collateral sufficient to meet their entire obligation. This is the only way to ensure that customers will receive the benefit of the fixed-price bargain. Absent such security, BGS suppliers, who may be subsidiaries of large companies but may not be well capitalized themselves, could either renege on their deal or default during times of high market prices. In both cases, customers are left without supply precisely at the time when prices have risen and replacement is expensive. Despite the market volatility over the past eight years, there has never been a BGS supplier default and customers have consistently received the fixed prices obtained in the auction. This demonstrates the success of the credit provisions. It would be a

mistake to allow for a cap on collateral requirements as the cap would take effect at the time when prices are at or near their highest. This is when the risk of default and customers bearing the losses is highest. For these reasons, the EDCs do not recommend a cap on collateral. There is no certainty of significant costs savings and the risks are too high.

With respect to the second change to consider, that the credit limit be raised for highly rated suppliers, the EDCs do not believe that it would be prudent to do so at this time. Over the past year, many “highly rated” entities such as Lehman Brothers, Merrill Lynch, and AIG have gone from entities with stellar credit ratings to sub investment-grade ratings or, in Lehman’s case, to bankruptcy. This is not the time to place unquestioned reliance on credit ratings. The cap on credit is a protection against changes in conditions not knowable and is a prudent credit risk management tool. The EDCs believe that lifting the cap should not be considered until the current market turmoil is clearly behind us. Additionally, it is necessary to recognize that creditworthy BGS suppliers actually receive two amounts of unsecured credit under the BGS-FP Supplier Master Agreement: one for the Independent Credit Requirement and another for the Mark-to-Market exposure.

Given these arguments and current credit market conditions, the EDCs recommend that the credit provisions remain unchanged.

B. Impact of Weekly Settlement

Boston Pacific also proposes that the BPU investigate the effect of PJM’s move to a weekly settlement process on supplier costs. Boston Pacific states that a weekly settlement process at PJM could create “a credit need” for suppliers, possibly affecting prices. Boston Pacific recommends that the EDCs consider changing the Supplier Master Agreement to weekly settlement as a possible remedy.

The EDCs recommend against changing the Supplier Master Agreements from a monthly to a weekly settlement. There are several reasons why the EDCs recommend against this change. First, the EDCs acknowledge that there is a mismatch in the cash flows, i.e., receivables and payables, for a BGS supplier under PJM’s new weekly billing settlement, where the suppliers are paid monthly by the EDCs according to the current Supplier Master Agreements and where suppliers pay PJM on a weekly schedule at least for a portion of their

supply. This mismatch creates working capital costs for suppliers since suppliers must pay PJM in advance of being paid by the EDCs. The working capital costs derived from this mismatch cannot be eliminated. If the EDCs paid the suppliers on a weekly basis, these costs and the mismatch would simply be shifted to the EDCs since customers pay the EDCs on a monthly billing cycle. The inherent mismatch is that customers pay monthly while suppliers incur costs at PJM on a weekly basis for a portion of their supply.

The EDCs believe that suppliers are better suited than the EDCs to minimize the working capital costs for several reasons. First, the EDCs have close to 100% of their revenues on a monthly billing cycle and would require substantial working capital to pay suppliers on a weekly basis. In contrast, suppliers are paid monthly but they do not have to pay 100% of their costs on a weekly schedule. While the EDCs do not have specific knowledge of how suppliers assemble their portfolios to supply BGS, it is reasonable to assume that they do not rely on PJM markets for all of their supply. BGS suppliers may have a variety of supply contracts in their portfolio. There is no reason to believe that these underlying supply contracts are settled weekly. Second, PJM's move to weekly settlement offers an advantage to the BGS suppliers that is not available to the EDCs. With weekly settlement, suppliers have lower PJM bills and thus need less credit with PJM. This credit cost savings works as an offset to any increase in working capital costs that a supplier may face. Further, BGS suppliers are in a position to quantify the working capital cost effectively and include these expenses in their bid. All other things being equal, winning bidders would be those with the lowest cost of capital. Third, the EDCs believe that moving to weekly settlement for some and not all of its executed BGS Supplier Master Agreements may create administrative costs associated with having different SMAs settled on different schedules. This increases the costs for accounting and billing and means that not all suppliers will be treated equally. Finally, the EDCs note that contracts for BGS-type service in other states have retained monthly billing provisions in the face of weekly settlements in both PJM and the Midwest ISO. The Midwest ISO currently settles weekly, but BGS-type contracts used by the FirstEnergy Ohio utilities and by Penn Power have all relied on contracts with monthly settlement.

V. THE RETAIL MARGIN

The Board instituted a retail margin (“RM”) of 5 mils per kWh for BGS-CIEP customers in 2003. In 2004, the Board expanded the RM to apply to BGS-FP customers over 750 kW. The EDCs suggest that the Board reevaluate the RM. On a statewide basis, about 85% of BGS-CIEP load and about 70% of BGS-CIEP customers have switched to TPSs. These switching levels have been relatively constant for the past five years. The RM has encouraged switching and more importantly jump-started a base of competitive TPSs, ensuring that customers have choice.

There are several reasons that the Board may want to move to reduce, phase-out, or eliminate the RM at this time. First, with switching levels stable for BGS-CIEP customers it seems clear that the customers who have not switched are unlikely to do so in large numbers. Second, the RM has served its purpose. Large customers in New Jersey have a wide array of competitive TPSs to choose from. The incubating purpose of the RM has been realized and it is no longer required. Third, at this point the RM may well be a deterrent to customers electing hourly pricing. A customer who may want hourly pricing and the ease of accessing the hourly market through BGS-CIEP will have to pay the RM. This may well discourage such a customer from electing BGS-CIEP and from taking hourly service. Hence, the RM may be discouraging price responsive hourly load.

The experience with respect to BGS-FP customers over 750 kW is more difficult to evaluate as even with the RM, BGS-FP prices have been well below the market. However, as market prices have recently dropped, the EDCs are seeing substantial switching among these customers as well. The base of TPSs developed over time by the RM and BGS-CIEP pricing seems more than adequate to support switching in this group. For these reasons, the EDCs believe it is time to reevaluate the RM. In sum, there are sound reasons to eliminate the RM or at least to begin a phase-out through a reduction in the level of the RM.

VI. OVERVIEW OF THE EDCS' PROPOSAL FOR THE 2010 AUCTION

The EDCs have again worked together to develop a detailed proposal for the competitive bidding to procure BGS Supply that builds on the experience of prior BGS Auctions. The EDCs' proposal for the BGS competitive bidding process for the supply period beginning June 1, 2010 ("2010 BGS Auction") is summarized below.

A. BGS – Fixed Price ("BGS-FP")

1. BGS-FP procurement offers will be solicited through a statewide Auction Process that simultaneously seeks offers for all BGS-FP Load in the State. Appendix B, the BGS-FP Auction Rules, further describe this Auction Process.
2. The BGS-FP Auction will seek offers for the supply of full requirements tranches of each EDC's BGS-FP Load for a three-year period. For each EDC, tranches in the 2010 BGS-FP Auction will be identical and uniform and will represent a fixed percentage of that EDC's total BGS-FP Load. Approximately two-thirds of the EDCs' BGS-FP Load for the period from June 1, 2010 through May 31, 2011 was secured through the 2008 and 2009 BGS-FP Auctions. Therefore, approximately one-third of the EDCs' BGS-FP Load will be procured for the BGS supply period beginning June 1, 2010. Following a successful Auction Process, the EDCs will have under contract one-third of their total BGS-FP Load with a remaining contract term of one year (the "2008 BGS-FP Auction tranches"), one-third of their total BGS-FP Load with a remaining contract term of two years (the "2009 BGS-FP Auction tranches"), and one-third of their total BGS-FP Load for a term of three years (the "2010 BGS-FP Auction tranches").
3. The EDCs will use a multiple round descending clock auction to procure BGS-FP Supply. In a round, bidders will state how many tranches they wish to serve of an EDC's BGS-FP Load at the price in that round. The going price will decrease each round in which there is excess supply, and the BGS-FP Auction will end when the amount proposed to be supplied is equal to the amount the EDCs wish to procure. There will be a single clearing price for each EDC's BGS-FP Load that will apply to all tranches for that EDC procured in this Auction. Using multiplicative factors, payments

to bidders will be shaped to reflect seasonal cost differences: from June through September, payments will be shaped by the use of a summer multiplicative factor on the Auction price, and payments for the remaining months will be shaped by the use of a winter multiplicative factor.

4. A rate design methodology that accounts for supply procured in prior Auctions will be used to translate final Auction prices into BGS-FP customer rates for one year beginning June 1, 2010. The EDCs' rate design proposals are detailed in each EDC's Company Specific Addendum. Bidders will be provided with a spreadsheet that converts final Auction prices into customer rates. This will enable bidders to assess migration risk at various price levels. BGS-FP rates will reflect market-influenced seasonality and time-of-day use, where appropriate and feasible, in order to provide efficient price signals.
5. The rate design methodology and seasonal payment factors have been developed this year using the same methodology that EDCs have applied over time. This methodology uses the current 12-month forward energy prices. The methodology also uses actual RPM and transmission prices that are not seasonal. The current pattern of prices results in rates and seasonal payments factors that would be slightly lower in the summer months than in the winter months. This reflects current market conditions and natural gas seasonality, which has higher winter prices, as well a continuing upward natural gas price trend over time. Although different from the typical pattern, the methodology is sound and reflective of the market. The EDCs will monitor these data and factors and present updated factors to the Board at the September hearing. If the updated factors still show that summer will be lower than winter, the EDCs may suggest to the Board that the factors for this year be set at 1.0 for both summer and winter so as to avoid using an atypical result from the current 12-month forward prices for the three years of the BGS-FP contract.
6. To ensure supplier diversity, each EDC will have a load cap for its BGS-FP Load ("EDC load cap"). An EDC load cap is a maximum number of tranches that a bidder can win in the auction for that EDC. In addition, there will be a statewide load cap that

limits the aggregate amount of BGS-FP Load for all EDCs that can be won by any bidder.

C. BGS – Commercial and Industrial Energy Pricing (“BGS-CIEP”)

The EDCs proposal for the 2010 BGS-CIEP Auction can be summarized as follows:

1. The EDCs propose a multiple round descending clock auction to procure BGS-CIEP Supply. BGS procurement offers will be solicited through a statewide Auction Process that simultaneously seeks offers for all BGS-CIEP Load in the State. Appendix A, the BGS-CIEP Auction Rules describes this Auction Process.
2. The BGS-CIEP Auction will seek offers for the supply of full requirements tranches of each EDC’s BGS-CIEP Load. For each EDC, tranches will be identical and uniform and will represent a fixed percentage of that EDC’s total BGS-CIEP-eligible Load based on a tranche size of 75 MW of BGS-CIEP-eligible Load. The procurement term for BGS-CIEP load will be one year with the BGS-CIEP Supply period beginning on June 1, 2010.
3. The EDCs propose that the BGS-CIEP Auction determine the BGS-CIEP Price, as in the 2008 and 2009 BGS-CIEP Auction. This Price will be paid to bidders on the basis of the capacity obligation of customers. The EDCs propose, consistent with the 2008 and 2009 BGS-CIEP Auctions, a pre-specified ancillary service component of \$6.00/MWh.
4. There will be a statewide load cap that limits the aggregate amount of BGS-CIEP Load for all EDCs that can be won by any bidder.
5. For BGS-CIEP tranches, rate schedules will specify the EDC BGS-CIEP charges resulting from the final BGS-CIEP Auction Prices as a per kW or per kWh rate, a per kW or per kWh rate for the transmission obligation, a pre-specified per kWh rate for ancillary services, and a provision to pass through the hourly PJM real-time energy price. All CIEP customers will be charged the CIEP Standby Fee, which the EDCs propose be set at \$0.00015.

6. BGS-CIEP suppliers will receive a proportional share of revenue, comprised of five elements: (i) the pre-specified CIEP Standby Fee for sales made to all CIEP-eligible customers at the customer meter, (ii) the daily BGS-CIEP capacity obligation times the BGS-CIEP Price determined at the BGS-CIEP Auction, (iii) the daily BGS-CIEP transmission obligation times the transmission rate, (iv) the hourly BGS-CIEP Load at the EDC's PJM zone bus times the zone hourly PJM spot price, and (v) the pre-specified ancillary services rate times BGS-CIEP sales adjusted for losses.

BGS-FP and BGS-CIEP

1. Each BGS supplier will be required to assume PJM Load Serving Entity ("LSE") responsibility for the portion of BGS Load (whether BGS-CIEP or BGS-FP) served by that supplier. In accordance with the PJM Agreements, BGS suppliers will be physically and financially responsible for the day-to-day provision of electricity to BGS customers. This full-requirements service includes the provision of capacity, energy, transmission, ancillary services and any other services as may be required by PJM. The LSE obligations of each BGS tranche are subject to uncertainty and bidders will be required to manage this uncertainty. All BGS customers are free to come and go from the BGS service, provided that they give notice at least 20 days before their next scheduled meter reading.
2. The detailed commercial terms and conditions under which the BGS supplier will operate will be set forth in the BGS Supplier Master Agreements. The BGS Supplier Master Agreements are designed to govern the interaction of each EDC and the BGS suppliers during the period when the BGS supplier is serving BGS Load. The BGS Supplier Master Agreements for BGS-CIEP and BGS-FP, as proposed by the EDCs and subject to Board approval, are attached to this filing as Appendices C and D.
3. The EDCs have developed contingency plans, tariff sheets and accounting and cost recovery proposals that are detailed in their respective Company Specific Addenda. These are essential elements of the EDCs' Auction proposal, and the EDCs request that the Board review and approve these elements of the proposal.

4. The Board will render a decision on the Auction Process and render a decision on the Auction results. Under the proposed Auction Process, the Board will approve or reject in their entirety the results of the BGS-FP Auction and, separately, the results of the BGS-CIEP Auction by the end of the second business day following the day on which the last Auction closes. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and of rendering a decision on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress.
5. The bids at the Auctions will represent binding commitments on behalf of bidders and full acceptance of all contract terms. Upon Board approval, Auction results will be a binding commitment on the EDCs and the winning BGS suppliers.

VII. CONDUCT OF THE AUCTIONS

In this section, the EDCs explain particular aspects of the conduct of the 2010 Auctions. There are no changes from prior Auctions. The roles of the Board, the Board Advisor, the EDCs and the Auction Manager are explained. In addition, the EDCs' proposal for continued confidentiality of sensitive Auction information is presented. Finally, a preliminary timeline for the Auction Process is provided.

A. The Roles of the Board, the Board Advisor, the EDCs and the Auction Manager

1. The Role of the Board and the Board Advisor

Past Auction Processes have proven successful in achieving the benefit of market-based prices for BGS supply. The EDCs believe that it is appropriate for the Auction Process to be similar to that approved in the previous Auctions.

The EDCs believe that the Board should again play a substantial role in the 2010 BGS Auctions. Specifically, the EDCs respectfully recommend that the Board and the Board Advisor be responsible for the following activities:

- The Board will approve the Auction Process set forth in this Proposal, the Auction Rules, and the EDCs' Company Specific Addenda;
- The Board will approve the BGS-CIEP Supplier Master Agreement and the BGS-FP Supplier Master Agreement;
- The Board Advisor will oversee the conduct of the Auctions and brief the Board during the Auction Process; and
- The Board will render a decision on final Auction results by the end of the second business day following the day on which the last Auction closes. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress.

2. The Role of the EDCs

It is important for the EDCs to work with the Board and with other parties to design a process that assures that supply for BGS customers is procured at a cost consistent with market conditions, that there is a smooth and seamless transfer of BGS supply from the prior year's suppliers to suppliers for the supply period beginning June 1, 2010, and that adequate protections are in place to assure that the BGS suppliers are physically and financially reliable.

In that regard, the EDCs believe that it is appropriate for the EDCs to continue to assume the previously-approved logistical responsibilities that include:

- Retention of an Auction Manager to administer the Auction;
- Development of the Auction Process, which is presented to the Board in this filing;
- Promotion of the Auctions in conjunction with the Auction Manager;
- Supply of the data and other key information that the suppliers would use to prepare their bids and that will be made available through an Auction web site maintained by the Auction Manager;
- Provision of follow-up technical support to the Auction Manager in response to specific questions received from bidders and potential bidders with respect to the data and Auction Process information and pre-Auction information packages;
- Development of the BGS Supplier Master Agreements and instruments for financial guarantees;
- Review and approval of financial qualifications, including review of alternate guaranty forms; and
- Execution of the BGS Supplier Master Agreements on behalf of their customers.

In addition, the EDCs propose to (continue to) fund the Board's retention of an independent Board Advisor to oversee the BGS Auctions under the Board's supervision and to advise the Board with respect to interim and final approvals. As in years past, the cost of the independent Board Advisor will be recovered through the tranche fees paid by winning bidders.

3. The Role of the Auction Manager

The EDCs will retain an Auction Manager to administer the Auctions. The Auction Manager will be responsible for day-to-day administration, for dissemination of information about the Auction Process. Further, if necessary, the Auction Manager will be responsible for the development of software that will implement the rules of the Auction.

The Auction Manager would be primarily responsible for the following tasks:

- Setting up and maintaining a web site for the dissemination of Auction information to stakeholders. This Auction information includes application deadlines and information session dates, as well as the information packages prepared by the EDCs and the Auction Manager;
- Receiving queries from interested parties, directing the questions to EDC representatives if necessary, and returning the answers to the inquiring parties. To maintain fairness and to ensure that all parties have the same information, the Auction Manager will also maintain a database of all questions and answers on the web site;
- Receiving applications for qualification and notifying interested parties of the results of the qualification procedure;
- Managing the Alternate Guaranty process;
- Receiving indicative offers and bid bonds, ensuring that these are in accordance with the rules and notifying registered bidders of their initial eligibility;
- Developing and testing bidding procedures that implement the Auction rules;
- Providing technical help to bidders with respect to the Auction rules and the bidding procedures;
- Managing the interface during the Auctions, to ensure that Auction parameters such as length of rounds and decrements are set appropriately;
- Developing information packages that bidders will receive at bidder information sessions;
- Drafting manuals for the Auction;
- Reviewing other information required of bidders before and after qualification and resolving issues over associations with the Board Advisor;

- Training potential bidders in the bidding procedures; and
- Providing to the Board and the EDCs a full factual report on the Auction and on the final results.

In addition, the Auction Manager would support the EDCs and the Board by providing assistance, when appropriate, with the following tasks:

- Promoting the Auctions to potential participants; and
- Coordinating between the Board with its Advisor, and the EDCs.

The Auction Manager is important to a well-run process, from the promotion of the Auctions to the certification of the results, and performs an essential task in developing and testing the bidding procedures for the Auctions. As in years past, the cost of the Auction Manager will be recovered through the tranche fees paid by winning bidders.

B. Confidentiality of Auction Information

On October 22, 2004, the Board issued an Order (Docket No. EO04040288) wherein a list of information was found exempt from the requirements of the Open Public Records Act (“OPRA”), N.J.S.A. 47:1A-1 et seq., and the rules promulgated by the Board at N.J.A.C. 14:1-12 et seq. The Board found the following information, filed as part of the Auction Process, resulting from the BGS-FP or the BGS-CIEP Auctions, or provided by market participants for the purpose of participating in the Auctions, to be information that would provide an advantage to competitors or bidders, and deemed it confidential and not included as a government record pursuant to OPRA:

1. EDC-specific starting prices that are in effect for the first round of bidding;
2. Logic processes and algorithms used by the Auction Manager to determine the starting prices, and volume adjustments during the Auction rounds;
3. Indicative offers consisting of the number of tranches a qualified bidder is willing to supply at the maximum (and minimum starting) prices;
4. Auction round prices and individual bids in each round;

5. Bidder information supplied to qualify for the Auctions from the Part 1 Application;

- The identities of the bidders except for the identities of the winners as released by the Board;
- Information on Bidding Agreements;
- Financial and Credit Requirements;
- Guarantors' Information;
- Justification for Omissions.

6. Bidder information supplied to register for the Auctions from the Part 2 Application:

- The identities of the bidders except for the identities of the winners as released by the Board;
- Qualified Bidders' Indicative Offers and Calculations of Required Bid Bond;
- Qualified Bidders' Preliminary Maximum Interest in Each Product;
- Additional Financial and Credit Requirements;
- Associations and Confidential Information Certifications;
- Justification for Omissions.

The EDCs request that the Board find and conclude that the foregoing information be deemed non-public proprietary commercial and financial information that would provide an advantage to competitors or bidders and not included as a government record pursuant to OPRA.

C. Regulatory Milestones and Tentative Auction Timeline

The proposed Auction timeline is as follows. The EDCs request that the Board approve this tentative timeline as a guideline for the conduct of the Auction with the understanding that the time lapses between the various steps be materially adhered to (e.g., the time between the Part 2 application and the Auction not be unreasonably shortened). However, the specific dates would be subject to adjustment to accommodate holiday schedules, the schedules of other procurements in the region, and external events.

Event	Date
EDC proposal filed	Wednesday, July 1, 2009
Discovery request deadline	Friday, July 24, 2009
Discovery response deadline	Friday, August 7, 2009
First FAQ is posted	Tuesday, August 11, 2009
Release of Preliminary Draft of FP Pricing Spreadsheet	Tuesday, August 25, 2009
Deadline for Initial Comments on all proposals	Friday, August 28, 2009
Posting of Alternate Guaranty Process	Wednesday, September 16, 2009
Legislative-type Board Hearing	September 2009
Deadline for Final Comments	Friday, September 25, 2009
Public Hearings	Early October
Information Session for Potential Bidders (Washington, DC)	Friday, October 2, 2009
Information Session for Potential Bidders (Philadelphia, PA)	Friday, October 9, 2009
Final Part 1 Application Form is posted	Thursday, October 15, 2009
Draft Part 2 Application Form is posted	Thursday, October 15, 2009
Deadline to submit alternate form of guaranty by NOON	Tuesday, October 27, 2009
Deadline to propose modifications to the standard form of the Pre-Auction Letter of Credit by NOON	Tuesday, October 27, 2009
Auction Manager informs a proposing party that had previously secured approval for its alternate form of guaranty whether the approval is renewed	Wednesday, October 28, 2009
Deadline to submit alternate form of guaranty and supporting documentation for parties whose approval of a previously accepted alternate form of guaranty is not renewed	Friday, October 30, 2009

Auction Manager provides individual responses to parties proposing modifications to the Pre-Auction Letter of Credit	Monday, November 2, 2009
All modifications to the standard form of the Pre-Auction Letter of Credit that are acceptable on an optional basis are posted	Wednesday, November 4, 2009
Auction Manager informs parties proposing alternate form of guaranty of status of submission	Wednesday, November 4, 2009
Deadline to submit required modifications or revisions to the alternate form of guaranty or supporting documentation	Friday, November 6, 2009
Board decision on Auction proposal	November, 2009
EDC Compliance Filing	November, 2009
Expected Board Decision on Compliance Filing	November, 2009
Auction Manager informs parties proposing alternate forms of guaranty of the EDCs' decision	Tuesday, November 10, 2009
Statewide minimum and maximum starting prices announced	Thursday, November 12, 2009
Load caps announced	Thursday, November 12, 2009
Tranche sizes announced	Thursday, November 12, 2009
Final Part 2 Application Form is posted	Friday, November 13, 2009
Information Session for Potential Bidders, Philadelphia, PA	Friday, December 4, 2009
Deadline to submit Part 1 Application due by NOON	Tuesday, December 15, 2009
Part 1 Applications are reviewed	December 15 – 18, 2009
Applicants are notified of Part 1 Application Results	Friday, December 18, 2009
Deadline to submit Part 2 Application due by NOON	Tuesday, January 12, 2010
Part 2 Applications are reviewed	January 12 - 20, 2010
Applicants are notified of Part 2 Application results	Wednesday, January 20, 2010
Mark-to-Market Information Release	Monday, January 25, 2010
Auction Manager informs Registered Bidders of changes to decrement formulas or ranges of total excess supply (if necessary)	Monday, January 25, 2010
Tranche Fee is announced	Tuesday, January 26, 2010
Information session for Registered Bidders, Philadelphia, PA	Tuesday, January 26, 2010
Trial auctions for Registered Bidders	Thursday, January 28, 2010
Auction Manager informs Bidders registered in BGS-CIEP Auction of starting prices	Tuesday, February 02, 2010
Auction Manager informs Bidders registered in BGS-FP Auction of starting prices	Wednesday, February 03, 2010

BGS-CIEP Auction Starts	Friday, February 05, 2010
BGS-FP Auction Starts	Monday, February 08, 2010
Board decision on Auction results	Within 2 business days of close of the BGS-FP Auction or BGS-CIEP Auction, whichever comes later
Winning suppliers execute BGS Supplier Master Agreements	Within 3 business days of Board decision
Documents provided to bidders by Auction Manager containing confidential information must be destroyed	Within 5 business days of Board decision
BGS-FP rates filed with Board	Within 60 business days of Board decision
Power Flows	Tuesday, June 1, 2010

VIII. BOARD APPROVAL AND EXECUTION OF BGS SUPPLIER AGREEMENTS

The EDCs propose that the Board decide formally, within two business days of the day on which the last Auction closes, whether or not to accept the Auction results. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and of rendering a decision on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress. Since the Auction Process would have been previously approved by the Board, accepted bids resulting from the Auction would be deemed reasonable and prudent.

The EDCs recommend that each winning bidder be immediately notified by the Auction Manager of the Board's approval of the Auction results, and that each winning bidder and each EDC be given a period of three business days from receipt of the notification to formally execute the BGS-CIEP and BGS-FP Supplier Master Agreements. The obligations outlined in those Agreements will be part of an irrevocable offer that will become a binding, contractual obligation upon the award of the bid and contract execution will memorialize this commitment.

In other words, the purpose of the review and approval process recommended by the EDCs is for the Board to take the necessary time at the start of the Auction Process to resolve potentially contentious issues, to provide a mechanism for an expeditious decision from the Board in response to the Auction results, and to provide assurance to potential bidders that, once they are notified by the Board that their offer to serve one or more tranches has been accepted, they will indeed be serving that BGS Load.

IX. SUPPLIER MASTER AGREEMENTS

Appendices C and D to the filing contain the drafts of the BGS Supplier Master Agreements (for BGS-CIEP and BGS-FP) proposed by the EDCs for the supply period beginning June 1, 2010. These will be the subject of collaboration among the EDCs, Board Staff and interested prospective suppliers and will be updated.

The following changes were made to the Supplier Master Agreements:

- The definition of “Renewable Energy Portfolio Standards” was amended to include possible future legislation or rules enacted by entities or agencies other than the BPU and the defined term was changed to “Energy Portfolio Standards”;
- The term “Renewable Energy Portfolio Standards” was replaced with the newly defined term “Energy Portfolio Standards” in the appropriate provisions of the Supplier Master Agreements;
- Change to the requirement for a legal opinion to be provided by Foreign suppliers or Guarantors;
- Dates are updated to reflect current auction year;
- Docket numbers are updated to reflect current proceeding; and
- Various typographical errors and consistency between the BGS-FP and the BGS-CIEP SMAs are corrected.

X. APPENDIX A

Provisional BGS-CIEP Auction Rules

XI. APPENDIX B

Provisional BGS-FP Auction Rules

XII. APPENDIX C

BGS-CIEP Supplier Master Agreement

XIII. APPENDIX D

BGS-FP Supplier Master Agreement