

# BIDDER INFORMATION MATERIAL BASIC GENERATION SERVICE (BGS) STATEWIDE AUCTION PROCESS

4 DECEMBER 2009 | PHILADELPHIA, PA



**bgs-auction.com**

NEW JERSEY STATEWIDE BASIC GENERATION SERVICE ELECTRICITY SUPPLY AUCTION

# Agenda

- Overview and Board Decision
- Timeline
- Application Process
- Auction Rules

# **OVERVIEW and BOARD DECISION**

# Key Building Blocks of Auction Process

- **There is a single statewide process:** Offers for all BGS load (not already procured) solicited in one process
- **The products are full-requirements tranches:** Participants bid for the right to serve these tranches
- **Auction format is a Clock Auction:** Prices tick down as long as more tranches are bid than needed
- **Contingency plan:** Any supply not procured at auction will be purchased through PJM-administered markets

# One Auction Process for Two Types of Customers

- **BGS-FP Auction:** Smaller and mid-sized customers on fixed-price plan
  - Suppliers bid to serve tranches at a price in ¢/kWh
  - 3-year supply period
- **BGS-CIEP Auction:** Larger customers on hourly price plan
  - Suppliers bid to serve tranches at a price in \$/MW-day
  - 1-year supply period

# Board Has Rendered its Decision on the Auction Process

- Board met on **November 10, 2009** to consider all elements of the Auction Process
- Board approved the EDCs' BGS Proposal: the 2010 Auction Process will be substantially the same as in 2009
- Board decided to leave **unchanged** the level of the retail margin and the group of customers to whom it applies
- Board indicated that it will be **reviewing** the applicability of the retail margin after the conclusion of the 2010 Auctions

# Compliance Filing Was on November 24, 2009

- Compliance filing documents based on the November 10th decision were filed and posted on the Regulatory Process page on November 24, 2009:

<http://www.bgs-auction.com/bgs.auction.regproc.asp>

- Auction Rules
  - Supplier Master Agreements
  - EDC-Specific Addenda
- The Auction Rules, SMAs, and rate design information filed in compliance became the final documents upon the Board decision on December 1, 2009

# Board Has Maintained the CIEP Threshold

- The CIEP threshold for the period from June 1, 2010 to May 31, 2011 will remain at 1,000 kW
  - Board has indicated that, in conjunction with reviewing the retail margin, the Board will also review the CIEP threshold after the conclusion of the 2010 Auctions
- Customers who (if they take BGS) must take BGS on a CIEP tariff will be
  - All customers in certain rate classes, and
  - All customers above 1,000 kW
- There are no switching restrictions so that all BGS customers are free to come and go from BGS provided that they give appropriate notice to the EDC

# Some FP Customers Can Opt-In to BGS-CIEP

<b>EDC</b>	<b>For these rate classes, all customers on CIEP</b>	<b>For these rate classes, Customers at or over 1,000 kW on CIEP (6/1/09—5/31/10)</b>
PSE&G	HTS-HV, HTS-Sub, LPL-P	LPL-S
JCP&L	GP, GT	GS, GST
ACE	TGS	AGS-Primary, AGS-Secondary, MGS-Primary, MGS-Secondary
RECO	Service Classification No. 7	Service Classification No. 2

- Non-residential FP Customers can opt-in to CIEP
- Customer must **notify** EDC by January 5, 2010

# Retail Margin Remains Unchanged for the Period June 1, 2010 Through May 31, 2011

- Retail margin remains at a level of 0.5¢/kWh
- Retail margin only paid by customers on BGS
  - All BGS-CIEP customers
  - BGS-FP customers 750kW or greater

<b>CIEP customers</b>		<b>FP customers</b>
<b>CIEP Standby Fee</b>	<b>Retail Margin</b>	<b>Retail Margin</b>
Paid by all CIEP customers	Paid only by customers taking BGS	Paid only by customers on BGS ≥ 750kW
<b>CIEP Standby Fee</b>	<b>Retail Margin</b>	
Received by BGS-CIEP Suppliers	Not Received by BGS Suppliers—Board will determine the use of retail margin funds	

# Adjustment of Supplier Payments for Transmission Rate Changes

- Section 15.9 of the SMAs describes what happens with a transmission rate change
- Decreases are reflected in supplier payments
- Increases are tracked for the benefit of the supplier once Board approval is received—paid to the supplier when increase is final and no longer subject to refund
- Changes to the transmission rate include:
  - All surcharges in addition to the base NITS OATT rate (e.g., all applicable RTEP charges)
  - Changes to the transmission rate in effect as of the auction date including formula rate changes
  - For clarity, each EDC will announce its transmission rate in effect as of the auction date in early January

# Other Fundamental Aspects of Auctions Are Similar to Last Year

## One Process—Two Auctions

- Timelines of both the BGS-FP and BGS-CIEP Auctions are basically the same
  - Same announcements
  - Same application deadlines
  - Same information sessions
  - Same trial auction date
  - The BGS-CIEP Auction starts one business day earlier
    - BGS-CIEP Auction starts Friday, February 5, 2010
    - BGS-FP Auction starts Monday, February 8, 2010

# Two Auctions, Two Contracts

The bid for larger customers is separated from the bid for smaller customers

- Larger customers (CIEP) on an hourly-priced plan; smaller customers (FP) on a simpler fixed-price plan
- Auctions for the two types of customers are concurrent but separate
  - CIEP Auction determines the CIEP Price in \$/MW-day
  - FP Auction determines an all-in price in ¢/kWh
- Winning suppliers sign different contracts
  - BGS-CIEP Supplier Master Agreement and BGS-FP Supplier Master Agreement are different

# Two Approvals

Board decides whether to approve results of each auction separately

- Results of BGS-FP Auction are considered
  - Results are approved for all EDCs or for none
  - It is **not possible** for results for one EDC to be approved without results for other EDCs being approved as well
- Results of BGS-CIEP Auction are considered
  - Results are approved for all EDCs or for none
  - It is **not possible** for results for one EDC to be approved without results for other EDCs being approved as well
- But it **is possible** that results of BGS-FP Auction are approved while results of BGS-CIEP Auction are not (or vice-versa)

# 1-Year Term for BGS-CIEP Tranches, 3-Year Term for BGS-FP Tranches

## ■ **BGS-CIEP:**

- A tranche for an EDC is a **fixed percentage** of that EDC's BGS-CIEP load for one year
- A tranche is about **75 MW** of eligible load

## ■ **BGS-FP:**

- A tranche for an EDC is a **fixed percentage** of that EDC's BGS-FP load for three years
- A tranche is about **100 MW** of eligible load
- **Rolling procurement structure:** EDCs procure supply for approximately one-third of their BGS-FP Load each year for a three-year term

# BGS-CIEP Auction: Four Products and a Single Statewide Load Cap

- **Tranche target:** Number of tranches available at the start of the auction for each EDC
- **Statewide load cap:** No bidder can bid or win more than the load cap statewide

EDC	PSE&G	JCP&L	ACE	RECO	Total
Tranche targets	23	11	5	1	40
Statewide load cap	14				

# CIEP Tranche is Percentage of Load

- **Total CIEP** load is about **3,000 MW** on an eligible basis
- BGS-CIEP Supplier provides energy, transmission, capacity, ancillary services, and any other service as may be required by PJM

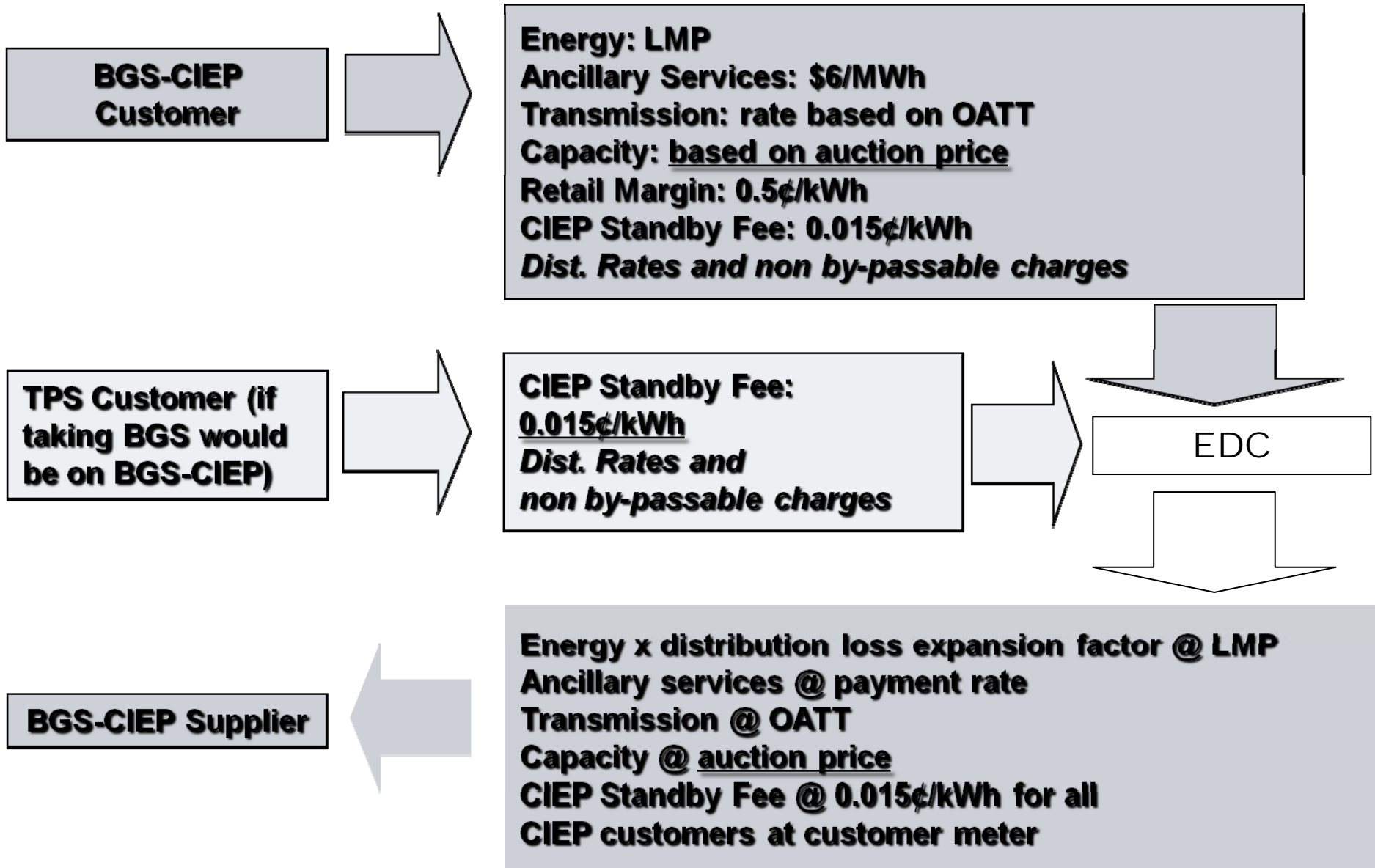
<b>CIEP Loads and Tranche Sizes by EDC</b>			
<b>EDC</b>	<b>CIEP Peak Load Share (MW)</b>	<b>Tranche Size (%)</b>	<b>MW-Measure</b>
PSE&G	1,712.02	4.35	74.44
JCP&L	782.30	9.09	71.12
ACE	314.80	20.00	62.96
RECO	37.20	100.00	37.20

# BGS-CIEP Payment Flow Example

## BGS-CIEP Supplier wins 6 of 24 tranches (25% of Load)

- Capacity—The final auction price is **\$200/MW-day**. The capacity obligation totals 30,000 MW-days for the month
  - Supplier is paid 25% of 30,000 MW-days x \$200/MW-day, or \$1.5M
- Transmission—OATT is **\$50/MW-day**. The transmission obligation totals 36,000 MW-days for the month
  - Supplier is paid 25% of 36,000 MW-days x \$50/MW-day, or \$450,000
  - Supplier would also receive any payments under Section 15.9
- Ancillary services—Payment is **\$6/MWh** and monthly energy is 500,000 MWh @ customer meter; 515,001 MWh adjusted for losses of 2.9128%
  - Supplier is paid 25% of 515,001 MWh x \$6/MWh, or \$772,502
- Energy—Real time LMP is **\$50/MWh** and for hour 1, energy @ customer meter is 800 MWh; 824 MWh adjusted for losses of 2.9128%
  - Supplier is paid 25% of 823 MWh x \$50/MWh, or \$10,300.0 for hour 1
  - Other hours are settled in the same way
- CIEP Standby Fee—The CIEP Standby Fee is **0.015¢/kWh**. Energy used by all CIEP Customers is 1,000,000 MWh @ customer meter
  - Supplier is paid 25% of 1,000,000MWh x \$0.15/MWh, or \$37,500

# CIEP Payment Flows



# CIEP Migration is Substantial

- As of October 31, 2009 there was substantial switching by BGS-CIEP customers to Third Party Suppliers (TPS)

EDC	Accounts			Load (MW)		
	Total	Switching	%	Total	Switching	%
PSE&G	1,260	843	66.90%	1,991.6	1,709.1	85.82%
JCP&L	594	408	68.69%	768.4	670.9	87.30%
ACE	120	108	90.00%	315.8	305.6	96.77%
RECO	20	11	55.00%	38.4	25.0	65.10%
<b>Statewide</b>	<b>1,994</b>	<b>1,370</b>	<b>68.71%</b>	<b>3,114.2</b>	<b>2,710.6</b>	<b>87.04%</b>

# BGS-FP Auction: EDC Load Caps and a Statewide Load Cap

- **Tranche target:** Number of tranches available at the start of the auction for each EDC
- **EDC load cap:** No bidder can bid or win more than the load cap for an EDC
- The sum of the EDC load caps is 25, **exceeding** the statewide load cap

EDC	PSE&G	JCP&L	ACE	RECO	Total
Tranche Targets	28	18	7	1	54
EDC Load Caps	13	8	3	1	
Statewide Load Cap	20				

# FP Tranche is Percentage of Load

- FP Load on an eligible basis is approximately one-third of total FP Peak Load Share
- BGS-FP Supplier provides energy, transmission, capacity, ancillary services, and any other service as may be required by PJM
- JCP&L will be increasing the number of tranches over the next three auctions to bring its MW-Measure closer to 100 MW

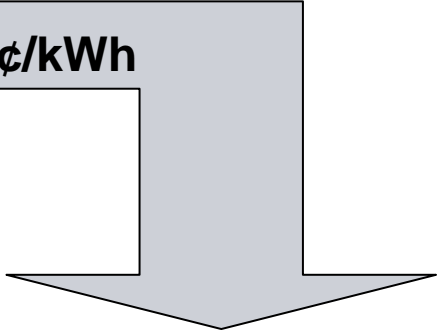
<b>FP Loads and Tranche Sizes by EDC</b>			
<b>EDC</b>	<b>FP Peak Load Share (MW)</b>	<b>Tranche Size (%)</b>	<b>MW-Measure</b>
PSE&G	2,875.89	1.18	102.71
JCP&L	1,828.64	1.89	101.59
ACE	697.10	4.55	99.59
RECO	111.45	25.00	111.45

# BGS-FP Payments and Pricing

Auction price (2 years ago)	9.959¢/kWh
Auction price (1 year ago)	11.650¢/kWh
This Year's Auction price	10.000¢/kWh
# Tranches (2 years ago)	8
# Tranches (1 year ago)	7
# Tranches (this year)	7

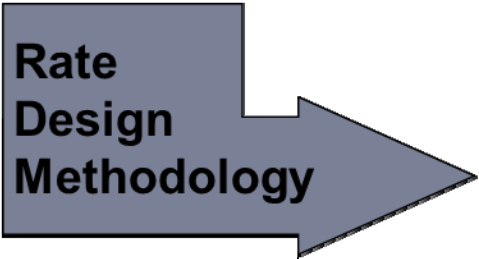
**Summer factor of 1.0504**

**10.504¢/kWh**



**Summer rate paid to BGS-FP Supplier**

**Tranche-weighted seasonally-adjusted avg. price 10.768¢/kWh**



**1.0202 x 10.768 = 10.986¢/kWh**

**Summer rate paid by rate class**

**+**

**Retail Margin (if applicable)**

# Final Seasonal Factors

- Each EDC has a **summer factor** and **winter factor** used to translate the final auction price into the supplier payment rate by season
- Seasonal factors in effect for entire term of BGS-FP Supplier Master Agreement
- Due to inversion of normal historical patterns of summer and winter forward energy prices, seasonal factors for PSE&G, JCP&L, and RECO have been set to 1

EDC	PSE&G	JCP&L	ACE	RECO
Summer Factor	1.0000	1.0000	1.0504	1.0000
Winter Factor	1.0000	1.0000	0.9679	1.0000

# Can a Supplier Ever Need to Pay an EDC?

- Possible payments from Supplier to EDC
  - Tranche Fee for cost of administering the auction (July 2009 invoice)
  - On a monthly basis, any PMEA / FMEA adjustments can go either way
- Also: Supplier settles with PJM for costs of meeting LSE obligation
  - Any corrections or adjustments that would have resulted in changes to the PJM settlement, but for which the deadline has passed, will be settled between the EDC and the supplier

# FP Migration Is Increasing

- There has been increasing migration of FP customers, especially among those who pay the retail margin
- However, fewer than 0.05% of residential customers have switched

<b>Migration Among FP Customers with Peak Load Share of 750kW to 999kW</b>						
	<b>Accounts</b>			<b>Load (MW)</b>		
<b>EDC</b>	<b>Total</b>	<b>Switching</b>	<b>%</b>	<b>Total</b>	<b>Switching</b>	<b>%</b>
PSE&G 11/1/09	220	138	62.73%	189.95	119.65	62.99%
JCP&L 11/1/09	62	40	64.52%	55.16	35.65	64.63%
ACE 11/27/09	30	23	76.67%	26.35	20.31	77.07%
RECO 11/1/09	11	9	81.82%	9.38	7.52	80.15%
<b>Statewide</b>	<b>323</b>	<b>210</b>	<b>65.02%</b>	<b>280.84</b>	<b>183.13</b>	<b>65.21%</b>

# BGS Data Updates

- Exceptionally the FP switching statistics are being refreshed for the December data update
- Also, please note that for RECO the following data series are revised starting January 2007 to account for FP customers switching to TPSs
  - Total Hourly Load
  - BGS-FP Hourly Load

# Contracts Are Approved by the Board

Board has approved statewide contracts for BGS-CIEP Suppliers and for BGS-FP Suppliers

- Applicants must agree to these standard contract terms to qualify for the Auctions
- Board approves standard credit instruments
  - Safe harbor for bidders who accept the standard forms of the letter of credit and the guaranty

# Credit Provisions

- **BGS-CIEP**—Credit Exposure is \$70,000/tranche
- **BGS-FP**—Two separate requirements
  - Mark-to-Market requirement
  - Independent credit requirement is \$2.4M/tranche at beginning of supply period and declines over the term of the contract
- Unsecured credit line and credit limits depend on all BGS obligations
  - Credit limit set together for FP Mark-to-Market and CIEP credit exposures
  - Unsecured credit line for FP independent credit requirement set separately

# Changes Are Possible During Three-Year Period

## Decisions that affect BGS-FP Suppliers who win at the 2010 BGS-FP Auction

- Board has indicated that it will review level of the retail margin, the applicability of the retail margin, as well as the CIEP threshold after the conclusion of the 2010 Auctions
- Rate design subject to annual review
- Changes to RPS and changes to the alternative compliance payments are possible in the future

# BGS Supplier is Responsible for Meeting RPS

- The EDCs will submit the required annual compliance reports on behalf of BGS-FP and BGS-CIEP Suppliers
- To the extent permitted by applicable regulatory and contractual provisions, EDCs will make available to BGS Suppliers RECs from Committed Supply:
  - RECs to **BGS-FP Suppliers** from PSE&G, JCP&L and ACE
  - RECs to **BGS-CIEP Suppliers** from ACE

# BGS Supplier Must Meet Class I, Class II and Solar Requirements

- Compliance with Class I and II requirements must be demonstrated using RECs issued by PJM-EIS GATS (a portion of Class I must be met with solar)
- For information and forms, see: [www.pjm-eis.com](http://www.pjm-eis.com)
- Please contact GATS Administrator for questions:
  - Phone: 610-666-2245; Fax: 610-771-4114

- RECs, including those based on solar electricity or electricity generated on a customer's premises ("behind the meter RECs"), are issued by PJM-Environmental Information Systems (PJM-EIS), through the Generation Attribute Tracking System (GATS)
- PJM-GATS is responsible for the issuing, tracking and trading of Solar RECs
- Life of a Solar REC based on electricity generated on or after June 1, 2009 is now two years

# Failure to Comply Through the Provisions of RECs Will Expose Supplier to ACP

Period	Solar Electric Generation	Class I Renewable Energy	Class II Renewable Energy	Total Renewable Energy
June 1, 2010 to May 31, 2011	0.305%	5.492%	2.5%	8.297%
June 1, 2011 to May 31, 2012	0.394%	6.320%	2.5%	9.214%
June 1, 2012 to May 31, 2013	0.497%	7.143%	2.5%	10.140%

- Solar and Class I requirements increase each year
- ACP level has been \$50/MWh
- Upcoming SACP levels:
  - \$675/MWh for the period June 1, 2010 through May 31, 2011
  - \$658/MWh for the period June 1, 2011 through May 31, 2012
  - \$641/MWh for the period June 1, 2012 through May 31, 2013

# Board Has Encouraged Market-Based Initiatives For Solar Energy

- In response to the Board's directive, the EDCs (PSE&G, JCP&L, ACE, and RECO) have proposed **programs** to encourage growth in solar installations to meet the solar RPS
- PSE&G has two types of programs:
  - Loans to customers for installation of solar photovoltaic systems on the customers' premises (approximately 80 MW)
  - direct investment in and ownership of 80 MW of solar generation
- JCP&L, ACE, and RECO have started to implement their **SREC-Based Financing Program**
  - Three-year program targeted to select 65MW of solar projects from which the EDCs are purchasing SRECs for a term of 10-15 years
  - About 1.6MW of projects approved in the first solicitation; two more solicitations are planned before the end of the reporting year

# More Information on These Programs is Available

- **PSE&G Programs**

*for additional information, see:*

<http://www.pseg.com/customer/solar/index.jsp>

- **JCP&L, ACE, and RECO Program**

*for additional information, see:*

<http://www.njedcsolar.com>

# Board Approved the Results of ACE and JCP&L's First Solicitation

- The **first solicitation** of the SREC-Based Financing Program of ACE and JCP&L resulted in:
  - 7 awards being made for a total of about 1.6 MW
  - **Average** price of all accepted projects was **\$409.71/SREC**
  - **Lowest** price of all accepted projects was **\$369/SREC**
- An additional solicitation will take place in March 2010 for capacity not utilized in the first round
- A **second solicitation** will occur in December 2009

*for additional information, see:*

<http://www.njedcsolar.com>

<http://www.state.nj.us/bpu/newsroom/news/pdf/20090930b.pdf>

# The EDCs Will Sell the SRECs They Receive Through Periodic Auctions

- At the moment, only PSE&G Loan Programs producing SRECs sold through the Auction
- BGS Suppliers, TPSs, traders can participate in SREC Auction
- First Auction to be held January 29, 2010 with qualifications due at noon on December 17, 2009

Qualification Form Due	December 17, 2009
Trial Auction	January 06, 2010
Signed contract and bid assurance collateral due	January 25, 2010
<b>Auction starts</b>	<b>January 29, 2010</b>

*for additional information, see:*

*<http://www.solarREC-auction.com>*

# PJM Web Site is a Source of Information

- Home page  
<http://www.pjm.com/>
- Reliability Pricing Model  
<http://www.pjm.com/markets-and-operations/rpm.aspx>
- Marginal Losses  
[http://www.pjm.com/sitecore/content/Globals/Training/Courses/ol-ml.aspx?sc\\_lang=en](http://www.pjm.com/sitecore/content/Globals/Training/Courses/ol-ml.aspx?sc_lang=en)
  - FAQs:  
<http://www.pjm.com/faqs.aspx#MarginalLossesFAQs>
- PJM OASIS  
<http://www.pjm.com/markets-and-operations/etools/oasis.aspx>
- PJM-EIS GATS  
<http://www.pjm-eis.com/gats/gats.html>

# TIMELINE

# Calendar

<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Thursday</u>	<u>Friday</u>
December 14	15 Part 1 Application	16	17	18 Bidders Qualified
January 11	12 Part 2 Application	13	14	15
18	19	20 Bidders Registered	21	22
25	26 Info Session	27	28 Trial Auction	29
February 1	2 CIEP Starting Prices	3 FP Starting Prices	4	February 5 CIEP Auction Begins
February 8 FP Auction Begins	9	10	11	12

# APPLICATION PROCESS

# Final Application Forms Are Available

- **Copy of final Part 1 Application and Part 2 Application included in bidder information packet**
- **Download from Auction web site:**  
<http://www.bgs-auction.com/bgs.bidinfo.am.asp>

# Up-Front Requirements for Part 1 Are Simple

## 1. Applicant's Contact Information

- **Authorized Representative:** Represents the Applicant in the auction(s)
- **Legal Representative in NJ:** Agrees to accept service of process
- **Credit Representative:** (In-house) can answer credit questions

## 2. Licensing requirements

- No state licensing required
- BGS supplier must be an LSE in PJM by start of supply period
  - Applicants **that are not yet BGS Suppliers** show that they are LSEs or certify they have no impediments to becoming an LSE in PJM

# Part 1 Financial Information and Auction Documents

## 3. Certifications

- Agree to terms of applicable Supplier Master Agreement
- Agree to applicable Auction Rules
- Agree to confidentiality of list of Qualified Bidders
- Agree not to assign rights as a Qualified Bidder

## 4. Financial Information

- Annual and quarterly financial information
- Senior unsecured debt ratings
- Tranches won in 2008 and 2009 BGS-FP Auctions
- Additional information for entities not incorporated or otherwise formed under the laws of the United States

**Credit and Application Team uses information to determine amount of pre-auction security required in Part 2 Application**

## Part 2 Application: To Be Registered As A BGS-FP Bidder

- 1. Submit an indicative offer statewide**
- 2. Provide preliminary maximum interest in each EDC**
- 3. Submit Pre-Auction Security**
- 4. Make certifications including compliance with Association and Confidential Information Rules**

# Part 2 for BGS-FP: Indicative Offer

## 1. Submit an indicative offer - the maximum number of tranches that the bidder is willing to serve statewide for all EDCs

- At the minimum starting price
- At the maximum starting price

**Table 1.1 BGS-FP Auction Indicative Offer**

BGS-FP Price (¢/kWh)		BGS-FP Indicative Offer (number of tranches)
Minimum Starting Price	13.000	(a) <input type="text"/> <i>This number cannot exceed the BGS-FP Statewide Load Cap of 20 tranches</i>
Maximum Starting Price	16.000	(b) <input type="text"/> <i>This number cannot exceed the BGS-FP Statewide Load Cap of 20 tranches</i>

- The **indicative offer** at the maximum starting price **determines**:
  - The maximum number of tranches that the bidder can bid in the auction (the **initial eligibility**)
  - The amount of pre-auction security required with the Part 2 Application

# Part 2 for BGS-FP: Preliminary Maximum Interest

## 2. Provide preliminary maximum interest in each EDC

- At the maximum starting price, provide interest in each EDC
  - Cannot exceed statewide indicative offer or EDC load cap
- Do the same at minimum starting price

**Table 1.4 Preliminary Maximum Interest in Each EDC**

BGS-FP Auction		Minimum Starting Price:	Maximum Starting Price:
		13,000¢/kWh	16,000¢/kWh
PSE&G	EDC Load Cap: 13 Tranche Target: 28	(c1) 0 <i>This number cannot exceed the PSE&amp;G Load Cap of 13 tranches</i>	(d1) 0 <i>This number cannot exceed the PSE&amp;G Load Cap of 13 tranches</i>
	JCP&L	EDC Load Cap: 8 Tranche Target: 18	(c2) 0 <i>This number cannot exceed the JCP&amp;L Load Cap of 8 tranches</i>
ACE	EDC Load Cap: 3 Tranche Target: 7	(c3) 0 <i>This number cannot exceed the ACE Load Cap of 3 tranches</i>	(d3) 0 <i>This number cannot exceed the ACE Load Cap of 3 tranches</i>
	RECO	EDC Load Cap: 1 Tranche Target: 1	(c4) 0 <i>This number cannot exceed the RECO Load Cap of 1 tranche</i>

# Pre-Auction Security Depends on Credit Rating and TNW

## 3. Submit Pre-Auction Security

- Each BGS-FP Qualified Bidder must submit a letter of credit (or bid bond) in an amount of \$500,000 per tranche of their indicative offer at the maximum starting price (**16.0¢/kWh**)
- The final Pre-Auction Letter of Credit:
  - Is different for the BGS-FP Auction and the BGS-CIEP Auction
  - Acceptable modifications to the LOC are posted to the web site
- Additional Pre-Auction Security may be required
  - If Qualified Bidder has Guarantor (Letter of Intent to Provide a Guaranty)
  - If Qualified Bidder or Guarantor does not satisfy the Minimum Rating or does not have sufficient TNW to cover indicative offer and current BGS-FP obligations (Letter of Reference)
  - **Bidders can choose to satisfy additional Pre-Auction Security by increasing the amount of their Pre-Auction Letter of Credit**

# Certifications Required

## 4. **Certify compliance with Association and Confidential Information Rules**

- Each certification applies for a specific a time period; for example from qualification to Board approval of results
- Certify that applicant is not “associated with” another Qualified Bidder to promote competitiveness of auctions
- Keep information related to the auction confidential

## 5. **Provide Additional Certifications**

- Agree that bids in Auction will be a binding obligation
- Agree not to assign rights as Registered Bidder

## Part 2 Application: To Be Registered As A BGS-CIEP Bidder

- 1. Submit an indicative offer**
- 2. Submit Pre-Auction Letter of Credit (or Bid Bond)**
- 3. Make certifications including compliance with Association and Confidential Information Rules**

# Part 2 for BGS-CIEP: Indicative Offer

1. **Submit an indicative offer at the maximum and minimum starting prices**
  - Cannot exceed the statewide load cap: **14 tranches**
  - Indicative offer at maximum starting price cannot be less than **2 tranches**

**Table 1.3 BGS-CIEP Auction Indicative Offer**

<b>BGS-CIEP Price (\$/MW-day)</b>		<b>BGS-CIEP Indicative Offer (number of tranches)</b>
Minimum Starting Price	\$275	(a) <i>This number cannot exceed the BGS-CIEP Statewide Load Cap of 14 tranches</i>
Maximum Starting Price	\$340	(b) <i>This number cannot exceed the BGS-CIEP Statewide Load Cap of 14 tranches</i>

- The indicative offer at the maximum starting price determines:
  - The maximum number of tranches that the bidder can bid in the auction (**the initial eligibility**)
  - The amount of pre-auction security required with the Part 2 Application
- **No preliminary maximum interest requirement for BGS-CIEP**

# Only a Letter of Credit is Required as Pre-Auction Security

## 2. Submit letter of credit (or bid bond)

- Each BGS-CIEP Qualified Bidder must submit a letter of credit (or bid bond) in an amount of **\$375,000 per tranche** of its indicative offer at the maximum starting price (**\$340/MW-day**)
- No additional pre-auction security is required

## 3. Certify compliance with Association and Confidential Information Rules and provide additional certifications

- Same process as with BGS-FP Registration

# **AUCTION RULES**

# Auction Format is a Clock Auction

- **Multi-product design**
  - Tranches for all EDCs are procured at once
- **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 could switch their bids from one EDC to another in a given auction

**BGS-FP**

**“Price” is in ¢/kWh**

**BGS-CIEP**

**“Price” is in \$/MW-day**

# FP 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	85	28	57	0.8769
	JCP&L	15.000	20	18	2	0.0308
	ACE	15.000	7	7	0	0.0000
	RECO	15.500	4	1	3	0.1500

Round 2	EDC	Price (¢/kWh)	#bid	# to buy	Excess supply	Oversupply Ratio
	PSE&G	14.250	55	28	27	0.4500
	JCP&L	14.925	37	18	19	0.3167
	ACE	15.000	13	7	6	0.1071
	RECO	15.345	7	1	6	0.3000

# When Does A Price Tick Down?

The price for an EDC ticks down in the next round when, and only when, there are more tranches bid than the tranche target at the current round price for that EDC

- At the start of the auction, prices tick down by more than at the end
  - **Start (regime 1):** 0.5% to 5%
  - **End (regime 2):** 0.25% to 2.5%

# What is a Bid in Round 1?

- A bid is a number of tranches for each EDC

PSE&G	JCP&L	ACE	RECO
10	4	2	1

- The bidder is ready to supply 10 tranches for PSE&G, 4 tranches for JCP&L, 2 tranches for ACE and 1 for RECO at the round 1 prices
- Two Rules:
  - The total number of tranches bid on all EDCs **cannot exceed bidder's initial eligibility**
  - **FP only:** The number of tranches bid on an EDC **cannot exceed the EDC's load cap**

# Automatic Extension in Round 1

- The **bidding phase in round 1 is automatically extended** for the convenience of bidders
- If a bidder requests an extension in round 1, it will run concurrently with the automatic extension
- If a bidder does not submit a bid during the **bidding phase** of round 1, the bidder is automatically deemed to have requested an extension that will run concurrently with the automatic extension

# Sample Round Reports

## Bidder sees:

- Range of total excess supply
  - Total excess supply is the sum of excess supply for all EDCs
  - Range provided includes actual total excess supply
  - Range of 5 numbers at start of Auction
- The round 2 prices
- The bidder's own bid

<b>BGS-CIEP Report: Round 1</b>	
<b>Total Excess Supply: 181-185</b>	
<b>EDC</b>	<b>Round 2 Price (\$/MW-day)</b>
<b>PSE&amp;G</b>	<b>336.25</b>
<b>JCP&amp;L</b>	<b>332.50</b>
<b>ACE</b>	<b>338.00</b>
<b>RECO</b>	<b>340.00</b>

***Bidder has no information about others' bids, identities or eligibilities***

# Changes in Round 2 Bidding (from Round 1)

- A bidder can keep the number of tranches bid for each EDC the same as in round 1
- A bidder may be able to:
  - **Withdraw** some tranches from the auction
  - **Switch:** Reduce tranches bid on one EDC and increase tranches bid on another EDC
  - **Withdraw and switch**

# Can A Bidder Wait To Bid?

From one round to the next, a bidder can *never* increase the total number of tranches it bids on all EDCs combined

# Can a Bidder Always Decrease the Number of Tranches Bid?

In a round, if the price for an EDC has not ticked down, a bidder cannot reduce the number of tranches bid for that EDC

- Any bid is a binding obligation to supply at the price at which the bid was made
- If the price for an EDC does not tick down in a round, a bidder's offer at that price cannot be rescinded
  - The bidder cannot decrease the number of tranches bid for the EDC (either by decreasing the number of tranches bid in total or by reducing the number of tranches bid on the EDC while increasing the number of tranches bid on another EDC)

## What Are The Rules In Round 2?

- The **total number of tranches bid** on all EDCs combined cannot exceed **eligibility** in round 2 (number of tranches bid in round 1)
- **BGS-FP**: The number of tranches bid **on any one EDC** cannot exceed **the load cap** for that EDC

# Bidders Must Name an Exit Price When Withdrawing a Tranche

<b>BGS-FP Example</b>				
<b>EDC</b>	<b>PSE&amp;G</b>	<b>JCP&amp;L</b>	<b>ACE</b>	<b>RECO</b>
Price Round 1	15.000	15.000	15.000	15.500
Bid Round 1	2	4	2	1
Price Round 2	14.550	14.905	15.000	15.115
Bid Round 2	2	3	2	1
<b>Exit Price</b>		<b>14.990</b>		

- A bidder must enter an **exit price** (a final and best offer)
  - Above current going price
  - Below or equal to previous going price

# A Bidder Could Need to Provide Additional Information When Switching

<b>BGS-CIEP Example</b>				
<b>EDC</b>	<b>PSE&amp;G</b>	<b>JCP&amp;L</b>	<b>ACE</b>	<b>RECO</b>
Price Round 1	340.00	340.00	340.00	340.00
Bid Round 1	4	4	1	1
Price Round 2	338.25	332.50	336.00	340.00
Bid Round 2	<b>5</b>	<b>2</b>	<b>2</b>	1
Switching Priority	<b>1</b>		<b>2</b>	

- When a bidder reduces the tranches bid on one or more EDCs and increases the number of tranches bid on **more than one** EDC, the bidder will be asked for a switching priority
- This is used by the Auction Manager in case only some of the reductions can be granted

# A Bidder Could Need to Provide Additional Information When Switching *AND* Withdrawing

<b>BGS-CIEP Example</b>				
<b>EDC</b>	<b>PSE&amp;G</b>	<b>JCP&amp;L</b>	<b>ACE</b>	<b>RECO</b>
Price Round 1	340.00	340.00	340.00	340.00
Bid Round 1	2	2	5	1
Price Round 2	338.25	332.50	336.00	340.00
Bid Round 2	3	1	4	1
<i>Exit</i>		✓		
<i>Exit Price</i>		<b>338.61</b>		

- When decreasing the number of tranches bid from more than one EDC **and** switching, the bidder will be asked to designate which tranche is being withdrawn
- The bidder can name an exit price for the withdrawn tranche

# Changes in Round 2 Reporting (from Round 1)

- A bidder can **request** a switch or a withdrawal – but it **may not always be granted**
  - Auction Manager may retain tranches from exits or switches if necessary to fill the tranche targets
  - Auction Manager fills tranche target first with tranches bid at the going price, then by retaining exits, then by denying switches (if necessary)
  
- Each bidder gets information:
  - A range of total excess supply
  - The prices for next round
  - The bidder's own bid including
    - Any tranches requested to be withdrawn that were retained (retained at the named exit price)
    - Any tranches requested to be switched that were denied (retained at the last price freely bid)

# What Are The Rules in Rounds 3, 4...?

- The same as the rules for round 2
  - Total tranches bid (eligibility, load caps)
    - Eligibility in round 3 is eligibility in round 2 minus tranches withdrawn in round 2
  - Reduce tranches bid (through a switch or a withdrawal) only from an EDC whose price has ticked down
  - Exit prices above current going price and equal to or below previous going price

# When Does The Auction Close?

- When **total excess supply equals zero** and prices no longer tick down
- Bidding on **all EDCs** will stop at the **same time**
  - An EDC's price does not stop ticking down the moment enough tranches are bid for that EDC
- Bidders are paid as a function of the final auction prices
  - All bidders who win tranches for a product are given the **same price**

# Bids Are Submitted Online

- Bidding is done through online Internet bidding
- Bidders access an **Internet link**
- Bidders log in to the auction software using a Login ID and password provided by the Auction Manager in the information packet sent to the Authorized Representative
- Bids are submitted and round results received through the **auction software**

# System Requirements Are Minimal

<b>Standard PC</b>	<b>Windows 98, Windows Me, Windows NT 4.0, Windows 2000, Windows XP, Windows Vista or Windows 7</b>
<b>Internet Connection</b>	Primary access through a company network Secondary access through an alternative ISP
<b>Supported Web Browser</b>	<b>Internet Explorer 7, Internet Explorer 8, Firefox 3.0, Firefox 3.1, Firefox 3.5, Safari 4, or Chrome 2</b>
<b>Backup Systems</b>	Backup laptop and backup connection Dedicated fax machine

# To Be Technically Prepared

- Bidding teams in **two geographical locations**
  - Reduces the likelihood that disruptions in one location will affect your participation
- Access to a **backup ISP**
- **Backup computer** (preferably a laptop with charged batteries and access to the backup ISP)
- A **dedicated fax machine** for backup bidding

# Auctions Run Concurrently: Sample Schedule

<b>Times</b>	<b>BGS-CIEP</b>	<b>BGS-FP</b>	<b>Times</b>
6:30	<b>Round 11 Bidding</b>	<b>Log in/Break</b>	6:30
6:35			6:35
6:40			6:40
6:45			6:45
6:50			6:50
6:55	<b>Round 11 Calculation and Report</b>	<b>Round 1 Bidding</b>	6:55
9:00			9:00
9:05			9:05
9:10			9:10
9:15			9:15
9:20		<b>Automatic 15-Minute Extension</b>	9:20
9:25			9:25
9:30		<b>Round 1 Calculation and Report</b>	9:30
9:35			9:35
9:40			9:40
9:45	9:45		
9:50	9:50		
9:55	9:55		
10:00	10:00		
10:05	10:05		
10:10	10:10		
10:15	<b>Round 2 Bidding</b>		10:15
10:20		10:20	
10:25		10:25	
	<b>Round 12 Bidding</b>		
	<b>Round 12 Calculation and Report</b>		

# Pauses

- A bidder can request an **extension** to the bidding phase of 15 minutes
  - Typically for technical problems
  - If feasible, the calculating and reporting phase will be shortened by 15 minutes when an extension is called
- A bidder can submit a **recess request** during the reporting phase of a round later in the Auction (after round 10 and after the total excess supply in previous round falls below a given threshold)
  - Extra time to consider bid
  - Lasts no less than 30 minutes
  - One recess available to each bidder during the auction
- The Auction Manager can call a time-out (for example, in case of general technical difficulty)



QUESTIONS?

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