

REDACTED

ANNUAL FINAL REPORT
ON THE
2015 BGS FP AND CIEP AUCTIONS

Presented to:

THE NEW JERSEY BOARD OF PUBLIC UTILITIES

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I. INTRODUCTION AND SUMMARY

Boston Pacific Company, Inc. (Boston Pacific) served as the Advisor to the New Jersey Board of Public Utilities (Board) for the Basic Generation Service (BGS) Auctions held in February 2015, as we have for the previous eight years.¹ We are pleased to provide this Annual Final Report as required under our contract. The Board defined the purpose and content of this Annual Final Report as follows:

The contractor shall submit... the annual report... including a summary of the auction process and all recommendations in accordance with the contract schedule... In its Annual Report, the contractor shall detail the administration of the auction for compliance with auction rules and agreed upon procedures. The contractor shall provide the Board with an independent certification of the auction process and results to ascertain whether the auction was competitive and transparent and is consistent with market conditions. The Annual Report shall also include any recommendations on how to improve future BGS procurements.²

As the Board Advisor, we recommended that the Board certify both the Fixed Price (FP) and Commercial and Industrial Energy Pricing (CIEP) Auctions. Each Auction (a) was open, fair and transparent, (b) was sufficiently competitive, and (c) saw winning prices in line with market conditions. The Board certified the results of both Auctions on February 12, 2015. The most explicit evidence for the Board's certification decisions were the Post-Auction Checklists that we provided to the Board on February 11, 2015. These checklists contain (a) a factual statement of Auction results and (b) answers to the questions about the conduct and results of each Auction. Because of the important role that the checklists play, Boston Pacific also provided what we termed "Supplemental Checklists" which explained in detail our reasons for the yes/no answers to the 26 questions in the official FP and CIEP checklists for the BGS Auction. These Supplemental Checklists are included in this report. We believe that they show the extensive depth and breadth of the analyses that underlie our work and the Board's certification decisions.

¹ Boston Pacific has extensive hands-on experience monitoring many of the major full requirements solicitations throughout the country, including solicitations for the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Delaware, and part of Pennsylvania. Additionally, we design and monitor unit-contingent procurement processes, which solicit bids for long-term contracts from individual power plants and other resources. Examples include our engagements in Hawaii, Maryland, Mississippi, Oklahoma, Oregon, and the Virgin Islands. Boston Pacific also has served as an Independent Board Advisor for the Southwest Power Pool Regional Transmission Organization since 2004.

² New Jersey Department of the Treasury, "Request for Proposal 13-X-22552 For: Management Consulting: Oversight of BPU Basic Generation Service Auction Process," May 24, 2012, 18.

A. THE BGS FIXED PRICE (FP) AUCTION

The BGS FP product is a 3-year, fixed price, load-following product that supplies the majority of New Jersey's residential and small commercial customers. FP suppliers provide what is called a "full-requirements service product", which means that the product includes nearly all of the components necessary for the Electric Distribution Companies (EDCs) to provide electricity service to their ratepayers. Each FP supplier provides a fixed percentage of an EDC's residential and small commercial load, whatever that amount turns out to be, as load varies over the course of the contract. This year the EDCs bid out one-third of their FP supply needs; the rest will be served under contracts procured in the 2013 and 2014 BGS Auctions.

As Board Advisor, Boston Pacific recommended at the BPU meeting on February 12, 2015 that the Board certify the results of the BGS-FP Auction. We made that recommendation for three primary reasons: (a) the Auction was open, fair and transparent; (b) the Auction was sufficiently competitive; and (c) the winning prices were consistent with broader market conditions. Before getting into detail on these three reasons, it is constructive to step back to give perspective to the Auction results.

This year's Auction presented challenges due to actions undertaken by PJM. Starting in August of 2014 PJM rolled out a proposal for a new capacity product - known as Capacity Performance – that featured higher performance standards and stricter penalties for non-performance than traditional capacity. Problematic for this Auction, and for other default service procurements, was the fact that PJM wished to acquire Capacity Performance (and additional traditional capacity) for years in which the capacity price had already been established, i.e. the June 2015 through May 2018 period. This would have the effect of raising capacity prices by an unspecified amount for each of the three years covered by this FP Auction. Under the BGS Supplier Master Agreements (SMAs) winning bidders in the FP and CIEP Auctions would have borne this risk – they could not ask for compensation due to cost increases brought on by PJM's actions.

PJM's actions caused bidders to restrict their participation in default service procurements in other PJM states. Because of this, and because the BGS Auction requires effective participation in order to generate reasonable prices, the BPU approved an supplement to the SMAs for both Auctions which will automatically pass through any capacity price changes as a result of PJM's actions. The goal of this supplement was to allow bidders to participate in the Auctions and generate market-competitive final prices. Based on the levels of competition seen in each Auction we believe the supplement effectively served its purpose.

Auction Results

Table One compares the prices of the new contracts to the prices of the expiring contracts.

Table One
Winning FP Prices Compared to Expiring Contracts from 2012 Auction

EDC	2015 Winning Price (cents/kWh)	2012 Winning Price (cents/kWh)	% Change
Atlantic City Electric	8.606	8.51	1.13%
Jersey Central Power & Light	8.042	8.176	(-1.64%)
Public Service Electric & Gas	9.954	8.388	18.67%
Rockland Electric Company	9.066	9.251	(-2.00%)
Tranche-Weighted Average	9.102	8.344	9.08%

Winning prices for three of the four EDCs are similar to what was observed in the 2012 Auction. Winning prices for Jersey Central Power & Light (JCP&L) and Rockland Electric Company (RECO) are down 1.64 percent and 2 percent, respectively, while the winning price for Atlantic City Electric (ACE) is up 1.13 percent. Factors affecting these prices include small decreases in capacity and energy prices and increases in the cost of meeting state Renewable Portfolio Standard (RPS) requirements.

In contrast, winning prices for Public Service Electric & Gas (PSE&G) are actually 18.67 percent more expensive than the expiring contracts from 2012. The main driver of these higher prices is an increase in the cost of transmission service in PSE&G's territory – BGS suppliers must cover this cost in their bid. PSE&G has seen its transmission rates increase by about 160 percent since 2012 as it has included in transmission rates a number of large-scale projects.

Table Two compares this year's winning prices to winning prices in last year's FP Auction.

Table Two
Winning FP Prices Compared to 2014 Winning FP Prices

EDC	2015 Winning Price (cents/kWh)	2014 Winning Price (cents/kWh)	% Change
Atlantic City Electric	8.606	8.78	(-1.98%)
Jersey Central Power & Light	8.042	8.444	(-4.76%)
Public Service Electric & Gas	9.954	9.739	2.21%
Rockland Electric Company	9.066	9.561	(-5.18%)
Tranche-Weighted Average	9.102	9.221	(-1.29%)

Compared to last year's winning prices, winning bid prices for all EDCs except PSE&G decreased anywhere from 1.98 percent to 5.18 percent. [REDACTED]

[REDACTED] Note that PSE&G saw a price increase of 2.21 percent, primarily due to increases in the cost of transmission from last year to this year.

As Board Advisor, Boston Pacific recommended that the Board certify the results of the BGS-FP Auction. We made that recommendation for three primary reasons: (a) the Auction was open, fair and transparent; (b) the Auction was sufficiently competitive; and (c) the winning prices were consistent with broader market conditions.

Openness, Fairness and Transparency

Our first reason for recommending acceptance of the FP Auction is that it was open, fair and transparent. All of the non-price terms and conditions were standardized, all suppliers signed the same supply agreement and provided the same product. This allowed bid evaluation to be done purely on the basis of price. A price-only bid evaluation provides maximum transparency. Also, all the rules of participation and conduct were fully explained and fairly applied by the Auction Manager (NERA).

In addition, fairness and transparency were enhanced by the Auction Manager's proactive facilitation of full access to the process and results for the Board Advisor and Board Staff. As the Board Advisor we, along with Board Staff, were actively involved in the full range of pre-Auction tasks including, but not limited to, (a) the monitoring of bid information sessions, (b) the

calculation of starting prices, and (c) the evaluation of Part 1 and Part 2 Applications. During the Auction itself, we and Board Staff were given complete access to the full range of Auction data. This allowed us to independently verify round-by-round bid offers, price decrements, winning suppliers, and winning prices, and to monitor bidding behavior. We also monitored incoming and outgoing communications with bidders.

Competitiveness

Our second reason for recommending certification of the FP Auction results was that the Auction was sufficiently competitive. Again, this was the primary goal of the SMA supplement passed by the BPU this year which will pass through any changes in capacity prices resulting from PJM’s Capacity Performance Proposal. We assessed five indicators of competitiveness. First, we looked at the total number of bidders in the Auction. A large number of bidders is helpful because it increases the total supply bid in the Auction, pushing prices down. It also makes it harder for bidders to carry out any collusive schemes. This year there were [REDACTED] registered bidders [REDACTED]. This is a healthy number of bidders for an auction of this size [REDACTED].

Second, we looked at the ratio of the quantity of tranches offered to the quantity actually needed at several points in the Auction process. A tranche represents the obligation to serve a fixed percentage of an EDC’s full requirements load, whatever that load turns out to be, in any hour.³ Having excess tranches offered is important because it drives prices down as the Auction proceeds; the price for a given product “ticks down” (is decremented) only if there are excess tranches offered for that product. For that reason, we like to see bidders come in and stay in with the maximum number of tranches offered through many rounds of bidding. [REDACTED]

[REDACTED]

³ Each tranche was sized to be about 100 MW of the peak load of each EDC. Because each EDC has a different peak load, tranches for each EDC equate to a different percentage of each EDC’s load.

Third, we looked at the number of winners. We like to see a large number of winners because it means that the Auction was competitive, with multiple parties pushing down the price at the end. Having a large number of winners also sends signals to other participants that no one party is dominating the Auction, that anyone can win, and it increases the likelihood of winning bidders returning in future years. This year there were nine winners, as compared to eight last year and the year before that. Nine winners [REDACTED] is a statistic that supports our conclusion that the process was sufficiently competitive.

Fourth, we analyzed the results using the Herfindahl-Hirschman Index, or HHI, which is based on the market shares of each participant. The U.S. Department of Justice (DOJ) primarily uses a three-part standard for HHIs when judging the competitive effect of mergers and acquisitions. An HHI below 1,500 is a safe harbor of sorts because the market is said to be un-concentrated, meaning that the merger or acquisition does not make the exercise of market power more likely. An HHI between 1,500 and 2,500 is said to indicate moderate concentration. An HHI over 2,500 is said to indicate a highly concentrated market. FERC uses more conservative HHIs when analyzing mergers and acquisitions. FERC characterizes a market with an HHI below 1,000 as un-concentrated, HHIs between 1,000 and 1,800 indicate moderate concentration, and HHIs above 1,800 indicate a highly concentrated market.

Calculated with the market shares of just the winning suppliers for this year, the HHI was 1,739. This is similar to last year's HHI of 1,912 and is in the moderately concentrated range by DOJ standards and at the high end of the moderately concentrated range by the more conservative FERC standards. If we expand the market to also include winners in the previous two auctions – to include market shares of all suppliers for the upcoming 2015-2016 energy year – the HHI is 1,683, a slight increase from the HHI of suppliers who served customers for 2014-2015, which was 1,533. These scores are near the DOJ's 1,500 safe harbor score (indicating an un-concentrated market) and in FERC's moderately concentrated range.

A related method that is also employed in FERC antitrust evaluations examines the HHI of market shares when the price in the market is raised by five percent. This so-called "Delivered Price Test" gives a sense of what suppliers could offer into a market at a price level roughly consistent with market prices. [REDACTED]

[REDACTED]

Fifth, we looked for signs of collusive or coordinated bidding behavior. [REDACTED]

[REDACTED]
[REDACTED] We found no evidence of any collusive or anti-competitive actions.⁴

Prices Consistent with Market Conditions

The third reason for recommending certification of the BGS FP Auction results was that winning prices were consistent with broader market conditions. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] The output of the model is a range of prices that we consider reasonable.

We created separate benchmark ranges for each utility. Each of the four winning prices were within our benchmark ranges [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] These results give us a great deal of confidence that winning prices were consistent with current market conditions.

Taking a broader view, coming into the Auction we expected that prices for all utilities except PSE&G would be roughly the same as compared to the contracts that are being replaced - as small decreases in energy and capacity costs were offset by increases in meeting the cost of RPS requirements. Generally speaking, our expectations were met. As noted above, for these three EDCs we saw winning prices that ranged from 2 percent below to 1.13 percent above the cost of the 2012 contracts that are being replaced.

The exception was PSE&G, where we had expected prices to increase due to large increases in the FERC-approved cost of transmission.⁵ PSE&G’s transmission rate, inclusive of credits that account for the socialization of some costs across PJM, rose from \$76.94/MW-Day in 2012 to \$199.15/MW-Day, an increase of about 160 percent. We estimated the impact of this

⁴ Had we detected any collusive behavior in the Auction we did have the power to call a recess and discuss the issue with the Auction Manager and Staff.

⁵ New Jersey’s BGS-FP product is unusual in that bidders must include the cost of network integration transmission service in their bids. In other jurisdictions this cost is covered by the EDC.

increase on the final PSE&G price to be to be about 1.345 cents/kWh. Overall, PSE&G's winning price in the BGS-FP Auction was up 18.67 percent as compared to 2012.

PSE&G's transmission rates have increased dramatically over the past several years as the utility has undertaken several major projects, including Susquehanna-Roseland, the NorthEast Grid Reliability Project, the Bergan-Camden Reliability Project and the North-Central Reliability Project. Table Three below shows the cost of network integration transmission service (NITS) from 2008 to 2015 for all four EDCs. The data in this table comes from communications from the EDCs and the Auction Manager to registered bidders in the BGS FP Auction. The rates represent the "baseline" transmission rates in the Supplier Master Agreement that all winning bidders will sign. Note that these costs are net of credits that account for the socialization of costs across PJM for some larger projects.

Table Three
EDC Transmission Rates in the BGS-FP Auction
(\$/MW-Day)

EDC	2008 Auction	2009 Auction	2010 Auction	2011 Auction	2012 Auction	2013 Auction	2014 Auction	2015 Auction
PSE&G	48.30	49.47	58.14	62.65	76.94	115.85	152.66	199.15
JCP&L	41.40	41.40	41.40	41.40	41.40	41.40	41.40	41.40
ACE	54.63	57.10	68.33	83.18	75.94	73.79	78.15	87.81
RECO	87.98	87.98	87.98	87.98	87.98	87.98	87.98	87.98

According to filings with FERC, PSE&G's total net property plant and equipment in rate base for transmission has tripled in recent years, increasing from about \$1.9 billion in October 2011⁶ to about \$6.0 billion in October 2014.⁷ Consequently, as shown above, PSE&G's transmission rates have almost tripled since the 2012 Auction and increased about 33% as compared to just last year. Transmission costs now represent almost as large a share of PSE&G's FP price as do capacity costs. We estimate that transmission costs make up about 20 percent of PSE&G's 2015 BGS price on average, or \$20.59/MWh (2.06 cents/kWh).

⁶ "Informational Filing Public Service Electric and Gas Company: 2012 Formula Rate Modified Annual Update," Docket No. ER09-1257-000, submitted to Federal Energy Regulatory Commission, October 17, 2011, 2.

⁷ "Informational Filing Public Service Electric and Gas Company: 2015 Formula Rate Modified Annual Update," Docket No. ER09-1257-000, submitted to Federal Energy Regulatory Commission, October 15, 2014, 2.

Looking forward, there is little chance that transmission rates will come down as multiple projects are still in the process of being constructed. Moreover, there are other actions which could increase costs to New Jersey ratepayers. For example, last June the Court of Appeals for the Seventh Circuit remanded FERC's determination regarding cost allocation for several large transmission projects (representing roughly \$2.7 billion in costs). The Court found that FERC did not demonstrate that these projects, mostly located in the East, would benefit western PJM utilities to the extent that these utilities were paying for them. Parties are currently discussing settlement, but this could result in more of the costs of these projects being laid on New Jersey ratepayers.

Bill Impact

Table Four shows the estimated monthly bill impacts of the 2015 BGS-FP Auction as forecast by the EDCs for a residential customer with a monthly usage of 650 kWh.

Table Four
Forecast Residential Monthly Bill Impact from 2015 BGS-FP Auction

EDC	Percent Change in Monthly Bill
Atlantic City Electric	(-2.97%)
Jersey Central Power & Light	0.0%
Public Service Electric & Gas	2.10%
Rockland Electric Company	(-3.20%)

As a result of this year's Auction, residential ratepayers of ACE and RECO will see average bill decreases of 2.97 percent and 3.2 percent, respectively. In contrast, residential ratepayers of PSE&G will see an average bill increase of 2.1 percent. Rates for JCP&L will remain essentially unchanged. These rate changes are primarily affected by the replacement of expiring contracts, procured in the 2012 BGS-FP Auction, with contracts procured in this Auction though other factors have an effect as well. For example, the BPU now requires utilities to update forecasted class usage, as well as generation and transmission obligations, in January of each year to better reflect amounts that could be in effect for the upcoming BGS year

B. THE BGS COMMERCIAL AND INDUSTRIAL ENERGY PRICING (CIEP) AUCTION

The BGS CIEP product is a one-year, load following, full requirements product for larger commercial and industrial customers. Each CIEP supplier provides a fixed percentage of an EDC's commercial and industrial load, whatever that amount turns out to be, as load varies over the contract period. Each year the EDCs bid out 100 percent of their CIEP supply needs.

Boston Pacific recommended that the Board certify the results of the CIEP Auction. We used the same three criteria as in our recommendation for the FP Auction.

Fairness and Transparency

We believe the CIEP Auction was open, fair and transparent for the same reasons stated above for the FP Auction.

Competitiveness

We used the same five indicators of competitiveness as we did for the FP Auction. Note that the CIEP Auction is somewhat less competitive than the FP Auction. This is to be expected given the smaller amount of supply bid out.

- First, there were [REDACTED] registered bidders [REDACTED]
[REDACTED]
- Second, the excess quantity offered was adequate. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] this year the load cap for the CIEP Auction was increased from about one-third of the statewide tranche target to about 47% of the tranche target per our recommendation. [REDACTED] it appears that the decision to increase the load cap proved effective in this Auction. [REDACTED]
[REDACTED]
[REDACTED]

- Third, five [REDACTED] bidders were winners in the Auction. This the same number of winners as last year.
- Fourth, the HHI using the market shares of just the winning bidders was 2,454, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- Fifth, we, along with our Auction Theory Expert, [REDACTED]
[REDACTED] found no evidence of collusion or anti-competitive behavior.

Prices Consistent with Market Conditions

Before discussing price we note that the CIEP price is not like the FP price. Winning bidders in the CIEP Auction provide a similar full requirements product but are paid the spot market price for providing energy, \$6/MWh for providing ancillary services, and a standby fee of \$0.15/MWh. The price they offer into the CIEP Auction is meant to essentially cover (a) the cost of capacity and (b) the cost of meeting New Jersey’s RPS.

[REDACTED] a rough benchmark for the CIEP product [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

C. THE ROCKLAND ELECTRIC COMPANY SWAP PROCUREMENT

This year Rockland Electric Company conducted a separate procurement to procure an energy price hedge for its non-PJM load within New Jersey, just as it did last year and the year before. The procurement was conducted via bilateral negotiations with full details of the offers reported to and reviewed by Boston Pacific and BPU Staff. RECO procured a, financially-settled bilateral “fixed for floating” swap that fixed the price of energy for the June 2015 through May 2018 period for 10 MWh of around the clock delivery. The results of the procurement were approved at the May 19, 2015 Board Meeting.

D. LONG-TERM COMPETITIVENESS

In an effort to provide the Board with a longer-term look at the competitiveness of the FP Auction, we provide a review of Auction participation over the last several years. Our findings are in the tables below. [REDACTED]

[REDACTED TABLE]

To further examine long term competitiveness, we looked at trends in both Auction participation and New Jersey’s BGS market suppliers. [REDACTED]



[REDACTED TABLE]

we can make at least four observations.

Both of those metrics indicate a very competitive process. Second, bidders are able to leave the process one year and re-enter later; . This is a good sign of the transparency of the Auction process. Third

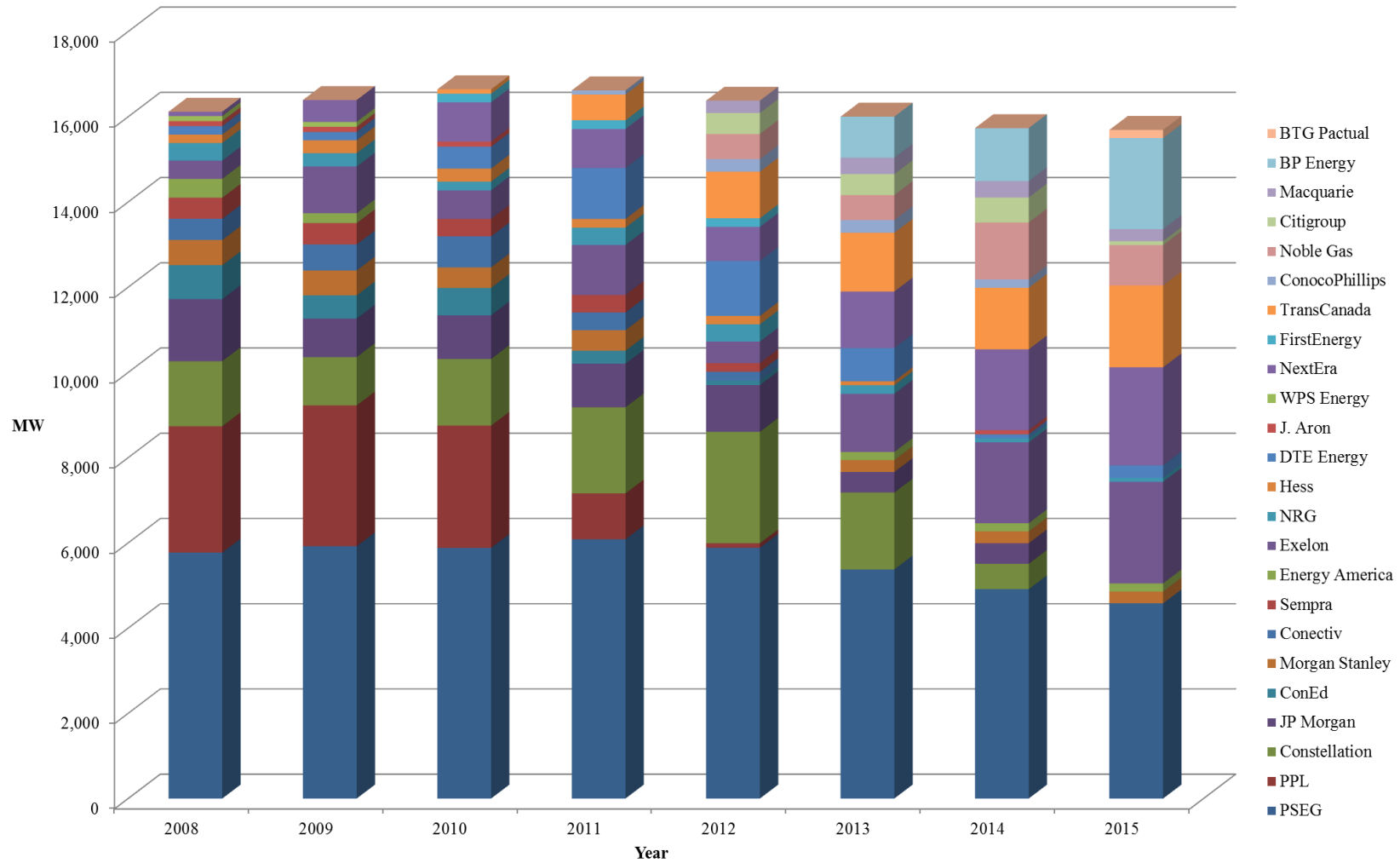
In terms of who is supplying the BGS-FP product, we looked at trends in FP winners. Figure One, below, displays how much load each supplier served for each energy year (i.e. June-May period) from 2008-2009 to 2015-2016.⁸ Each column in Figure One is organized from the bottom up from 2008's largest supplier to its smallest supplier; newer suppliers are added on top as they begin supplying. The columns then map out the growth or decline in load share through the energy years.

From this figure we see that 24 different suppliers have provided (or will provide) supply to FP ratepayers over the period 2008-2009 to 2015-2016.⁹ For the 2015-16 year, 13 suppliers will provide FP service. PSE&G Energy Resources and Trade has been the largest supplier over that period, winning at or near the load cap, about one-third of total supply, in each year. Beyond PSE&G, however, the positions of bidders have shifted over the years. For example, PPL served roughly 19 percent of supply from 2008 to 2010, but will not serve in 2015. TransCanada now will serve about 12 percent of the FP supply; in 2010 they served less than 1 percent. Similarly BP Energy was not a supplier in 2008 through 2012 but now will provide 13 percent of next year's FP load. All this is indicative of a very competitive process.

⁸ Our calculations here are based solely on the winning bidders from each Auction and do not account for mergers, such as the Exelon-Constellation merger, or any contracts that were subsequently assigned or sold to other parties. However, we do account for any bidders who have always bid under the same parent company, such as Coral Power merging into its parent company Shell and Florida Power & Light launching its energy trading subsidiary, NextEra.

⁹ Note that WPS and Energy America won tranches in the 2007 BGS Auction and therefore were contracted to supply load in 2008 through 2010.

Figure One
Estimated MW of FP Energy Served, by Supplier



E. RECOMMENDATIONS

In this section we present recommendations that we believe will assist New Jersey going forward. As a primary goal, these recommendations are our attempt to make sure that the BGS Auction continues to serve the needs of New Jersey's ratepayers.

Rate Impact Review

Currently, at the conclusion of the Auction, the New Jersey EDCs produce a forecast of the average monthly bill impact for a residential customer as a result of the procurement. Bill impacts have typically been driven by the cost of new winning FP contracts as compared to the expiring contracts; however there are other factors that can also affect the result. As noted above, the BPU recently ordered the EDCs to update forecasted class usage, as well as generation and transmission obligations, in January of each year to better reflect amounts that could be in effect for the upcoming BGS year. These changes affect the allocation of costs among rate classes and, therefore, the ultimate rate impact.

As the Advisor, we do not currently review the bill impact calculations, though we attempt to provide a "sanity check" based on a back of the envelope comparison between the winning prices in the current Auction and the prices of the contracts being replaced. This year, there was some confusion when PSE&G initially calculated an average bill increase of 5.1 percent. In providing our back-of-the-envelope "sanity check," PSE&G's calculated impact seemed high; however, we did not have the necessary data from PSE&G to fully verify this number, nor was it explicitly part of our duty as Advisor to fully vet the bill impacts. Nevertheless, we raised our concern with several parties. After learning of our concern, PSE&G personnel determined that a copying error on a PSE&G spreadsheet had led to an inaccurate estimation. Once PSE&G corrected the error, the actual anticipated increase was only 2.1 percent. PSE&G issued a press release explaining what had occurred and updating the anticipated bill impact.

We understand that the EDCs provide the input spreadsheets in the beginning of the BGS process, which typically occurs in July. In order to assure that this problem does not occur again, we propose to take several steps. First, we can review the sheets to understand how they work and make sure we agree with and understand the inputs and assumptions. Second, we can consult with the EDCs prior to Auction week to make sure the adjustments to the forecasted class usage, as well as generation and transmission obligations, were made accurately. We would also use this time to make sure we agree with the EDCs on the impact of several hypothetical scenarios (e.g., if winning prices are 5 percent above expiring contract prices what would the bill impact be). Third, we can review and agree upon the actual bill impacts resulting from the Auction and stand ready to answer questions the Board may have.

II. THE NEW JERSEY 2015 BGS-FP AUCTION

A. POST-AUCTION CHECKLIST



**ATTACHMENT B
DOCKET NO. ER13050378**

**POST-AUCTION CHECKLIST
FOR THE NEW JERSEY 2015 BGS-FP AUCTION**

Prepared by: Boston Pacific Company, Inc.

Auction began with the opening of Round 1 at 8:55 am on Monday, February 9, 2015

Auction finished with the close of Round 17 at 10:27 am on Tuesday, February 10, 2015

	Start of Round 1	Start of Round 2 * (after volume reduction in Round 1, if applicable)	Start of Round n * (after post-Round 1 volume reduction, if applicable)
# Bidders		NA	NA
Tranche target	57	NA	NA
Eligibility ratio		NA	NA
PSE&G load cap	14	NA	NA
JCP&L load cap	9	NA	NA
ACE load cap	3	NA	NA
RECO load cap	1	NA	NA
Statewide load cap	21	NA	NA

*Note: No volume adjustment was made during the FP auction, so the pre-auction tranche target and EDC-specific load caps were unchanged for the auction.

ATTACHMENT B
DOCKET NO. ER13050378

Post-Auction Checklist for the New Jersey 2015 BGS-FP Auction

Table 1 below shows pertinent indicators and measures for the auction.

Table 1. Summary of BGS-FP Auction

	PSE&G	JCP&L	ACE	RECO	Total
BGS-FP peak load share (MW)	2,760.71	1,999.98	691.19	97.65	5,549.53
Total tranches needed	29	20	7	1	57
Starting tranche target in auction	29	20	7	1	57
Final tranche target in auction	29	20	7	1	57
Tranche size (%)	1.18	1.93	4.55	25.00	
Tranche size (approximate MW)	95.20	100.00	98.74	97.65	
Starting EDC load caps (# tranches)	14	9	3	1	--
Starting statewide load cap (#tranches)	--	--	--	--	21
Final EDC load caps (# tranches)	14	9	3	1	--
Final statewide load cap (#tranches)	--	--	--	--	21
Quantity procured (# tranches)	29	20	7	1	57
Quantity procured (% BGS-FP load)	100%	100%	100%	100%	100%
# Winning bidders	7	6	3	1	9
Maximum # of tranches procured from any one bidder	12	7	3	1	17
Minimum and maximum starting prices prior to indicative bids (cents/kWh)					18.0 13.5
Starting price at start of auction (cents/kWh) *					
Final auction price (cents/kWh) **	9.954	8.042	8.606	9.066	9.102

* Price shown in “Total” column is an average across the EDCs weighted by each EDC’s “Starting tranche target in auction”.

**Price shown in “Total” column is an average across the EDCs weighted by each EDC’s “Final tranche target in auction”.

**ATTACHMENT B
DOCKET NO. ER13050378**

Post-Auction Checklist for the New Jersey 2014 BGS-FP Auction

Table 2. Overview of Findings on BGS-FP Auction

Question		Comments
1	BP’s recommendation as to whether the Board should certify the FP auction results?	Yes, certify
2	Did bidders have sufficient information to prepare for the FP auction?	Yes
3	Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?	Yes
4	Were there any issues and questions left unresolved prior to the FP auction that created material uncertainty for bidders?	No
5	From what BP could observe, were there any procedural problems or errors with the FP auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager?	No
6	From what BP could observe, were protocols for communication between bidders and the Auction Manager adhered to?	Yes
7	From what BP could observe, were there any hardware or software problems or errors, either with the FP auction system or with its associated communications systems?	No
8	Were there any unanticipated delays during the FP auction?	No
9	Did unanticipated delays appear to adversely affect bidding in the FP auction? What adverse effects did BP directly observe and how did they relate to the unanticipated delays?	No
10	Were appropriate data back-up procedures planned and carried out?	Yes
11	Were any security breaches observed with the FP auction process?	No

	Question	Comments
12	From what BP could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and BP during the FP auction?	Yes
13	From what BP could observe, were the protocols followed for decisions regarding changes in FP auction parameters (e.g., volume, load caps, bid decrements)?	Yes
14	Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the FP auction software double-checked or reproduced off-line by the Auction Manager?	Yes
15	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	No
16	From what BP could observe, were the communications between the Auction Manager and bidders timely and effective?	Yes
17	Was there evidence that bidders felt unduly rushed during the process? Should the auction have been conducted more expeditiously?	No
18	Were there any complaints from bidders about the process that BP believed were legitimate?	No
19	Was the FP auction carried out in an acceptably fair and transparent manner?	Yes
20	Was there evidence of non-productive “gaming” on the part of bidders?	No
21	Was there any evidence of collusion or improper coordination among bidders?	No
22	Was there any evidence of a breakdown in competition in the FP auction?	No
23	Was information made public appropriately? From what BP could observe, was sensitive information treated appropriately?	Yes
24	Does the FP auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP load?	Yes

Question		Comments
25	Were there factors exogenous to the FP auction (e.g., changes in market environment) that materially affected the FP auction in unanticipated ways?	No
26	Are there any concerns with the FP auction's outcome with regard to any specific EDC(s)?	No

B. BOSTON PACIFIC SUPPLEMENTAL CHECKLIST

**BOSTON PACIFIC SUPPLEMENT TO NEW JERSEY BGS AUCTION CHECKLIST:
FP AUCTION**

QUESTION 1:

Boston Pacific's recommendation as to whether the Board should certify the FP Auction results?

ANSWER 1: Yes, certify.

CRITERIA:

a. Were all checklist questions satisfactorily answered?

Yes.

QUESTION 2:

Did bidders have sufficient information to prepare for the FP Auction?

ANSWER 2: Yes.

PRE-AUCTION CRITERIA

a. Were there Pre-Bid sessions and were they informative?

Yes, there were Pre-Bid Information Sessions and they informed bidders about Auction procedures and developments.

There were three Pre-Bid Information Sessions: the first on September 26, 2014, the second on December 5, 2014, both held in-person in Philadelphia. The third was scheduled for January 27, 2015 in Philadelphia; however, due to a storm on the Eastern Seaboard, this session was canceled and replaced with an online webinar on January 28, 2015. Because the third session was a webinar, meaning that bidder confidentiality was maintained, NERA was able to conduct just one session, as opposed to having to hold separate sessions for FP and CIEP bidders as it has done in the past.

The first two information sessions were open to any entities interested in participating in the Auction. The third information session was held after the application process and was for Registered Bidders only.

Four companies attended the first information session and 7 companies attended the second information session. In total, 10 companies showed interest in the FP and/or CIEP Auction by attending one of the first two bidder information sessions. This compares to 9 companies attending one of the first two sessions last year. [REDACTED] FP bidders attended the third bidder information session this year, as compared to [REDACTED]. This high turnout is likely due to the fact that this was

an online webinar, and did not require bidders to travel. All questions asked at the information sessions were adequately answered by NERA.

b. Were frequently asked questions (FAQs) posted on the BGS website and were all questions answered?

Yes, the FAQs were posted and all questions asked in a timely manner were answered.

All questions asked by bidders and their answers were posted on the FAQ section of the BGS website pursuant to NERA's FAQ Protocols. These protocols called for a specific process for answering bidder questions to ensure that all bidders had access to the same information at the same time.

As of February 5, 2015, 241 questions had been asked by bidders since August 12, 2014, the first day FAQs were posted. All of these questions were answered in a timely fashion by NERA. The topics of questions included: (a) Applications, (b) Association and Confidential Information Rules, (c) Auction Rules, (d) BGS Supplier Master Agreement, and specifically section 15.9, (e) Credit, (f) Data, (g) Payments and Rates, and (h) other general questions. NERA provided responses to all of these questions, which seemed to satisfy bidders.

Starting on January 27, 2015, the Auction Manager sent answers to questions received regularly to Registered Bidders via email. Boston Pacific reviewed these FAQs as well.

c. Was required information and data provided on the website?

Yes, the BGS Auction website provided required data for bidders to prepare for the Auction.

The Auction information listed below was provided according to the schedule posted by NERA. This information included: (a) Application forms, (b) minimum/maximum starting prices, (c) tranche targets, (d) load caps, (e) finalized rules, (f) final Supplier Master Agreements, and (g) finalized decrement formulas.

NERA also maintained a "data room" on their website, which contained data that was updated monthly and additional data that was updated less frequently. NERA provided descriptions of both types of data. This data room helped bidders prepare their bids. Examples of the data posted here included (a) load data, which was updated monthly for each EDC and covered the period up to October 2014 or later, and (b) switching statistics that showed the percentage of load and number of customers that have switched to third party suppliers. Any revisions made to the data were marked on their website.

d. Did Bidders receive Auction logistics information (i.e. Confidential Bidder Information packet) on time?

Yes, before the Trial Auction, [REDACTED]

e. Did bidders communicate any material concerns to NERA?

Yes. In August 2014 PJM – in response to large-scale generator outages experienced in the January 2014 Polar Vortex and Winter Storms – unveiled a proposal to implement major changes to its capacity market. Most notably, PJM planned to seek a large quantity of a more robust capacity product (known as “Capacity Performance”). PJM offered additional details in a proposal dated October 7, 2015.

Of particular concern for bidders in this Auction was PJM’s plan to acquire Capacity Performance supply in so-called “transition auctions” for years in which the RPM Auction had already taken place. This would retroactively change the established prices for capacity for the June 2015 through May 2018 period. Bidders use these capacity prices to price their bids in the FP Auction. Bidders expressed concern that, without changes to the Supplier Master Agreement, they would be taking on the risk of capacity price changes, a relatively unknown risk that they would not be able to hedge. These concerns led bidders to reduce their participation levels in other default service RFPs. For example, in October of 2014, Maryland’s default service RFP saw only two bidders for residential service (versus a normal level of six to eight).

In response, the BPU offered all parties the opportunity to comment on the October PJM proposal. Initial comments were due on October 22 and reply comments were due on October 29. In its November 25 Order the Board directed the New Jersey EDCs to incorporate a proposed mechanism which would automatically pass through to ratepayers any change in capacity prices caused by the Capacity Performance transition.

We believe, based on the level of competition seen in this Auction, that this mechanism provided enough security to bidders to keep them in the Auction process. We note that ratepayers will be responsible for any change in capacity price as a result of PJM’s actions.

f. Were bidders given an opportunity to provide proposals and comments concerning the 2015 Auction Process?

Yes. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2014. Interested parties were also invited to file initial comments and final comments by September 3, 2014 and October 7, 2014, respectively. The Board also held a legislative-type hearing on September 29, 2014.

In addition, parties were permitted to comment on PJM’s Capacity Performance proposal as noted above. After reviewing all comments from the EDCs and other interested

parties, in November 2014 the Board approved the Joint EDC Proposal for the 2015 BGS Auction and the pass-through mechanism.

QUESTION 3:

Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?

ANSWER 3: Yes.

PRE-AUCTION CRITERIA

a. Was the timeline followed?

Yes, but with three adjustments, which are detailed below.

b. Were there updates to the timeline?

Yes, there were three adjustments to this schedule, which we believe had no negative effects on the Auction results. The first two resulted from PJM's Capacity Performance Proposal, which would retroactively alter capacity prices in the region. Thus, two postings were delayed in order to provide the Board more time to consider its options on how to proceed: (a) the announcement of statewide minimum and maximum starting prices, load caps, tranche sizes, and number of tranches was delayed from November 14, 2014 to December 2, 2014, and (b) the final Part 2 Application posting was delayed from November 17, 2014 to December 3, 2014. Both of these delays were announced on November 3, 2014 through the BGS website.

The third update was to the Third Information Session, which was originally scheduled for January 27, 2015. With severe winter weather up and down the East Coast creating travel hazards, it was rescheduled as a webinar the following day, January 28, 2015.

QUESTION 4:

Were there any issues and questions left unresolved prior to the FP Auction that created material uncertainty for bidders?

ANSWER 4: No.

PRE-AUCTION CRITERIA

a. Were all questions answered in the FAQs?

Yes, please see answer to 2b.

b. Were bidder questions asked after January 27, 2015 directly responded to by NERA?

Yes, questions continued to be asked by Registered Bidders after January 27, 2015 and NERA provided answers to these questions directly to bidders via email. These answers were distributed regularly beginning on January 27, 2015. Bidders did not indicate any concerns with the answers provided by NERA. Also, please see answer to 2b.

c. Did other events or issues produce any material uncertainty for bidders?

No, no questions about the Auction were left unresolved by the start of the Auction.

The main source of concern for bidders was the effect of PJM’s Capacity Performance proposal. As noted above, the Board responded to this concern by approving a mechanism to automatically pass through the effect of any price changes created by this proposal.

Boston Pacific also monitored various industry news sources and did not discover any other events that would produce material uncertainty for bidders.

d. Did bidders communicate any material concerns to NERA?

Please see answer to 2e.

e. Was information equitably provided to bidders?

Yes, information was provided to bidders equally. This was done through Pre-Bid Information Sessions, FAQs posted on the BGS Auction website and emailed to all bidders, and email announcements of upcoming important events and milestones. Also, please see answers to 2a-2d.

f. Was information provided to maximize the number of bidders for the Auction?

Yes, before bidders were registered, NERA conducted extensive marketing efforts in order to maximize bidder participation. Maximum bidder participation is important since the supply offered in excess of need is what drives Auction prices to “tick down” (i.e. decrease) from round to round.

NERA conducted direct marketing with potential bidding companies through an email distribution list and phone calls. The list of contacts was developed from existing contact lists and from participants that registered for information on the BGS Auction website. This outreach effort began prior to the first information session. NERA also advertised the opportunity in several industry publications from December 3, 2014 through the Part 1 deadline of December 16, 2014.

The Auction Manager consulted with Boston Pacific during each of the Application processing periods. [REDACTED]

- [REDACTED]
- g. From Boston Pacific’s observation, were there any pre-qualification requirements which directly prevented bidder participation?**

[REDACTED]

[REDACTED]

[REDACTED]

QUESTION 5:

From what Boston Pacific could observe, were there any procedural problems or errors with the FP Auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager?

ANSWER 5: No.

AUCTION WEEK CRITERIA

- a. Was protocol followed for the FP Auction?**

Yes, to our knowledge, the Auction was carried out according to the Auction Rules as approved by the Board.

- b. Were there problems with the electronic bidding process?**

No, there were no problems with the Auction software during testing or trials.

Boston Pacific had full opportunity to test NERA’s bidding software, backup bidding process, and bid recording systems during two Trial Auctions. For the first Trial Auction on January 23, 2015, Boston Pacific assumed the role of a bidder and verified that bidders’ accounts had access to the correct information. We tested the Auction software by submitting problematic bids to determine if the software operated according to the rules and provided proper information to bidders. We also tested NERA’s fax- and

phone-based backup bidding systems by submitting backup bids and creating situations to test NERA’s bidder notification protocols. [REDACTED]

For the second Trial Auction, held on January 29, 2015, Boston Pacific moved to the evaluation side. We traveled to the site of the Auction, in Newark, NJ to test the actual processes that would be used during the Auction. We monitored and evaluated bids submitted by Registered Bidders. We received and tested bid reports from NERA’s software and formulated reports and checked price decrements using our own bid evaluation software.

During the Auction, Boston Pacific did not observe any significant software problems. One bidder [REDACTED] had difficulty using and viewing the Auction platform. After discussing the issue with the Auction Manager the bidder was able to correct the problem [REDACTED]. The issue had no impact on the bidder’s participation in the Auction.

c. Was the back-up bidding process followed?

Yes, [REDACTED]

d. Did communications between bidders and the Auction Manager follow procedure?

Yes, communications between bidders and the Auction Manager followed procedure.

Bidders were given two ways of communicating with the Auction Manager during the Auction. Bidders had a telephone number for technical assistance and they could also send electronic messages through the online platform. Both of these forms of communication were logged. All telephone conversations were taped and all electronic messages and the answers given by the Auction Manager were saved. Boston Pacific reviewed all telephone conversations and electronic messages.

e. Were Auction schedule protocols followed with regard to extensions and recesses?

Yes, [REDACTED]. In addition, bidders were given an automatic extension after round one.

f. Did bidders communicate any material concerns to NERA?

None beyond those mentioned above.

QUESTION 6:

From what Boston Pacific could observe, were protocols for communication between bidders and the Auction Manager adhered to?

ANSWER 6: Yes.

PRE-AUCTION CRITERIA

a. Was confidential information properly provided to bidders?

Yes. Boston Pacific did not observe any release of confidential information or inappropriate communication that could impair the integrity of the Auction.

b. Before the Part 2 Application deadline, were questions placed on the Auction website?

Yes. The first FAQ was posted on the BGS website August 12, 2014. The Part 2 Application deadline was on January 14, 2015 by which time there were a total of 197 questions posted. Additional questions asked by bidders were also answered by NERA following the Part 2 Application deadline. See also the answer to 2b.

c. Were the communication protocols followed?

Yes. [REDACTED]

AUCTION WEEK CRITERIA

d. Was confidential information properly provided to bidders?

Yes, the Auction software was built to ensure that all participants had controlled access to Auction information. [REDACTED]

e. Did communications between bidders and the Auction Manager follow procedure?

Yes, please see the answer to 5d.

QUESTION 7:

From what Boston Pacific could observe, were there any hardware or software problems or errors, either with the FP Auction system or with its associated communications systems?

ANSWER 7: No.

AUCTION WEEK CRITERIA

- a. What problems, if any, were there with the Auction or communications system on NERA's end?**

Boston Pacific is unaware of any material issues with NERA's communication systems based on our review of electronic and voice communications.

- b. Did bidders experience any computer or communications problems that appeared to be the fault of NERA?**

No, all bids were successfully received by NERA. As noted above, one bidder briefly had some difficulty viewing and using the Auction platform, but that problem was quickly remedied with no material impact.

- c. Was NERA aware of any material technical issues?**

No, NERA did not indicate any material technical issues.

- d. Did bidders communicate any material concerns to NERA?**

No, please see 5f.

QUESTION 8:

Were there any unanticipated delays during the FP Auction?

ANSWER 8: No.

QUESTION 9:

Did unanticipated delays appear to adversely affect bidding in the FP Auction? What adverse effects did Boston Pacific directly observe and how did they relate to the unanticipated delays?

ANSWER 9: No.

QUESTION 10:

Were appropriate data back-up procedures planned and carried out?

ANSWER 10: Yes.

AUCTION WEEK CRITERIA

a. Was Auction data backed-up during the Auction?

According to the Auction Manager Protocols, NERA ensured that no Auction information would be lost if there was a problem with the Auction software during the Auction. [REDACTED]

QUESTION 11:

Were any security breaches observed with the FP Auction process?

ANSWER 11: No.

To our knowledge, there were no security breaches.

During the Auction, many security measures were in place. The Auction software used on bid day was built to ensure that all participants had controlled access to Auction data.

[REDACTED]

Boston Pacific reviewed communications between NERA and bidders. [REDACTED]

[REDACTED]

QUESTION 12:

From what Boston Pacific could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and Boston Pacific during the FP Auction?

ANSWER 12: Yes.

AUCTION WEEK CRITERIA

a. Were protocols followed as described by NERA?

Yes. As far as Boston Pacific is aware, the Communication Protocols were followed during the Auction. Also, please see answer to 5d.

b. Did BPU Staff and Boston Pacific get all the information that we required?

Yes, Boston Pacific and BPU Staff received all data requested from NERA in a timely and professional fashion during the Auction.

QUESTION 13:

From what Boston Pacific could observe, were the protocols followed for decisions regarding changes in FP Auction parameters (e.g., volume, load caps, bid decrements)?

ANSWER 13: Yes.

PRE-AUCTION CRITERIA

a. Were notable changes made to the decrement formulas?

No, there were only minor changes to decrement formulas. NERA adjusted the decrement formula coefficients for all four EDCs to create a smoother path for price declines over the course of the Auction. These updated formulas accounted for the change in the number of tranches being procured by the EDCs

AUCTION WEEK CRITERIA

b. During the Auction, did the Auction Manager impose any changes on the FP Auction parameters?

Boston Pacific independently calculated the bid decrements for each round. The Auction Rules prescribe three different regimes of formulas for calculating the price decrements. Boston Pacific also validated NERA's decisions to switch from Regime 1 to Regime 2 and from Regime 2 to Regime 3.

QUESTION 14:

Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the FP Auction software double-checked or reproduced off-line by the Auction Manager?

ANSWER 14: Yes.

[REDACTED]

QUESTION 15:

Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auction?

ANSWER 15: No.

There was no evidence of confusion or misunderstanding that caused delays; as noted, Boston Pacific reviewed all electronic and voice communications.

QUESTION 16:

From what Boston Pacific could observe, were the communications between the Auction Manager and bidders timely and effective?

ANSWER 16: Yes.

AUCTION WEEK CRITERIA

All answers to questions Boston Pacific was able to review seemed relevant and clear. Again, Boston Pacific reviewed all FAQs and electronic messages. In addition, Boston Pacific also reviewed the phone conversations between bidders and the Auction Manager.

Boston Pacific believes answers to bidders' questions were provided in a timely fashion, and NERA made all possible efforts to ensure bids were placed on time.

QUESTION 17:

Was there evidence that bidders felt unduly rushed during the process? Should the Auction have been conducted more expeditiously?

ANSWER 17: No.

The Auction proceeded smoothly. The 2015 FP Auction ended after 17 rounds, which compares to 16 rounds last year and 21 the year before.

Each bidder is permitted 1 recess request and 2 extension requests during the Auction. The Auction includes an automatic extension after round 1. [REDACTED]

[REDACTED] there was no indication from bidders that they felt unduly rushed. [REDACTED]

Note that bidders were able to test the Auction software during the Trial Auction for Registered Bidders, and therefore were comfortable with it during the actual Auction.

QUESTION 18:

Were there any complaints from bidders about the process that Boston Pacific believed were legitimate?

ANSWER 18: No.

Boston Pacific believes there were no legitimate complaints about the Auction. That is, we are not aware of any questions raised by bidders that were not resolved.

QUESTION 19:

Was the FP Auction carried out in an acceptably fair and transparent manner?

ANSWER 19: Yes.

Speaking broadly, the New Jersey Auction is structured to be fair and transparent. The two key features in this regard are (a) the precisely defined product being solicited and (b) the price-only evaluation. These ensure that all bidders are supplying the same product and no bidder can gain an advantage over another except by offering a lower price. Because the product and evaluation method are clearly spelled out, any bidder that meets the qualification requirements may participate.


In addition, as approved by the Board, the BGS Auction had several mechanisms in place to ensure a fair and transparent process.

All interested parties were given ample opportunity to comment on the 2015 BGS process. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2014. Furthermore, interested parties were also invited to file initial comments and final comments by September 3, 2014 and October 7, 2014, respectively. The Board also held a legislative-type hearing on September 29, 2014.

In addition, due to the uncertainty caused by PJM's Capacity Performance Proposal, all interested parties were given the opportunity to file initial and reply comments specifically on the Proposal and its potential effects on the BGS Auction. After consideration of all comments, the Board approved a pass-through mechanism to ensure maximum competition in the Auction. We believe that this mechanism had a positive contribution toward the successful conclusion of the Auction.

Before the Auction began, the procedures were approved and made public. For instance, Auction rules were approved by the Board. Contracts and Supplier Master Agreements were standardized, approved, and made public before the Auction. Any optional changes in the language of these agreements were standardized, approved, and made public before the Auction as well. Finally, application and credit requirements to become a bidder in the BGS Auction were also standardized, approved, and made public before the Auction.

Bidder information sessions were held by the Auction Manager to educate potential bidders on the Auction process. They provided an opportunity for questions to be asked in a public forum. Any questions asked pertaining to the Auction were posted on the BGS Auction website as FAQs. This FAQ section ensured that all bidders had equal access to information provided to any one bidder.

The Auction Manager consulted with Boston Pacific and BPU Staff concerning Part 1 and 2 Applications. 

An additional factor boosting the competitiveness of the Auction is that this is the 14th year it has been held and its results have been consistently certified by the Board. This stability helps attract more bidders and better offers.

Finally, the Auction was also carried out in a fair and transparent manner in the sense that the Auction adhered to the Auction rules. The Auction rules and the Auction software were designed to produce a fair and transparent Auction. The rules were made public and approved by the Board. The Auction software ensured that bidders received the correct information.

QUESTION 20:

Was there evidence of non-productive “gaming” on the part of bidders?

QUESTION 21:

Was there any evidence of collusion or improper coordination among bidders?

QUESTION 22:

Was there any evidence of a breakdown in competition in the FP Auction?

ANSWER 20: No.

ANSWER 21: No.

ANSWER 22: No.

Developing the information to answer these three questions and, more broadly, assessing the competitiveness of the BGS Auction was a central focus of our monitoring efforts. We assessed both structural and behavioral indicators of competitiveness in each round of bidding in the FP Auction (which includes residential customers as well as some small commercial customers). Although we go into some detail here, these indicators are just that, indications of competitiveness; they are not hard and fast numerical standards.

Both structural and behavioral indicators give support for the specific answers provided to all three of these questions as well as support to the broader finding that the BGS Auction was competitive. Among the structural indicators were the number of bidders, the number of winners, the market share of winners, and a widely-used measure of competitiveness related to market shares called the Herfindahl-Hirschman Index (HHI).

[REDACTED] This is a good number of bidders and the list includes many well-known participants in the U.S. electricity business. [REDACTED]

[REDACTED] This excess of offers is important because it is the excess that results in the price decreasing round-by-round, to the benefit of New Jersey ratepayers.

[REDACTED] 9 actually won the right to serve some portion of the New Jersey FP load. In addition, two winning bidders [REDACTED] had not won supply in either of the last two FP Auctions.

With respect to market share of each winner, some background on standards is useful. Having a minimum of three suppliers is sometimes set as a standard of competitiveness. The BGS Auction rules help ensure at least three winners by limiting to approximately one-third (21 tranches) the portion of statewide consumer need that can be won by any single supplier. In addition, bidders are limited in the amount of supply they can win in each EDC's service territory (RECO excepted) such that there will always be at least three winners per EDC.

Another standard for judging market share comes from a FERC standard for granting the right for a supplier to sell at market-based prices (as opposed to regulated cost-based

rates). In one of two FERC threshold tests for granting the right to sell at market-based prices, FERC asks that the supplier have no more than a 20% share of the market. If the market share is 20% or less, it is presumed the supplier cannot exercise market power. If the market share exceeds 20%, the supplier can conduct an additional test or point to mitigation for market power, such as the mitigation measures and monitoring of the PJM Interconnection or the Midwest ISO – that is, the 20% is not a hard and fast limit to market-based rate authority.

Among the 9 winners in the FP Auction [REDACTED]

The Herfindahl-Hirschman Index (HHI) is a measure of competitiveness closely related to market shares. Again, some background on the HHI standard is useful. The U.S. Department of Justice primarily uses a three-part standard for HHIs when judging the competitive effect of mergers and acquisitions. An HHI below 1,500 is a safe harbor of sorts because the market is said to be un-concentrated. If, after a merger or acquisition, the HHI is below 1,500, it is generally thought that there is no competitive harm from the merger or acquisition; that is, the merger or acquisition does not make the exercise of market power more likely. An HHI between 1,500 and 2,500 is said to indicate moderate concentration. An HHI over 2,500 is said to indicate a highly concentrated market. For market-based rate authority, FERC already uses a threshold of 2,500 for the HHI in one of its standards.

For the FP Auction, using the winning shares as market shares, the HHI is 1,739. This puts the HHI for the FP Auction in the moderately concentrated range. This is similar to last year's HHI of 1,912. However, to include only winning bidders is a narrow focus for calculating an HHI. For example, a more appropriate focus would be the total of 13 suppliers who will serve consumers in 2015-2016; these are the winners in 2013 and 2014, as well as in this 2015 Auction. The HHI in this case would be 1,683. This compares to an HHI of suppliers who served customers for 2014-2015 of 1,533.

A final method that is also employed by FERC in antitrust evaluations examines the HHI of a market when the price is within 5% of the final market price. This so-called "Delivered Price Test" gives a sense of what suppliers would have participated at a price level roughly consistent with market prices. [REDACTED]

[REDACTED]

With respect to behavioral indicators, the core of this effort was to detect any sign of collusion among bidders. No evidence of collusion was found in the FP Auction. [REDACTED]

[REDACTED]

QUESTION 23:

Was information made public appropriately? From what Boston Pacific could observe, was sensitive information treated appropriately?

ANSWER 23: Yes.

Yes, Pre-Auction information was treated appropriately pursuant to the communication protocols. Please see answers 6a-6c.

To our knowledge, no confidential information was leaked while the Auction was conducted. All suppliers, NERA, EDCs, and Boston Pacific signed confidentiality agreements. [REDACTED]

[REDACTED]

In addition, Boston Pacific reviewed communication between all Auction personnel and bidders; we had access to communications sent to all bidders through the online platform and recordings of calls between NERA and bidders. Moreover the Auction is held in a secure, separate suite of offices.

QUESTION 24:

Does the FP Auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP load?

ANSWER 24: Yes.

Although the acceptance or rejection of Auction results is not based on any assessment of price levels, Boston Pacific attempted to develop an expectation of the final Auction prices [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2015 BGS Auction					
Product	Tranches Filled	Final Price (cents/kWh)	Price Expectations Range (cents/kWh) ¹		
			Average	Low	High
PSE&G	29	9.954	[REDACTED]		
JCP&L	20	8.042			
ACE	7	8.606			
RECO	1	9.066			
Total	57	-			
Average ²	-	9.102			



Comparing this year’s average winning price to last year’s average winning price we can see that, on average, prices decreased 1.3%. Prices for JCP&L, ACE and RECO decreased by 2.0% to 5.2% (due to slightly lower energy costs) while PSE&G’s winning price went up by 2.2%, mainly due to increases in transmission cost. Another factor that likely helped prices was the competitiveness of the Auction

Working against these factors was an increase in the cost of meeting State Renewable Portfolio Standard (RPS) Requirements.

From a rate impact standpoint, as a starting point, we generally compare the winning prices in this Auction to the contracts that are being replaced. In this case that would be contracts from the 2012 BGS Auction. For all utilities except PSE&G winning prices were very similar to the 2012 winning prices, ranging from a 1.1% increase to a 2% decrease. For PSE&G we saw a large increase of 18.7%. This increase was primarily due to an increase in transmission rates. The PSE&G transmission rate has increased from \$76.94/MW-Day in the 2012 Auction to \$199.15/MW-Day in this Auction as the company has undertaken a number of large-scale projects over the last few years.

Note also that, due to the approval of the pass-through mechanism, ratepayers will pay for any changes in capacity prices as a result of the transition actions by PJM. PJM has requested FERC approval to; (a) seek out-of-market capacity purchases for the June 2015 through May 2016 period and (b) establish the Capacity Performance product, including holding transitional auctions to reset the price of capacity for the June 2016 through May 2018 period.



QUESTION 25:

Were there factors exogenous to the FP Auction (e.g., changes in market environment) that materially affected the FP Auction in unanticipated ways?

ANSWER 25: No.

No, please see the answer to 24.

QUESTION 26:

Are there any concerns with the FP Auction's outcome with regard to any specific EDC(s)?

ANSWER 26: No.

III. THE NEW JERSEY 2015 BGS-CIEP AUCTION

A. POST-AUCTION CHECKLIST



**ATTACHMENT B
DOCKET NO. ER13050378**

**POST-AUCTION CHECKLIST FOR THE NEW JERSEY
2015 BGS-CIEP AUCTION**

Prepared by: Boston Pacific Company, Inc.

Auction began with the opening of Round 1 at 8:25 am On Friday, February 6, 2015

Auction finished with the close of Round 27 at 9:48 am on Monday, February 9, 2015

	Start of Round 1	Start of Round 2 * (after volume reduction in Round 1, if applicable)	Start of Round n * (after post-Round 1 volume reduction, if applicable)
# Bidders		NA	NA
Tranche target	45	NA	NA
Eligibility ratio		NA	NA
Statewide load cap	21	NA	NA

* Note: No volume adjustment was made during the CIEP auction, so the pre-auction tranche target and the statewide load cap were unchanged for the auction.

**ATTACHMENT B
DOCKET NO. ER13050378**

Post-Auction Checklist for the New Jersey 2015 BGS-CIEP Auction

Table 1 below shows pertinent indicators and measures for the auction.

Table 1. Summary of BGS-CIEP Auction

	PSE&G	JCP&L	ACE	RECO	Total
BGS-CIEP peak load share (MW)	1,983.35	1,019.02	318.10	64.40	3,384.87
Total tranches needed	26	14	4	1	45
Starting tranche target in auction	26	14	4	1	45
Final tranche target in auction	26	14	4	1	45
Tranche size (%)	3.85	7.14	25.00	100.00	
Tranche size (approximate MW)	76.28	72.79	79.53	64.40	
Starting load cap (# tranches)	--	--	--	--	21
Final load cap (# tranches)	--	--	--	--	21
Quantity procured (# tranches)	26	14	4	1	45
Quantity procured (% BGS-CIEP load)	100%	100%	100%	100%	100%
# Winning bidders	5	4	2	1	5
Maximum # of tranches procured from any one bidder	8	6	3	1	12
Minimum and maximum starting prices prior to indicative bids (\$/MW-day)					450 350
Starting price at start of auction (\$/MW-day)*					
Final auction price (\$/MW-day)**	272.78	248.41	235.89	272.14	261.90

* Price shown in “Total” column is an average across the EDCs weighted by each EDC’s “Starting tranche target in auction”.

** Price shown in “Total” column is an average across the EDCs weighted by each EDC’s “Final tranche target in auction”.

ATTACHMENT B
DOCKET NO. ER13050378

Post-Auction Checklist for the New Jersey 2015 BGS-CIEP Auction

Table 2. Overview of Findings on BGS-CIEP Auction

	Question	Comments
1	BP's recommendation as to whether the Board should certify the CIEP auction results?	Yes, certify
2	Did bidders have sufficient information to prepare for the CIEP auction?	Yes
3	Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?	Yes
4	Were there any issues and questions left unresolved prior to the CIEP auction that created material uncertainty for bidders?	No
5	From what BP could observe, were there any procedural problems or errors with the CIEP auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager?	No
6	From what BP could observe, were protocols for communication between bidders and the Auction Manager adhered to?	Yes
7	From what BP could observe, were there any hardware or software problems or errors, either with the CIEP auction system or with its associated communications systems?	No
8	Were there any unanticipated delays during the CIEP auction?	No
9	Did unanticipated delays appear to adversely affect bidding in the CIEP auction? What adverse effects did BP directly observe and how did they relate to the unanticipated delay?	No
10	Were appropriate data back-up procedures planned and carried out?	Yes
11	Were any security breaches observed with the CIEP auction process?	No

Question		Comments
12	From what BP could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and BP during the CIEP auction?	Yes
13	From what BP could observe, were the protocols followed for decisions regarding changes in CIEP auction parameters (e.g., volume, load cap, bid decrements)?	Yes
14	Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the CIEP auction software double-checked or reproduced off-line by the Auction Manager?	Yes
15	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	No
16	From what BP could observe, were the communications between the Auction Manager and bidders timely and effective?	Yes
17	Was there evidence that bidders felt unduly rushed during the process? Should the auction have been conducted more expeditiously?	No
18	Were there any complaints from bidders about the process that BP believed were legitimate?	No
19	Was the CIEP auction carried out in an acceptably fair and transparent manner?	Yes
20	Was there evidence of non-productive “gaming” on the part of bidders?	No
21	Was there any evidence of collusion or improper coordination among bidders?	No
22	Was there any evidence of a breakdown in competition in the CIEP auction?	No
23	Was information made public appropriately? From what BP could observe, was sensitive information treated appropriately?	Yes
24	Does the CIEP auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-CIEP load?	Yes

Question		Comments
25	Were there factors exogenous to the CIEP auction (e.g., changes in market environment) that materially affected the CIEP auction in unanticipated ways?	No
26	Are there any concerns with the CIEP auction's outcome with regard to any specific EDC(s)?	No.

B. BOSTON PACIFIC SUPPLEMENTAL CHECKLIST

**BOSTON PACIFIC SUPPLEMENT TO NEW JERSEY BGS AUCTION CHECKLIST:
CIEP AUCTION**

QUESTION 1:

Boston Pacific's recommendation as to whether the Board should certify the CIEP Auction results?

ANSWER 1: Yes, certify.

CRITERIA:

a. Were all checklist questions satisfactorily answered?

Yes.

QUESTION 2:

Did bidders have sufficient information to prepare for the CIEP Auction?

ANSWER 2: Yes.

PRE-AUCTION CRITERIA

a. Were there Pre-Bid sessions and were they informative?

Yes, there were Pre-Bid Information Sessions and they informed bidders about Auction procedures and developments.

There were three Pre-Bid Information Sessions: the first on September 26, 2014 and the second on December 5, 2014, both in-person in Philadelphia. The third was scheduled for January 27, 2015 in Philadelphia, but due to a winter storm, this session was canceled and replaced with an online webinar on January 28, 2015.

The first two information sessions were open to any entities interested in participating in the Auction. The third information session was held after the Application process and was for Registered Bidders only. Because the third session was a webinar, meaning that bidder confidentiality was maintained, NERA was able to conduct just one session, as opposed to having to hold separate sessions for FP and CIEP bidders as it has done in the past.

Note that 4 companies attended the first information session and 7 companies attended the second information session. In total, 10 companies showed interest in the FP and/or CIEP 2015 Auction by attending one of the first two bidder information sessions. This compares to 9 companies attending one of the first two sessions last year. [REDACTED] attended the third bidder information session. This high turnout is likely due to the fact that this was an online webinar, and did not require bidders to

travel. All questions asked at the information sessions were adequately answered by NERA.

b. Were frequently asked questions (FAQs) posted on the BGS website and were all questions answered?

Yes, the FAQs were posted and all questions asked in a timely manner were answered.

All questions asked by bidders and their answers were posted on the FAQ section of the BGS website pursuant to NERA's FAQ Protocols. These protocols called for a specific process for answering bidder questions to ensure that all bidders had access to the same information at the same time.

As of February 5, 2015, 241 questions had been asked by bidders since August 12, 2014, the first day FAQs were posted. All of these questions were answered in a timely fashion by NERA. The topics of questions included: (a) Applications, (b) Association and Confidential Information Rules, (c) Auction Rules, (d) BGS Supplier Master Agreement, and specifically section 15.9, (e) Credit, (f) Data, (g) Payments and Rates, and (h) other general questions. NERA provided responses to all of these questions, which seemed to satisfy bidders.

Starting on January 27, 2015, the Auction Manager sent answers to questions received regularly to Registered Bidders via email. Boston Pacific reviewed these FAQs as well.

c. Was required information and data provided on the website?

Yes, the BGS Auction website provided required data for bidders to prepare for the Auction.

The Auction information listed below was provided according to the schedule posted by NERA. This information included: (a) Application forms, (b) minimum/maximum starting prices, (c) tranche targets, (d) load caps, (e) finalized rules, (f) final Supplier Master Agreements, and (g) finalized decrement formulas.

NERA also maintained a "data room" on their website, which contained data that was updated monthly and additional data that was updated less frequently. NERA provided descriptions of both types of data. This data room helped bidders prepare their bids. Examples of the data posted here included (a) load data, which was updated monthly for each EDC and covered up to at least October 2014, and (b) switching statistics that showed the percentage of load and number of customers that have switched to third party suppliers. Any revisions made to the data were marked on the website.

d. Did Bidders receive Auction logistics information (i.e. Confidential Bidder Information packet) on time?

Yes, before the Trial Auction, [REDACTED]

e. Did bidders communicate any material concerns to NERA?

Yes. In August 2014 PJM put forth a proposal to create major changes to its capacity market, as a response to large-scale generator outages experienced in the January 2014 Polar Vortex and Winter Storms. Most notably, PJM planned to seek a large quantity of a more robust capacity product (known as “Capacity Performance”). PJM offered additional details in a proposal dated October 7, 2015.

Of particular concern for bidders in the BGS Auction was PJM’s plan to acquire Capacity Performance supply in so-called “transition auctions” for years in which the RPM Auction had already taken place. This would essentially retroactively change the established prices for capacity for the June 2015 through May 2018 period. Bidders use these capacity prices to price their bids in this Auction. Bidders expressed concern that, without changes to the Supplier Master Agreement, they would be taking on the risk of capacity price changes, a relatively unknown risk that they would not be able to hedge. Bidders reduced their participation levels in other default service RFPs as a result. For example, in October of 2014 Maryland’s default service RFP saw only two bidders for residential service (versus a normal level of six to eight).

In response, BPU Staff offered all parties the opportunity to comment on the October PJM proposal. Initial comments were due on October 22 and reply comments were due on October 29. In its November 24 Order the Board directed the New Jersey EDCs to incorporate a proposed mechanism which would automatically pass through to ratepayers any change in capacity prices caused by the Capacity Performance transition.

We believe, based on the level of competition seen in this Auction, that this mechanism provided enough security to bidders to keep them in the Auction process. We note that ratepayers will be responsible for any change in capacity price as a result of PJM’s actions.

f. Were bidders given an opportunity to provide proposals and comments concerning the 2015 Auction Process?

Yes. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2014. Interested parties were also invited to file initial comments and final comments by September 3, 2014 and October 7, 2014, respectively. The Board also held a legislative-type hearing on September 29, 2014.

In addition, parties were permitted to comment on PJM’s Capacity Performance proposal as noted above. After reviewing all comments from the EDCs and other interested parties, the Board approved the Joint EDC Proposal for the 2015 BGS Auction.

QUESTION 3:

Was the information generally provided to bidders in accordance with the published timetable? Was the timetable updated appropriately as needed?

ANSWER 3: Yes.

PRE-AUCTION CRITERIA**a. Was the timeline followed?**

Yes, but with three adjustments, which are detailed below.

b. Were there updates to the timeline?

Yes, there were three adjustments to this schedule, which we believe had no negative effects on the Auction results. The first two resulted from PJM's Capacity Performance Proposal, which would retroactively alter capacity prices in the region. Two postings were delayed in order to provide the Board more time to consider its options on how to proceed: (a) the announcement of statewide minimum and maximum starting prices, load caps, tranche sizes, and number of tranches was delayed from November 14, 2014 to December 2, 2014, and (b) the posting of the final Part 2 Application was delayed from November 17, 2014 to December 3, 2014. Both of these delays were announced on November 3, 2014 through the BGS website.

The third update was to the Third Information Session, which was originally scheduled for January 27, 2015. With severe winter weather up and down the East Coast creating travel hazards, it was rescheduled as a webinar the following day, January 28, 2015.

QUESTION 4:

Were there any issues and questions left unresolved prior to the CIEP Auction that created material uncertainty for bidders?

ANSWER 4: No.

PRE-AUCTION CRITERIA**a. Were all questions answered in the FAQs?**

Yes, please see answer to 2b.

b. Were bidder questions asked starting on or about January 21, 2015 directly responded to by NERA?

Yes, questions continued to be asked by Registered Bidders after January 21, 2015 and NERA provided answers to these questions directly to bidders via email. These answers were distributed regularly beginning on January 27, 2015. Bidders did not indicate any concerns with the answers provided by NERA. Also, please see answer to 2b.

c. Did other events or issues produce any material uncertainty for bidders?

No, no questions about the Auction were left unresolved by the start of the Auction.

The main source of concern for bidders was the effect of PJM's Capacity Performance proposal. As noted above, the Board responded to this concern by approving a mechanism to automatically pass through the effect of any price changes created by this proposal.

Boston Pacific also monitored various industry news sources and did not discover any other events that would produce material uncertainty for bidders.

d. Did bidders communicate any material concerns to NERA?

Please see answer to 2e.

e. Was information equitably provided to bidders?

Yes, information was provided to bidders equally. This was done through Pre-Bid Information Sessions, FAQs posted on the BGS Auction website and emailed to all bidders, and email announcements of upcoming important events and milestones. Also, please see answers to 2a-2d.

f. Was information provided to maximize the number of bidders for the Auction?

Yes, before bidders were registered, NERA conducted extensive marketing efforts in order to maximize bidder participation. Maximum bidder participation is important since the Auction operates such that the greater the excess supply, the further prices can decrease. Supply offered in excess of need directly drives the Auction price to "tick down" (decrease).

NERA conducted direct marketing with potential bidding companies through an email distribution list and phone calls. The list of contacts was developed from existing contact lists and from participants that registered for information on the BGS Auction website. This outreach effort began prior to the first information session. NERA also advertised the bidding opportunity in several industry publications from December 3, 2014 through the Part 1 deadline of December 16, 2014.

The Auction Manager consulted with Boston Pacific during each of the Application processing periods. [REDACTED]

- g. From Boston Pacific’s observation, were there any pre-qualification requirements which directly prevented bidder participation?**

[REDACTED]

[REDACTED]

[REDACTED]

QUESTION 5:

From what Boston Pacific could observe, were there any procedural problems or errors with the CIEP Auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager?

ANSWER 5: No.

AUCTION WEEK CRITERIA

- a. Was protocol followed for the CIEP Auction?**

Yes, to our knowledge, the Auction was carried out according to the Auction Rules as approved by the Board.

- b. Were there problems with the electronic bidding process?**

No, there were no problems with the Auction software during testing or trials.

Boston Pacific had full opportunity to test NERA’s bidding software, backup bidding process, and bid recording systems during two Trial Auctions. For the first Trial Auction on January 23, 2015, Boston Pacific assumed the role of a bidder and verified that bidders’ accounts had access to the correct information. We tested the Auction software by submitting problematic bids to determine if the software operated according to the rules and provided proper information to bidders. We also tested NERA’s fax- and phone-based backup bidding systems by submitting backup bids and creating situations to test NERA’s bidder notification protocols. [REDACTED]

For the second Trial Auction, held on January 29, 2015, Boston Pacific moved to the evaluation side. We traveled to the site of the Auction, in Newark, NJ to test the actual processes that would be used during the Auction. We monitored and evaluated bids submitted by Registered Bidders. We received and tested bid reports from NERA's software and formulated reports and checked price decrements using our own bid evaluation software.

During the Auction, Boston Pacific did not observe any software problems. In the first round one bidder had difficulties logging additional computers into a single account. After discussion with the Auction Manger the bidder was able to remedy the problem. This did not have any effect on the bidding.

c. Was the back-up bidding process followed?

Yes,

Further, Registered Bidders also had the opportunity to practice the back-up bid procedure during the Trial Auction for Registered Bidders on January 29, 2015.

d. Did communications between bidders and the Auction Manager follow procedure?

Yes, communications between bidders and the Auction Manager followed procedure.

Bidders were given two ways of communicating with the Auction Manager during the Auction. Bidders had a telephone number for technical assistance and they could also send electronic messages through the online platform. Both of these forms of communication were logged. All telephone conversations were taped and all electronic messages and the answers given by the Auction Manager were saved. Boston Pacific reviewed all telephone conversations and electronic messages.

e. Were Auction schedule protocols followed with regard to extensions and recesses?

Effectively, yes. There were no extensions requested by bidders, but there was a planned extension for the first round which was not provided due to operator error. The additional time was added onto the reporting phase to ensure the Auction remained on schedule. This did not impact bidder participation or the scheduled start of round two.

f. Did bidders communicate any material concerns to NERA?

No.

QUESTION 6:

From what Boston Pacific could observe, were protocols for communication between bidders and the Auction Manager adhered to?

ANSWER 6: Yes.

PRE-AUCTION CRITERIA

a. Was confidential information properly provided to bidders?

Yes. Boston Pacific did not observe any release of confidential information or inappropriate communication that could impair the integrity of the Auction.

b. Before the Part 2 Application deadline, were questions placed on the Auction website?

Yes. The first FAQ was posted on the BGS website August 12, 2014. The Part 2 Application deadline was on January 14, 2015 by which time there were a total of 197 questions posted. Additional questions asked by bidders were also answered by NERA following the Part 2 Application deadline. See also the answer to 2b.

c. Were the communication protocols followed?

Yes.

[REDACTED]

AUCTION WEEK CRITERIA

d. Was confidential information properly provided to bidders?

Yes, the Auction software was built to ensure that all participants had controlled access to Auction information.

[REDACTED]

e. Did communications between bidders and the Auction Manager follow procedure?

Yes, please see the answer to 5d.

QUESTION 7:

From what Boston Pacific could observe, were there any hardware or software problems or errors, either with the CIEP Auction system or with its associated communications systems?

ANSWER 7: No.

AUCTION WEEK CRITERIA

- a. What problems, if any, were there with the Auction or communications system on NERA's end?**

Boston Pacific is unaware of any material issues with NERA's communication systems based on our review of electronic and voice communications.

- b. Did bidders experience any computer or communications problems that appeared to be the fault of NERA?**

No, all bids were successfully received by NERA.

- c. Was NERA aware of any material technical issues?**

No, NERA did not indicate any material technical issues.

- d. Did bidders communicate any material concerns to NERA?**

No, please see 5f.

QUESTION 8:

Were there any unanticipated delays during the CIEP Auction?

ANSWER 8: No.

QUESTION 9:

Did unanticipated delays appear to adversely affect bidding in the CIEP Auction? What adverse effects did Boston Pacific directly observe and how did they relate to the unanticipated delays?

ANSWER 9: No.

QUESTION 10:

Were appropriate data back-up procedures planned and carried out?

ANSWER 10: Yes.

AUCTION WEEK CRITERIA

- a. Was Auction data backed-up during the Auction?**

According to the Auction Manager Protocols, NERA ensured that no Auction information would be lost if there was a problem with the Auction software during the

Auction. [REDACTED]

QUESTION 11:

Were any security breaches observed with the CIEP Auction process?

ANSWER 11: No.

To our knowledge, there were no security breaches.

During the Auction, many security measures were in place. The Auction software used on bid day was built to ensure that all participants had controlled access to Auction data.

[REDACTED]

Boston Pacific reviewed communications between NERA and bidders. [REDACTED]

[REDACTED]

QUESTION 12:

From what Boston Pacific could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and Boston Pacific during the CIEP Auction?

ANSWER 12: Yes.

AUCTION WEEK CRITERIA

a. Were protocols followed as described by NERA?

Yes. As far as Boston Pacific is aware, the Communication Protocols were followed during the Auction. Also, please see answer to 5d.

b. Did BPU Staff and Boston Pacific get all the information that we required?

Yes, Boston Pacific and BPU Staff received all data requested from NERA in a timely and professional fashion during the Auction.

QUESTION 13:

From what Boston Pacific could observe, were the protocols followed for decisions regarding changes in CIEP Auction parameters (e.g., volume, load caps, bid decrements)?

ANSWER 13: Yes.

PRE-AUCTION CRITERIA

a. Were notable changes made to the decrement formulas?

No. There were only minor changes to decrement formulas based on the number of tranches procured by each EDC. Last year, NERA made adjustments to the decrement formulas for all four EDCs to create a smoother path for price declines over the Auction. NERA did this by adding a third decrement regime that produced decrements in between those of the existing two decrement regimes.



AUCTION WEEK CRITERIA

b. During the Auction, did the Auction Manager impose any changes on the CIEP Auction parameters?



Boston Pacific independently calculated the bid decrements for each round and found no errors in NERA's application of the decrement formulas.

QUESTION 14:

Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the CIEP Auction software double-checked or reproduced off-line by the Auction Manager?

ANSWER 14: Yes.



Boston Pacific and NERA found no errors in the Auction software calculations.

QUESTION 15:

Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auction?

ANSWER 15: No.

There was no evidence of confusion or misunderstanding that caused delays; as noted, Boston Pacific reviewed all electronic and voice communications.

QUESTION 16:

From what Boston Pacific could observe, were the communications between the Auction Manager and bidders timely and effective?

ANSWER 16: Yes.

AUCTION WEEK CRITERIA

All answers to questions reviewed by Boston Pacific seemed relevant and clear. Again, Boston Pacific reviewed all electronic messages. In addition, Boston Pacific also reviewed the phone conversations between bidders and the Auction Manager.

Boston Pacific believes answers to bidders' questions were provided in a timely fashion, and NERA made all possible efforts to ensure bids were placed on time.

QUESTION 17:

Was there evidence that bidders felt unduly rushed during the process? Should the Auction have been conducted more expeditiously?

ANSWER 17: No.

In general, NERA's decrement formulas made this year's Auction proceed smoothly,

The 2015 CIEP Auction ended after 27 rounds, which compares to 31 rounds last year.

Each bidder is permitted 1 recess request and 2 extension requests during the Auction. The Auction design also features an automatic extension after round 1.

[REDACTED] there were also no indications from bidders that they felt unduly rushed. [REDACTED]

Note that bidders were able to test the Auction software during the Trial Auction for Registered Bidders, and therefore were comfortable with it during the actual Auction.

QUESTION 18:

Were there any complaints from bidders about the process that Boston Pacific believed were legitimate?

ANSWER 18: No.

Boston Pacific believes there were no legitimate complaints about the Auction. That is, we are not aware of any questions raised by bidders that were not resolved.

QUESTION 19:

Was the CIEP Auction carried out in an acceptably fair and transparent manner?

ANSWER 19: Yes.

Speaking broadly, the New Jersey Auction is structured to be fair and transparent. The two key features in this regard are (a) the precisely defined product being solicited and (b) the price-only evaluation. These ensure that all bidders are supplying the same product and no bidder can gain an advantage over another except by offering a lower price. Because the product and evaluation method are clearly spelled out, any bidder that meets the qualification requirements may participate.

In addition, as approved by the Board, the BGS Auction had several mechanisms in place to ensure a fair and transparent process.

All interested parties were given ample opportunity to comment on the 2015 BGS process. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2014. Furthermore, interested parties were also invited to file initial comments and final comments by September 3, 2014 and October 7, 2014, respectively. The Board also held a legislative-type hearing on September 29, 2014.

In addition, due to the uncertainty caused by PJM's Capacity Performance Proposal, all interested parties were given the opportunity to file initial and reply comments specifically on the proposal and its potential effect on the BGS Auction. After consideration of all comments, the Board approved a pass-through mechanism to ensure maximum competition in the Auction.

Before the Auction began, the procedures were approved and made public. For instance, Auction rules were approved by the Board. Contracts and master agreements were standardized, approved, and made public before the Auction. Any optional changes in the language of these agreements were standardized, approved, and made public before the Auction as well. Finally, application and credit requirements to become a bidder in the BGS Auction were also standardized, approved, and made public before the Auction.

Bidder information sessions were held by the Auction Manager to educate potential bidders on the Auction process. They provided an opportunity for questions to be asked in a public forum. Any questions asked pertaining to the Auction were posted on the BGS Auction website as FAQs. These FAQs ensured that all bidders had equal access to information provided to any one bidder.

The Auction Manager consulted with Boston Pacific and BPU Staff concerning Part 1 and 2 Applications. [REDACTED]

An additional factor boosting the competitiveness of the Auction is that this is the 14th year that it has been held and its results have been consistently certified by the Board. This stability helps attract more bidders and better offers.

Finally, the Auction was also carried out in a fair and transparent manner in the sense that the Auction adhered to the Auction Rules. The Auction rules and the Auction software were designed to produce a fair and transparent Auction. The rules were made public and approved by the Board. The Auction software ensured that bidders received the correct information.

QUESTION 20:

Was there evidence of non-productive “gaming” on the part of bidders?

QUESTION 21:

Was there any evidence of collusion or improper coordination among bidders?

QUESTION 22:

Was there any evidence of a breakdown in competition in the CIEP Auction?

ANSWER 20: No.

ANSWER 21: No.

ANSWER 22: No.

Developing the information to answer these three questions and, more broadly, assessing the competitiveness of the BGS Auction was a central focus of our monitoring efforts. We assessed both structural and behavioral indicators of competitiveness in each round of bidding in the CIEP Auction (which targets larger commercial and industrial customers). Although we go into some detail here, these indicators are just that, indications of competitiveness; they are not hard and fast numerical standards.

Both structural and behavioral indicators give support for the specific answers provided to all three of these questions as well as support to the broader finding that the BGS Auction was competitive. Among the structural indicators were the number of bidders, the number of winners, the market share of winners, and a widely-used measure of competitiveness related to market shares called the Herfindahl-Hirschman Index (HHI).

[REDACTED] This is a good number of bidders. [REDACTED]

[REDACTED] This excess in offers is important because it is the excess which keeps the price decreasing round-by-round to the benefit of New Jersey ratepayers.

[REDACTED] the load cap for the CIEP Auction was increased from about one-third of the statewide tranche target to about 47% of the tranche target. [REDACTED] it appears that the decision to increase the load cap proved effective in this Auction.

[REDACTED] 5 won the right to serve some portion of the New Jersey consumer need in the CIEP Auction.


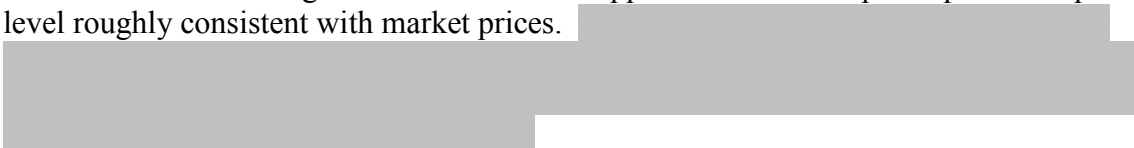
Another standard for judging market share comes from a FERC standard for granting the right for a supplier to sell at market-based prices (as opposed to regulated cost-based rates). In one of two FERC threshold tests for granting the right to sell at market-based prices, FERC asks that the supplier have no more than a 20% share of the market. If the market share is 20% or less, it is presumed the supplier cannot exercise market power. If the market share exceeds 20%, the supplier can conduct an additional test or point to mitigation for market power, such as the mitigation measures and monitoring of the PJM Interconnection or the Midwest ISO – that is, the 20% is not a hard and fast limit to market-based rate authority.

Among the 5 winners in the CIEP Auction, 3 had a market share over 20% (ConocoPhillips, Exelon, and PPL, all at 27%). The other 2 winners had a market share below 20%.


The Herfindahl-Hirschman Index (HHI) is a measure of competitiveness closely related to market shares. Again, some background on the HHI standard is useful. The U.S. Department of Justice has a three-part standard for HHIs when judging the competitive effect of mergers and acquisitions. An HHI below 1,500 is a safe harbor of sorts because the market is said to be un-concentrated. If, after a merger or acquisition, the HHI is below 1,500, it is generally thought that there is no competitive harm from the merger or acquisition; that is, the merger or acquisition does not make the exercise of market power more likely. An HHI between 1,500 and 2,500 is said to indicate moderate concentration. An HHI over 2,500 is said to indicate a highly concentrated market. For market-based rate authority, FERC already uses a threshold of 2,500 for the HHI in one of its standards.

For the CIEP Auction, using the winning shares as market shares, the HHI is 2,454. This puts the HHI for the CIEP Auction at the high end of the moderately concentrated range of the DOJ's HHI brackets. However, to include only winning bidders is a narrow focus for calculating an HHI.

A broader method that is also employed by FERC in antitrust evaluations examines the HHI of a market when the price is within 5% of the final market price. This so-called "Delivered Price Test" gives a sense of what suppliers would have participated at a price level roughly consistent with market prices.



With respect to behavioral indicators, the core of this effort was to detect any sign of collusion among bidders. No evidence of collusion was found in the CIEP Auction.



QUESTION 23:

Was information made public appropriately? From what Boston Pacific could observe, was sensitive information treated appropriately?

ANSWER 23: Yes.

Yes, Pre-Auction information was treated appropriately pursuant to the communication protocols. Please see answers 6a-6c.

To our knowledge, no confidential information was leaked while the Auction was conducted. All suppliers, NERA, EDCs, and Boston Pacific signed confidentiality agreements. [REDACTED]

In addition, Boston Pacific reviewed communication between all Auction personnel and bidders; we had access to communications sent to all bidders through the online platform and recordings of calls between NERA and bidders. Moreover the Auction is held in a secure, separate suite of offices.

QUESTION 24:

Does the CIEP Auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-CIEP load?

ANSWER 24: Yes.

Although the acceptance or rejection of Auction results is not based on any assessment of price levels, Boston Pacific attempted to develop an expectation of the final Auction prices [REDACTED]

Bidders who win the right to serve CIEP load must provide a full requirements product (i.e. energy, capacity, ancillary services, RPS requirements, etc.) to CIEP customers. Winning bidders are paid their winning bid price, plus the spot energy price per MWh delivered, plus \$6/MWh for ancillary services, plus the standby fee of \$0.15 per MWh.

Although CIEP is also a full requirements product, the Auction price primarily reflects a fixed price for the capacity portion of that service, and the cost of meeting the RPS. Bidders are paid the PJM spot energy price to cover the energy portion of the service.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

QUESTION 25:

Were there factors exogenous to the CIEP Auction (e.g., changes in market environment) that materially affected the CIEP Auction in unanticipated ways?

ANSWER 25: No.

QUESTION 26:

Are there any concerns with the CIEP Auction's outcome with regard to any specific EDC(s)?

ANSWER 26: No.