

C. BGS AUCTION PROCESS

This chapter is provided for bidder convenience only. Any statements herein describing the EDCs' proposal are summaries only and are qualified in their entirety by the EDCs' "Proposal for Basic Generation Service Requirements to Be Procured Effective June 1, 2019" filed on June 29, 2018 with the New Jersey Board of Public Utilities as well as each EDC's Company Specific Addendum. These documents are available on the [BGS Proceeding](#) page of the BGS Auction website. Bidders bear full responsibility for reviewing each EDC's Company Specific Addendum and accompanying attachments, as well as all documents filed as part of the EDCs' "Proposal for Basic Generation Service Requirements to Be Procured Effective June 1, 2019."

The EDCs are 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").

The EDCs filed their proposal to procure BGS supply for the period beginning June 1, 2019 in response to the Order by the New Jersey Board of Public Utilities ("Board" or "BPU") initiating Docket No. ER18040356. The Board, as part of this Order, established a schedule for the proceeding.

As part of their filing, the EDCs proposed a calendar of events. This chapter describes the regulatory proceeding (section C.1) as well as the activities proposed to occur during the BGS Auction process including activities that will occur prior to the Board decision on the EDCs' proposal (section C.2), the application process (section C.3), the training activities for bidders that successfully completed the application process (section C.4), the conduct of the Auctions (section C.5), and post-auction activities (section C.6).

C.1. Regulatory Proceeding

The Board has followed the same process over the years to solicit and consider proposals on how best to procure supply for BGS customers.

The Board first directs the EDCs to submit their proposal and also invites all other parties to submit proposals on how to procure BGS supply. Once the proposals are filed with the Board, all parties have the ability to issue discovery to parties that have submitted a proposal to the Board. The EDCs thus respond to discovery requests from the parties, which can be on any aspect of the EDCs' proposal. To the extent that responses to such discovery provide data or information that can be useful to bidders, the discovery responses are posted to the BGS Data Room.

All parties also have an opportunity to submit written comments to the Board on any party’s proposal. These are called the “Initial Comments.” Any party may also appear before the Board to provide oral comments at a legislative-type hearing. A party may use this opportunity to further explain its proposal on the procurement of BGS supply, or to present alternative proposals, or to respond to Initial Comments. Parties have a last opportunity to provide written comments to the Board following the legislative-type hearing by filing “Final Comments.” Final Comments can only be used to respond to issues raised in the Initial Comments or issues raised at the legislative-type hearing and cannot be used to raise new issues in the proceeding. The Board considers all proposals and all comments in rendering its decision on how best to procure supply for BGS customers.

The calendar of events in the regulatory proceeding is provided below. The Auction Manager sends reminders to bidders of opportunities to submit comments to the Board and the Auction Manager announces the Board decision once it is rendered.

Table C-1. Events in the Regulatory Proceedings

| Activity or Decision Point | Deadline |
|------------------------------------|------------------------------|
| July 2018 | |
| BGS Proposals Filed by All Parties | Friday, June 29, 2018 |
| Discovery Requests | Monday, July 23, 2018 |
| August 2018 | |
| Discovery Responses | Monday, August 6, 2018 |
| September 2018 | |
| Initial Comments | Wednesday, September 5, 2018 |
| Legislative-Type Hearing | Friday, September 28, 2018 |
| October 2018 | |
| Final Comments | Friday, October 12, 2018 |
| November 2018 | |
| Board Decision | November, 2018 (expected) |

C.2. Activities Prior to Board Decision

Prior to the Board rendering a decision in the proceeding, the Auction Manager conducts a number of activities for potential bidders and makes information available regarding the Auctions. Bidders have an opportunity to comment on the letters of credit and bidders that are unable to utilize the standard form of guaranty have an opportunity to submit an alternate form of guaranty. Those processes are described in the first subsection, C.2.a.

The Auction Manager conducts a first bidder information webcast, publishes these Bidder Materials, announces certain auction parameters, and provides other preliminary information to bidders. These information releases are described in the second subsection, C.2.b.

A calendar of these events is provided below in Table C-2.

Table C-2. Activities by the Auction Manager

| Activity or Decision Point | Timing |
|---|------------------------------|
| August 2018 | |
| First FAQ is Posted | Tuesday, August 14, 2018 |
| Release of Preliminary Draft of RSCP Pricing Spreadsheet | Tuesday, August 21, 2018 |
| September 2018 | |
| Posting of Alternate Guaranty Process | Tuesday, September 11, 2018 |
| October 2018 | |
| Posting of Comment Process on Letters of Credit | Thursday, October 4, 2018 |
| Information Webcast for Potential Bidders | Thursday, October 4, 2018 |
| Illustrative Part 1 and Part 2 Application Forms Are Posted | Thursday, October 4, 2018 |
| Deadline for Expression of Interest in Alternate Guaranty Process | Tuesday, October 23, 2018 |
| Deadline to Propose Modifications to the Standard Form of the Pre-Auction and Post-Auction Letters of Credit | Tuesday, October 23, 2018 |
| November 2018 | |
| Auction Manager Provides Individual Responses to Parties Proposing Modifications to the Letters of Credit | Thursday, November 1, 2018 |
| All Modifications to the Standard Form of the Letters of Credit that Are Acceptable on an Optional Basis Are Posted | Monday, November 5, 2018 |
| Statewide Minimum and Maximum Starting Prices, Load Caps, and Tranche Sizes Announced | Wednesday, November 14, 2018 |

C.2.a. Processes on Credit Instruments

Bidders have an opportunity to comment on the letters of credit and bidders that are unable to utilize the standard form of guaranty have an opportunity to submit an alternate form of guaranty. These processes are described in this subsection.

Letters of Credit

Bidders are required, for each Auction in which they participate, to submit a “Pre-Auction Letter of Credit” with the Part 2 Application in an amount sufficient to support their indicative offers. The Draft Pre-Auction Letter of Credit for BGS-RSCP Bidders and the Draft Pre-Auction Letter of Credit for BGS-CIEP Bidders are posted to the [Contract and Credit](#) page of the BGS Auction website. Bidders may use the “Post-Auction Letter of Credit”, which is the letter of credit appended to the BGS Supplier Master Agreements, to post security under the BGS Supplier Master Agreements. The Draft BGS Post-Auction Letter of Credit is posted to the [Contract and Credit](#) page of the BGS Auction website. Bidders use these draft letters of credit to submit their comments and propose modifications.

Bidders submit their comments or proposed modifications to a draft letter of credit by submitting a Microsoft Word document with tracked changes. The deadline for submission of such comments or modifications is October 23, 2018.

For each modification proposed to a Letter of Credit, the EDCs:

- a. accept the modification and revise the Letter of Credit; or
- b. approve the use of the modification on an optional basis; or
- c. reject the proposed modification.

The Auction Manager, on behalf of a review committee consisting of EDC representatives and representatives from the Auction Manager, responds individually to each potential bidder that proposed modifications to a letter of credit. At the conclusion of this comment process, each letter of credit in its final form is posted to the BGS Auction website. Furthermore, for each letter of credit, a document that includes all modifications that are acceptable to the EDCs on an optional basis is made available to all bidders. The comment process is described in further detail in the document “Comment Process on the Letters of Credit” available on the [Contract and Credit](#) page of the BGS Auction website.

Guaranty

Bidders may have corporate policies that preclude them from using the standard form of guaranty appended to the BGS Supplier Master Agreements. Such bidders have an opportunity to submit an alternate form of guaranty for the EDCs’ consideration. Bidders that want to avail themselves of this opportunity are required to express their interest in the alternate guaranty process by email to the BGS Auction Manager (BGS-Auction@nera.com) by October 23, 2018.

The EDCs make available a list of minimum requirements that an alternate form of guaranty must meet. In particular, an alternate form of guaranty must be a financial guaranty and not a performance guaranty. Furthermore, an alternate form of guaranty must be for unlimited liability (while the standard guaranty has a liability limit). A full list of the minimum requirements is available in the document “Alternate Guaranty Process” available on the [Contract and Credit](#) page of the BGS Auction website.

The alternate guaranty process is held if one or more bidders express interest in submitting an alternate form of guaranty by October 23, 2018. At that time, specific deadlines associated with the steps of such a process are published in a separate document available on the [Contract and Credit](#) page of the BGS Auction website.

C.2.b. Information Releases

The information releases from the Auction Manager to bidders that occur generally prior to the Board decision are described in this subsection.

Prior to the First Bidder Information Webcast

Bidders may submit questions to the Auction Manager by email to BGS-Auction@nera.com or through the [Ask a Question](#) page of the BGS Auction website. The Auction Manager provides a response to each questioner individually, generally within two (2) business days of receiving the question. Questions and responses, with information that could identify the questioner redacted to the extent practicable, are posted to the [FAQs](#) page of the BGS Auction website. The first posting of FAQs occurred on August 14, 2018. Further postings are made on Tuesdays each week (less or more often as circumstances warrant).

The rate design methodology proposed by each EDC is described in each EDC’s Company Specific Addendum. All Company Specific Addenda are posted to the [BGS Proceeding](#) page of the BGS Auction website. The Auction Manager makes available to bidders a BGS-RSCP pricing spreadsheet tool. This tool is intended to translate hypothetical Auction prices for each EDC selected by the bidder into their corresponding BGS-RSCP retail rates. BGS-RSCP retail rates may be important to bidders for the purpose of assessing the likelihood and degree of BGS-RSCP migration.

On August 21, 2018, the Auction Manager posted the BGS-RSCP pricing spreadsheet tool based on the rate design methodology as proposed by the EDCs to the [Additional Data](#) page of the Data Room. The BGS-RSCP pricing spreadsheet tool is updated with any changes to the rate design methodology as may be ordered by the Board as well as refreshed with updated inputs.

The application process begins after the Board has rendered a decision in the regulatory proceeding. On a preliminary basis, the Auction Manager posts an illustrative Part 1 Form and an illustrative Part 2 Form. The posting is scheduled for October 4, 2018. Bidders may use these illustrative forms to learn about the application requirements of past Auctions and about the application requirements as proposed by the EDCs for the current Auctions. The illustrative Part 2 Form is updated once specific auction parameters have been announced on November 14, 2018. The illustrative forms are updated as necessary once the decision of the Board has been rendered.

Bidder Information Webcast

On Thursday, October 4, 2018, the Auction Manager holds a first bidder information webcast to describe the EDCs' proposal to the Board for the procurement of supply for their BGS customers. Within a business day of holding the webcast, the Auction Manager posts to the [Info Sessions](#) page of the BGS Auction website the presentation and audio portion of the webcast, as well as these Bidder Materials. The Auction Manager posts to the [FAQs](#) page of the BGS Auction website the question and response for any question received during the webcast.

Release of Auction Parameters

On November 14, 2018, the Auction Manager announces the following auction parameters:

- **Statewide minimum and maximum starting prices** – The range for the BGS-RSCP is provided in ¢/kWh and the range for the BGS-CIEP Auction is provided in \$/MW-day. Bidders are required to submit indicative offers at each of the minimum and maximum starting price in their Part 2 Application. Furthermore, in the first round of the Auction, prices are set no lower than the minimum starting price and no higher than the maximum starting price;
- **Load caps** – The statewide load cap is the maximum number of tranches that a bidder can bid in an Auction and serve statewide. Each of the BGS-CIEP Auction and the BGS-RSP Auction has a statewide load cap. For the BGS-RSCP Auction, there is in addition an EDC-specific load cap for each EDC. An EDC-specific load cap is the number of tranches that a bidder can bid and serve for that EDC; and
- **Tranche sizes** – A tranche target is the number of tranches available for a given EDC at the beginning of an Auction. The Auction Manager announces the final tranche targets, the final tranche sizes (as a percentage of each EDC's Load) as well as the megawatt measures for each tranche.

C.3. Application Process

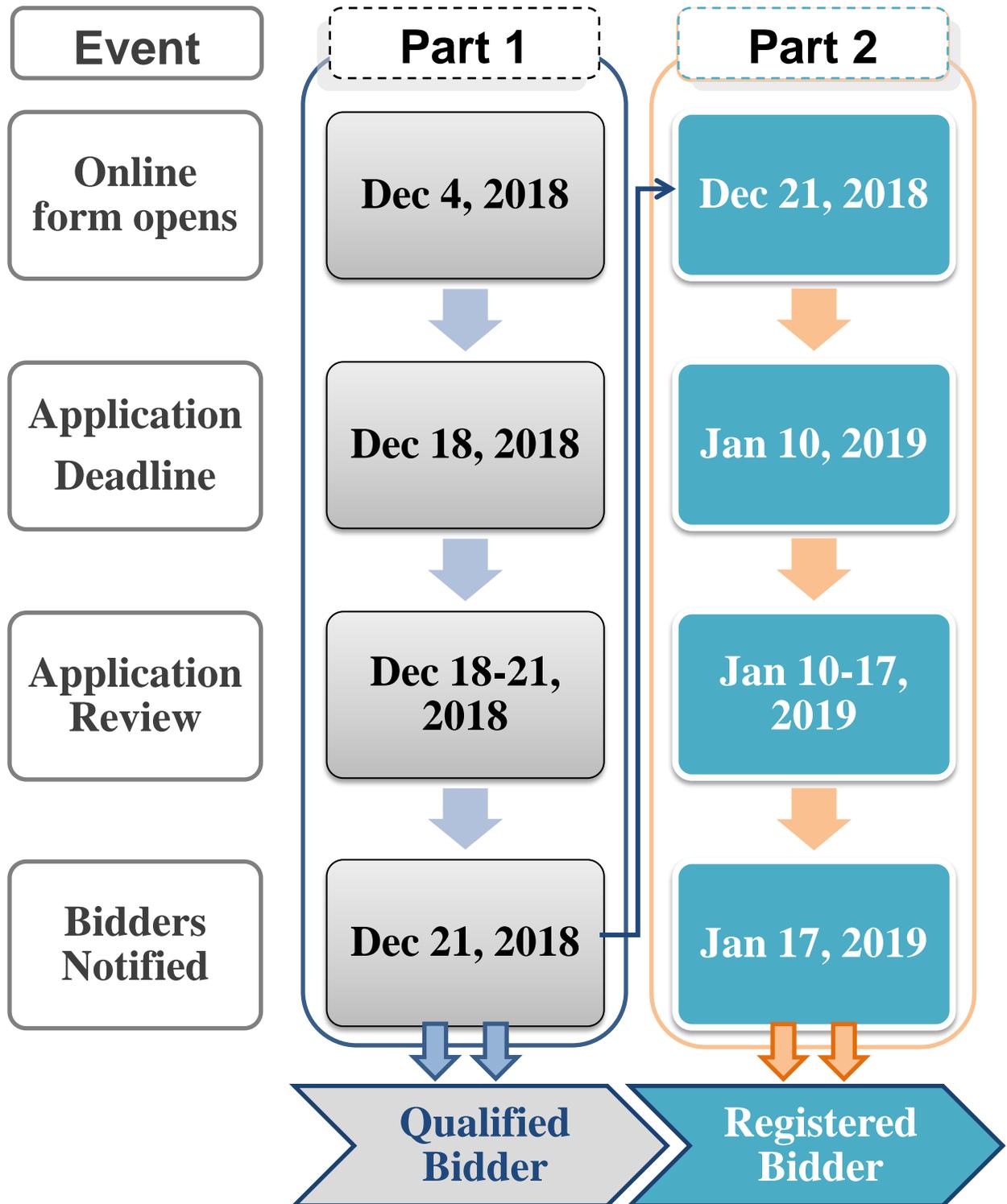
The application process as proposed by the EDCs is in two parts and is conducted online. Applicants may choose to apply to participate in the BGS-RSCP Auction, the BGS-CIEP Auction, or both. This section describes the proposed requirements.

In their Part 1 Applications, interested parties are required to provide primary contact information and submit financial information so that the EDCs can assess their creditworthiness. In addition, interested parties are required to comply with other qualification requirements, including agreeing to the applicable Auction Rules and agreeing to the terms of the applicable Supplier Master Agreement. Each interested party is also required to agree that if the interested party is successful in its Part 1 Application, it keeps confidential the list of other successful Applicants and it does not assign its rights or substitute another entity in its place. An Applicant that has successfully completed the Part 1 Application is a “Qualified Bidder.” Only Qualified Bidders may submit Part 2 Applications.

In their Part 2 Applications, Qualified Bidders make a number of certifications to ensure compliance with the association and confidential information rules. Each Qualified Bidder is also required to agree to keep confidential the list of other successful Applicants; to agree that the submission of any bid creates a binding and irrevocable offer to provide service under the terms of the applicable Supplier Master Agreement; and not to assign its rights or substitute another entity in its place. With its Part 2 Application, each Qualified Bidder is also required to submit an indicative offer and to submit a financial guarantee in proportion to its indicative offer. A Qualified Bidder that has successfully completed the Part 2 Application is a “Registered Bidder.”

The second bidder information webcast provides details of the application process. The process and major milestones are summarized in the following figure.

Figure C.3. Application Process



The full calendar of events is provided below in Table C-3.

Table C-3. Events in the Application Process

| Activity or Decision Point | Timing |
|---|-----------------------------|
| October 2018 | |
| Illustrative Part 1 and Part 2 Application Forms posted | Thursday, October 4, 2018 |
| November 2018 | |
| Second Information Webcast for Potential Bidders | Monday, December 3, 2018 |
| December 2018 | |
| Deadline to submit Part 1 Application due by NOON | Tuesday, December 18, 2018 |
| Part 1 Applications are reviewed | December 18-21, 2018 |
| Applicants are notified of Part 1 Application Results | Friday, December 21, 2018 |
| January 2019 | |
| Deadline to submit Part 2 Application due by NOON | Wednesday, January 10, 2019 |
| Part 2 Applications are reviewed | January 10-17, 2019 |
| Applicants are notified of Part 2 Application Results | Thursday, January 17, 2019 |

C.4. Bidder Training and Additional Information Releases

Bidder Training

Once bidders have been registered to participate in the Auctions through successful completion of the Part 1 Application and Part 2 Application, the Auction Manager makes available bidder training materials such as a guide to the Auction Rules, a software manual for submission of bids through the Auction Software, as well as a description of the backup bidding procedure to follow in the event a bidder experiences technical difficulties with the Auction Software.

The Auction Manager also holds the following activities for bidder training purposes:

- **Webcast for Registered Bidders** – The Auction Manager holds a third and final bidder information webcast, for Registered Bidders only. The webcast primarily aims to provide details regarding the online bidding procedure, backup bidding procedure, and technical preparedness. The Auction Manager also makes several information releases at the time of the webcast, as detailed below.

- **Trial Auctions** – The Auction Manager holds trial auctions for Registered Bidders during which bidders can ensure that they have all systems ready for participating in the Auctions. Bidders have, over several rounds, the opportunity to practice all aspects of the online submission of bids using the Auction Software as well as submission of bids through the backup bidding procedure.

Information Releases

Once bidders have been registered to participate in the Auctions through successful completion of the Part 1 Application and Part 2 Application, the Auction Manager makes several information releases:

- **Tranche Fees** – The Auction Manager announces the “tranche fees” in the third bidder information webcast. The tranche fee is a fee that a BGS Supplier pays per tranche won. The tranche fee for a BGS-RSCP tranches is different from the tranche fee for a BGS-CIEP tranche. The levels of the tranche fees are set to recover administrative costs associated with the Auction Process. The tranche fees are netted against the first payment made to the BGS Supplier during the supply period.
- **Transmission Rates** – The Auction Manager announces the rates for Firm Transmission Service for purposes of the Supplier Master Agreements. In the BGS-CIEP Supplier Master Agreement, these rates correspond to the Transmission Charge for each EDC. In the BGS-RSCP Supplier Master Agreement, these rates correspond to the baseline Firm Transmission Rate against which changes are calculated.
- **Mark-to-Market Information** – At the time of the third bidder information webcast, the Auction Manager posts a Mark-to-Market (“MtM”) document. The document contains illustrative marks for each month of the BGS-RSCP supply period, a description of the methodology that will be used to adjust these marks from the date of posting through the close of the BGS-RSCP Auction, and a description of the methodology for updating forward prices over the term of the contract.
- **Final decrement formulas** – Provisional decrement formulas are provided in the final Auction Rules. The formulas that will be used in the Auctions, which depend on the number of registered bidders, are released no later than three days after bidders are registered to participate in the Auctions. This generally occurs between the final bidder information webcast and the Trial Auctions.
- **Final BGS-RSCP Rate Spreadsheets** – Provisional BGS-RSCP rate spreadsheets are posted at the time of the compliance filing. The EDCs update

inputs to the rate design methodology, such as the PJM transmission obligations, one final time approximately ten days before the BGS-RSCP Auction. The final BGS-RSCP rate spreadsheets are those that incorporate such updates and they are posted at the time of the Trial Auctions.

Announcements are posted to the [News](#) page of the BGS Auction website. The full calendar of events, including the timing of these announcements, is provided below.

Table C-4. Calendar of Information Releases

| Activity or Decision Point | Timing |
|---|-----------------------------|
| January 2019 | |
| Deadline to submit Part 2 Application due by NOON | Thursday, January 10, 2019 |
| Part 2 Applications are reviewed | January 10-17, 2019 |
| Mark-to-Market information release | Tuesday, January 22, 2019 |
| Tranche Fee is announced | Tuesday, January 22, 2019 |
| Transmission Rates announced | Tuesday, January 22, 2019 |
| Information Webcast for Registered Bidders | Tuesday, January 22, 2019 |
| Auction Manager informs Registered Bidders of changes to decrement formulas or ranges of total excess supply (if necessary) | Wednesday, January 23, 2019 |
| Trial Auctions for Registered Bidders | Thursday, January 24, 2019 |

C.5. Conduct of the Auctions

Two Auctions are proposed, the BGS-RSCP Auction and the BGS-CIEP Auction. The EDCs propose that these two Auctions be separate but concurrent.

There are four products in the BGS-CIEP Auction, each representing the BGS-CIEP Load of an EDC for a term of one year. Similarly, there are four products in the BGS-RSCP Auction, each representing the BGS-RSCP Load of an EDC for a term of three years.

Bidders may participate in either or both of the BGS Auctions and may bid on one EDC or on many EDCs in a given Auction. Both the BGS-RSCP and BGS-CIEP Auctions are conducted using a multiple round descending clock auction format. Bidders submit their

bids online using specialized Auction Software. The Auction Software allows the bidder not only to submit bids, but also to view auction results and to receive secure messages from the Auction Manager. Each bidder receives a Login ID and initial password to access the Auction Software for the BGS Auction(s) in which it has been registered to participate. At first login, each bidder is required to change its initial password and then to accept the Auction Software “Terms and Conditions” by clicking “Accept.”

C.5.a. Bidding Phase of a Round

A bid is the number of tranches that a bidder is willing to supply for each EDC at the going price in a round in the Auction. To submit a bid, the bidder selects a number of tranches for each EDC from a pull-down menu. The bidder may be asked for additional information, such as switching priorities and exit prices. The Auction Software then checks that the bid conforms to the Auction Rules. For example, as explained in the Auction Rules, eligibility – the maximum number of tranches a bidder can bid in a given round – can never increase from the prior round. If a bidder submits a bid that would require eligibility to increase, the bidder is asked to resubmit its bid so that it conforms to the Auction Rules.

If a bidder submits a bid that would decrease the bidder’s eligibility, the Auction Software warns the bidder of the impending eligibility reduction. If the bidder wants to proceed with a lower eligibility, the bidder may be asked to enter a last and best offer for the tranches which the bidder is no longer bidding. Last and best offers are called “exit prices.” An exit price for a tranche is a price less than or equal to the previous going price and greater than the current going price.

If a bidder requests to decrease the number of tranches bid on an EDC while increasing the number of tranches bid on two or more other EDCs (“switching”), the bidder is asked to enter switching priorities. Bidders cannot switch between products in one Auction (e.g., the BGS-CIEP Load for one EDC) and products in the other Auction (e.g., the BGS-RSCP Load for the same EDC or another EDC).

Once the bidder has submitted a bid that conforms to the Auction Rules, along with any exit price and/or switching priorities required, the bidder is asked to verify the bid. The bidder may choose to verify the bid or re-enter the bid. A bidder may re-enter the bid as long as the bidding phase of the round is open. The bid that “counts” is the last bid submitted and verified during the bidding phase and processed by the Auction Software.

If a bidder with positive eligibility fails to submit a bid in a round, the bidder is assigned a default bid. It is the responsibility of the bidder to ensure that bids are submitted on

time. The bidder can lose the ability to bid in all future rounds by failing to bid during a round.

C.5.b. Calculating and Reporting Phase of a Round

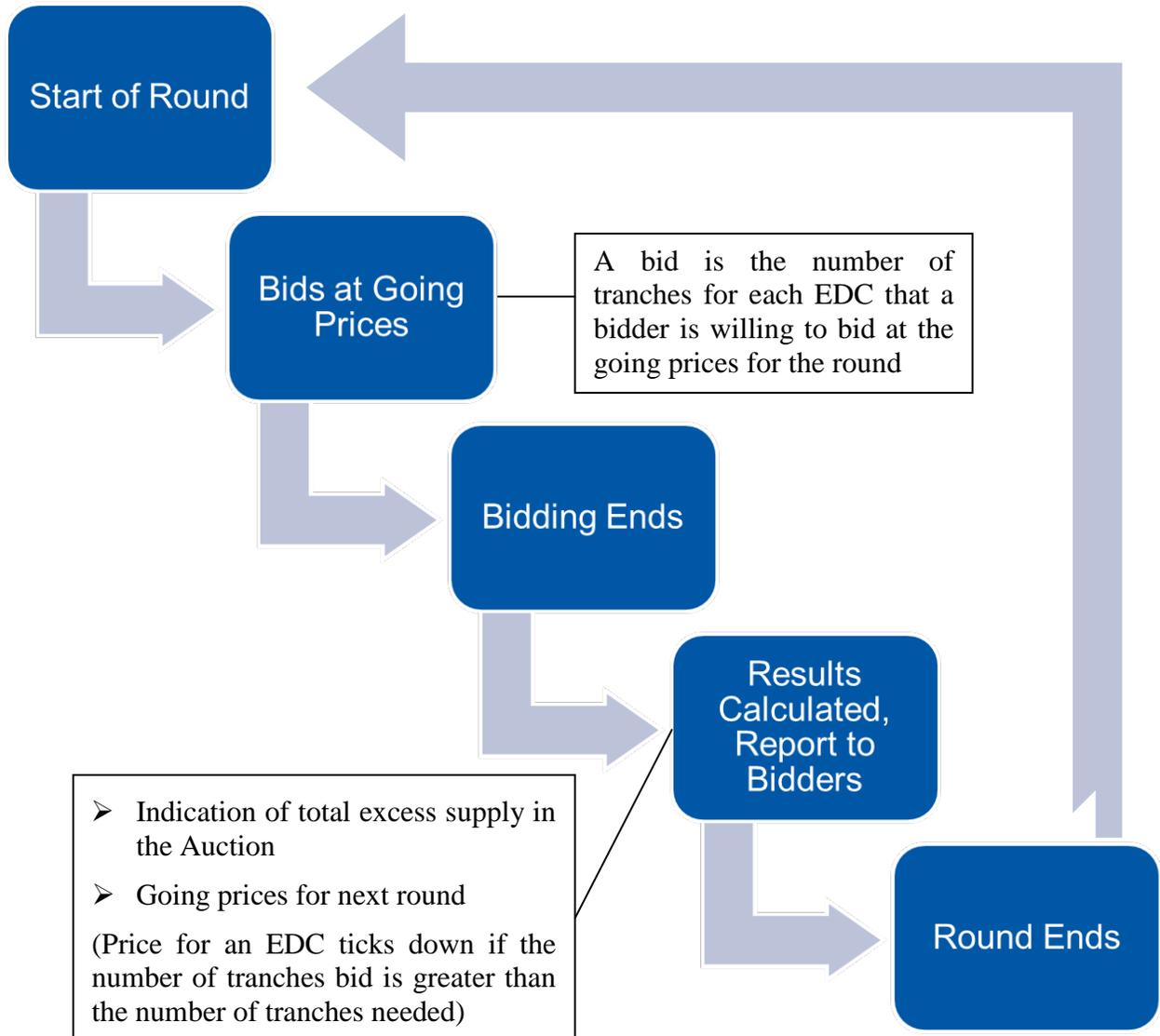
The calculating phase of the round begins after the bidding ends. The Auction Manager determines the going prices for the next round. The price for an EDC in an Auction “ticks down” if the total number of tranches bid for the EDC is greater than the number of tranches needed for that EDC. During the calculating phase, bidders cannot submit bids and do not yet have access to the current round results.

The reporting phase begins when the Auction Manager publishes the results determined during the calculating phase of the round. Bidders are given an indication of the total excess supply remaining in the Auction and are told the going prices for the next round. In addition, the Auction Manager reports privately to each bidder the results of its previous bid. For example, if a bidder has withdrawn tranches from the Auction, the Auction Manager reports to this bidder, and only to this bidder, whether the tranches were retained. Round results can be viewed at any point during the Auction. Results for a given round remain available during subsequent rounds.

C.5.c. Schematic

The schematic below shows the progression of a typical auction round. The diagram applies with the following modification in round 1. In round 1, the going prices are the “starting prices” for each EDC. This process is described in detail in the Auction Rules of each Auction.

Figure C.4. Progression of Auction Round



C.6. Post-Auction Activities

At the conclusion of the BGS-CIEP Auction or the BGS-RSCP Auction, the Auction Manager prepares a full factual report to the Board with its recommendation on whether to accept the auction results. Concurrently, the Board Advisor prepares for the Board a checklist with its recommendation on whether to accept the auction results.

The Board makes its decision to either accept or reject the results of the BGS-CIEP Auction and the BGS-RSCP Auction separately within two (2) business days of the close of the Auctions. If the Board approves the auction results, the EDCs provide Supplier Master Agreements via email to winning BGS Suppliers for their execution. Winning BGS Suppliers then have three (3) business days to execute the BGS Supplier Master Agreements. All participants in the Auctions have five (5) business days to destroy any document containing confidential information related to the Auctions and provided by the Auction Manager.

Should a winning BGS Supplier fail to execute the applicable BGS Supplier Master Agreement, the EDCs may draw on that BGS Supplier's Pre-Auction Letter of Credit provided with the Part 2 Application. The full calendar of events for auction and post-auction activities is provided below.

Table C-5. Calendar of Auction and Post-Auction Activities

| Activity or Decision Point | Timing |
|--|--|
| February 2019 | |
| BGS-CIEP Auction starts | Friday, February 1, 2019 |
| BGS-RSCP Auction Starts | Monday, February 4, 2019 |
| Board decision on Auction results | Within 2 business days of close of the BGS-RSCP 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 |
| Power Flows | Saturday, June 1, 2019 |