



STATE OF NEW JERSEY
Board of Public Utilities
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IN THE MATTER OF THE PROVISION OF)
BASIC GENERATION SERVICE FOR YEAR)
THREE OF THE POST-TRANSITION PERIOD-))
AUCTION RESULTS)

ENERGY

DECISION AND ORDER

Docket No. EO04040288

(Service List Attached)

BY THE BOARD:

By Order dated December 1, 2004, 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, as the best means to secure the EDCs' electricity requirements for the period beginning June 1, 2005. In an effort to mitigate the risk to ratepayers, the Board directed the EDCs to procure approximately one-third of the EDCs' current fixed-price ("BGS-FP") load for a 36-month period¹. The Board also found that a 12-month procurement period for the EDCs' hourly load ("BGS-CIEP") is appropriate and reasonable in its December 1, 2004 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 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, once approved by the Board, will be converted into revised BGS rates for customers beginning June 1, 2005. This is the fourth year that the Board has authorized a similar auction process to secure BGS supply.

AUCTION SUMMARY

The BGS-FP Auction began on February 10, 2005 and ended on February 11, 2005 after 13 rounds with all of the EDCs' 50 tranches² filled with the following closing prices for each EDC:

¹ Approximately two-third of the EDCs' BGS-FP requirements are already under contract through May 31, 2006 and one-third through May 31, 2007 as a result of the 2003 and 2004 BGS-FP Auctions.

² A tranche in the BGS-FP Auction is approximately 100 Mw.

BGS-FP 36-Month Tranches

<u>EDC</u>	<u>Closing Price</u>	<u>Total Tranches</u>
	<u>¢/Kwh</u>	<u>Available</u>
CONNECTIV	6.648	8
JCP&L	6.570	12
PSE&G	6.541	28
ROCKLAND	7.179	2

The BGS-CIEP Auction began on February 10, 2005 and ended on February 15, 2005 after 52 rounds with all of the EDCs' 115 tranches³ filled and with the following closing prices for each EDC:

BGS-CIEP

<u>EDC</u>	<u>Closing Price</u>	<u>Total Tranches</u>
	<u>\$/Mw-day</u>	<u>Available</u>
CONNECTIV	\$39.76	12
JCP&L	\$25.38	35
PSE&G	\$22.62	67
ROCKLAND	\$20.47	1

A list of the seven BGS-FP Auction winners and the six BGS-CIEP Auction winners is included in Attachment A to this Order.

The Auction Manager responsible for conducting the 2005 Auctions 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 three previous BGS Auctions. The Auctions were continuously monitored by Staff from the Economist's Office and the Division of Energy, as well as by the Board's consultant, Charles River Associates ("CRA"). CRA was retained to assist the Board in this process, due to both its extensive experience with simultaneous descending clock auctions and its vast energy industry experience. CRA also advised the Board and Staff during previous BGS Auctions.

NERA has provided the Board and the Ratepayer Advocate 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 indicates the following in support of accepting the Auction results: bidders had sufficient information to prepare for the Auctions; information was provided to bidders in a timely manner; 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; appropriate data back-up procedures were planned and carried out; no security breaches were observed during the Auction process; all guidelines for setting or changing the Auction parameters were followed; calculations produced by the auction software were double-checked 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 in a material manner; communications between

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

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; there was no evidence of a breakdown in competition during the Auctions; public and sensitive information were treated appropriately; there were no factors exogenous to the Auctions that materially affected the Auctions; there were no concerns with the Auction outcomes with regard to any specific EDC(s); and finally 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.

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, and both 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 of the Auctions and on the Auction results.

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;
- from what could be observed, there were no hardware or software problems nor errors with the Auctions' system or its associated communication systems;
- 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 was no evidence that bidders felt unduly rushed during the process;
- 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;
- there was no evidence of a breakdown in competition in the Auctions;
- 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); and
- 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.

Therefore, 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. The Board ORDERS the EDCs to execute the necessary documents, including the BGS Master Supply Agreements, with the winning bidders within three days of the date of this Order. Furthermore, the Board DIRECTS the EDCs to implement the BGS rates resulting from the Auctions beginning June 1, 2005 and to file tariff sheets reflecting those rates by March 1, 2005.

The Board notes that while the results of the BGS-FP Auction will result in a slight increase in rates for BGS customers, the rate increase will be significantly less than the increase in underlying fuel prices over the past year. Specifically, the annual bill for the average residential Conectiv customer will increase by approximately 5.12% beginning June 1, 2005. For an average JCP&L residential customer the annual increase will approximate 4.5%. Residential customers of PSE&G and Rockland⁴ will see 2.8% and 8.3% increases, respectively. When considered in the context of natural gas prices that have risen approximately 25% over the past year and crude oil which has risen 30% in the same time period, the BGS-FP Auction results are acceptable to this Board and demonstrate the ability of the current auction design and structure to effectively deal with changing market conditions.

This year's BGS-CIEP Auction to serve hourly-priced customers will produce a significant decrease in the capacity charges that customers pay beginning on June 1, 2005. The decrease in the capacity product varies from 20.3% for Conectiv customers to 64.5% for Rockland customers. While capacity is only a portion of a customer's overall rate, the significant decrease speaks well for the competitiveness of the process.

⁴ For Rockland, the 2005 BGS-FP Auction reflects approximately 50% of Rockland's FP load requirements rather than the approximately 33% of the other EDCs. This difference has the effect of accentuating the effect of this year's results on Rockland's customers.

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, 2005.

DATED: 2/17/05

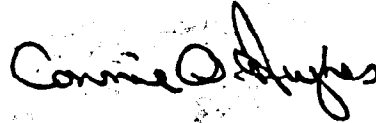
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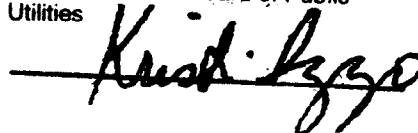
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ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



ATTACHMENT A

I/M/O The Provision Of Basic Generation Service For Year Three Of The Post-Transition Period

Auction Winners Approved by the Board of Public Utilities on February 16, 2005.

BGS-FP Auction Winners

BP Energy Company
Conectiv Energy Supply
Constellation Energy Commodities Group
Morgan Stanley Capital Group
PSEG Energy Resources & Trade
Tractebel Energy Marketing

BGS-CIEP Auction Winners

Consolidated Edison Energy, Inc.
Constellation Power Source, Inc.
Dominion Retail, Inc.
DTE Energy Trading
Edison Mission Marketing & Trading
PPL Energy Plus, LLC
PSEG Energy Resources and Trade LLC
Select Energy, Inc.

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