



ANNUAL FINAL REPORT  
ON THE  
2017 BGS RSCP AND CIEP AUCTIONS

Presented to:

THE NEW JERSEY BOARD OF PUBLIC UTILITIES

Prepared By

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May 22, 2017

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## I. INTRODUCTION AND SUMMARY

Bates White, LLC (Bates White) served as the Advisor to the New Jersey Board of Public Utilities (Board or BPU) for the Basic Generation Service (BGS) Auctions held in February 2017. Bates White personnel have performed this function for the previous ten years.<sup>1</sup> 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.<sup>2</sup>

As the Board Advisor, we recommended that the Board certify the results of both the Residential Small Commercial Pricing (RSCP) 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 10, 2017. The most explicit evidence for the Board's certification decisions were the Post-Auction Checklists that we provided to the Board on February 8, 2017. These checklists, which are included in this report, contain (a) a factual record 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, Bates White 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 RSCP and CIEP checklists for the BGS Auction. These Supplemental Checklists are included in this report as well. We believe that the Post-Auction

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<sup>1</sup> Work prior to this year was performed with Boston Pacific Company, Inc. Boston Pacific joined forces with Bates White effective November 1, 2016. Bates White personnel have 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.

<sup>2</sup> 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.

and Supplemental Checklists demonstrate the extensive scope of the analyses that underlie our work and support the Board's certification decisions.

## **A. THE BGS RESIDENTIAL SMALL COMMERCIAL PRICING (RSCP) AUCTION**

The BGS RSCP product is a 3-year, fixed price, load-following product that supplies the majority of New Jersey's residential and small commercial customers. Delivery for winning suppliers this year starts on June 1, 2017. RSCP suppliers provide what is called a "full-requirements" product, which means that the product includes nearly all of the components necessary for the New Jersey Electric Distribution Companies (EDCs) to provide service to their ratepayers. Each RSCP 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, as in past years, the EDCs bid out roughly one-third of their RSCP supply needs for the period of June 1, 2017 to May 31, 2020. The remaining two-thirds of RSCP load for the upcoming June 2017 to May 2018 period will be served under contracts procured in the 2015 and 2016 BGS Auctions.

Bates White attended the BPU Board meeting in Trenton, New Jersey on February 10, 2017, two business days after the close of the RSCP Auction, and recommended that the Board certify the results.<sup>3</sup> Before getting into detail on our reasons for making this recommendation, it is constructive to step back and provide an overview of the Auction results.

### **RSCP Auction Results**

Table 1 shows the winning prices in this year's RSCP Auction, as well as the winning prices from last year's Auction.

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<sup>3</sup> The Auction closed on February 7, 2017. Per RFP rules, the meeting was to be held within two business days of the close of the Auction. Due to inclement weather, New Jersey state offices were closed on Thursday, February 9, 2017 and the meeting was moved to Friday, February 10, 2017.

**Table 1: Winning RSCP Prices Compared to 2016 Winning RSCP Prices**

| EDC                             | 2017 Winning Price ¢/kWh | 2016 Winning Price ¢/kWh | % Change |
|---------------------------------|--------------------------|--------------------------|----------|
| Atlantic City Electric          | 7.549                    | 8.214                    | -8.1%    |
| Jersey Central Power & Light    | 6.908                    | 7.485                    | -7.7%    |
| Public Service Electric & Gas   | 9.078                    | 9.638                    | -5.8%    |
| Rockland Electric Company       | 8.050                    | 8.502                    | -5.3%    |
| <b>Tranche Weighted Average</b> | 8.194                    | 8.715                    | -6.0%    |

Compared to last year, winning prices for all EDCs decreased anywhere from 5.3 percent to 8.1 percent. The overall tranche-weighted average price decreased by 6 percent. Factors influencing the change in price from last year to this year included (a) decreases in the cost of energy (b) decreases in the cost of capacity and (c) decreases in the cost of congestion.

Table 2 compares the prices of the new contracts to the prices of the expiring contracts procured three years ago. This comparison is the starting point for any discussion of rate impacts resulting from the RSCP Auction.

**Table 2: Winning RSCP Prices Compared to Expiring Contracts from the 2014 RSCP Auction**

| EDC                             | 2017 Winning Price ¢/kWh | 2014 Winning Price ¢/kWh | % Change |
|---------------------------------|--------------------------|--------------------------|----------|
| Atlantic City Electric          | 7.549                    | 8.780                    | -14.0%   |
| Jersey Central Power & Light    | 6.908                    | 8.444                    | -18.2%   |
| Public Service Electric & Gas   | 9.078                    | 9.739                    | -6.8%    |
| Rockland Electric Company       | 8.050                    | 9.561                    | -15.8%   |
| <b>Tranche Weighted Average</b> | 8.194                    | 9.221                    | -11.1%   |

The winning prices for all four EDCs are substantially lower than the winning prices from the 2014 Auction. Decreases range from 6.8 to 18.2 percent. The main factors contributing to these decreases are declines in energy prices - driven by a decline in natural gas prices resulting from increased shale gas production – and decreases in congestion costs. By congestion costs, we mean the cost of delivering energy to New Jersey from Western PJM.

Bates White recommended that the Board certify the results of the BGS-RSCP Auction 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 results of the RSCP Auction was that the Auction was open, fair and transparent. All of the non-price terms and conditions were standardized; therefore, all suppliers, including EDC affiliates, 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 Economic Consulting (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.

In addition, Bates White contacted each EDC, requested, received and reviewed all of the EDC RSCP Pricing spreadsheets and average bill calculation models and conducted testing with the models to ensure accuracy. Once winning prices were determined, we reviewed each EDC's calculation of the new projected rates and impact on average residential bills to ensure they were correct.

### **Competitiveness**

Our second reason for recommending certification of the RSCP Auction results was that the Auction was sufficiently competitive. 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 13 registered bidders [REDACTED]. This is a healthy number of bidders for an auction of this size. [REDACTED]

Second, we looked at the ratio of tranches offered to tranches needed at several points in the 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.<sup>4</sup> 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]

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 signals to other participants that no one party is dominating the auction and that anyone can win, increasing the likelihood that winning bidders will return in future years. This year there were 10 winners, the same number of winners as last year. This result also supports our conclusion that the process was competitive.

Fourth, we analyzed the results using the Herfindahl-Hirschman Index, or HHI, which is based on the market shares of each participant, in this case, market share is measured by a bidder's percentage of tranches won. 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

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<sup>4</sup> 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.

<sup>5</sup> [REDACTED]

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 1,463. This is a bit below last year's HHI of 1,722, and is in the un-concentrated range by DOJ standards and at the mid-point of the moderately concentrated range by the more conservative FERC standards. However, to include only winning bidders is a narrow focus for this exercise. A more appropriate focus would be to expand the calculation of the HHI to include all 11 suppliers who will serve consumers from June 2017 to May 2018. This includes in the analysis, all winners in the 2015 and 2016 Auctions, as well as the 2017 Auction. The HHI calculated in this manner is 1,515.

Fifth, we employed a method also used by FERC in antitrust evaluations, which examines the HHI of a market when the price is within 5 percent of the final market price. This so-called "Delivered Price Test" gives a sense of what suppliers could have offered supply at a price level roughly consistent with market prices. [REDACTED]

In addition, we looked for signs of collusive or coordinated bidding behavior by closely examining all bids by all bidders on a round by round basis. Bidding behavior was also reviewed by our Auction Theory Expert, Professor Ken Hendricks of the University of Wisconsin, subsequent to the close of the Auction and before the results were certified. We found no evidence of any collusive or anti-competitive actions.<sup>6</sup>

### **Prices Consistent with Market Conditions**

The third reason for recommending certification of the BGS RSCP Auction results was that winning prices were consistent with broader market conditions. Our primary test of prices involved comparing the winning prices with the predicted ranges from our Benchmark Pricing Model. [REDACTED]

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<sup>6</sup> 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.

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

We created separate benchmark ranges for each EDC. Each of the four winning prices [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]. These results give us a great deal of confidence that winning prices were not only reflective of current market conditions, but a “good deal” considering those conditions.

As noted above, comparing this year’s average winning price to last year’s average winning price we can see that, on average, prices decreased 6.0 percent. Prices for each individual EDC decreased by 5.3 percent to 8.1 percent, due primarily to lower energy costs. [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]

Other cost decreases included capacity and congestion costs. The only notable cost increase was an increase in PSE&G’s transmission rate. PS&G’s transmission rate has been climbing steadily over the last several years. This year it increased over 10% as compared to last year. PSE&G ratepayers now pay more for transmission service, about \$250/MW-day, than they do for capacity.

**Bill Impact**

From a rate impact standpoint, as a starting point, we can compare the winning prices in this Auction to the contracts that are being replaced. In this case that would be contracts from the 2014 BGS Auction. For all EDCs, winning prices were lower than 2014 winning prices, with decreases ranging from 6.8 percent to 18.2 percent. Again, the key drivers are decreases in energy and congestion costs. During the 2014 Auction the average cost of monthly peak futures on the NYMEX exchange for delivery between June 2014 and May 2017 was \$46.28/MWh.

Table 3 shows the estimated monthly bill impacts of the 2017 BGS-RSCP Auction as forecast by the EDCs for a residential customer with an annual monthly average usage of 650 kWh.<sup>7</sup>

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<sup>7</sup> The calculation reflects the impact on a customer using 574 kWh in the winter for 8 months and 802 kWh in the summer for 4 months.

**Table 3: Forecast Residential Monthly Bill Impacts from 2017 BGS-RSCP Auction**

| EDC                           | Percentage Change in Monthly Bill |
|-------------------------------|-----------------------------------|
| Atlantic City Electric        | -3.3%                             |
| Jersey Central Power & Light  | -4.2%                             |
| Public Service Electric & Gas | -2.6%                             |
| Rockland Electric Company     | -6.3%                             |

As a result of this year’s Auction, residential ratepayers for all EDCs are forecast to see a decrease in their estimated bill. Rockland Electric Company (RECO)’s residential ratepayers will see an average estimated bill decrease of 6.3 percent and those of Jersey Central Power & Light (JCP&L) will see an average estimated bill decrease of 4.2 percent. Atlantic City Electric (ACE) residential ratepayers will see an average estimated bill decrease of 3.3 percent, while ratepayers from PSE&G will see an estimated bill decrease of 2.6 percent.

We note that these bill changes reflect the inclusion of the incremental costs resulting from the PJM Capacity Performance program. This program was undertaken by PJM after the 2014 Polar Vortex and Winter Storms in order to ensure reliability and involved the creation of a higher-performing capacity product. PJM sought to acquire this product for years in which the price of capacity had already been determined, causing suppliers to not participate in default service procurements. Due to the uncertainty surrounding the costs of this program, for the 2015 BGS Auction only, the BPU allowed winning suppliers to pass through the resulting costs. This helped ensure that bidders would participate in that Auction. The impact of this inclusion is about \$1/month for an average residential customer. Without this inclusion bill decreases would be about 1% lower.

## **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. The CIEP contract period runs from June 1, 2017 through May 31, 2018. Each year the EDCs bid out 100 percent of their CIEP supply needs.

Bates White recommended that the Board certify the results of the CIEP Auction. We used the same three criteria as in our recommendation for the RSCP Auction.

**Fairness and Transparency**

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

**Competitiveness**

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

- First, there were six registered [REDACTED]  
[REDACTED]  
[REDACTED]
- Second, the excess quantity offered was sufficient. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- Third, all six bidders were winners in the Auction. This is the same number of winners as last year [REDACTED].
- Fourth, the HHI using the market shares of just the winning bidders was 2, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- Fifth, we, along with our Auction Theory Expert, reviewed the round-by-round results and 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 RSCP 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 Renewable Portfolio Standard (RPS).

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

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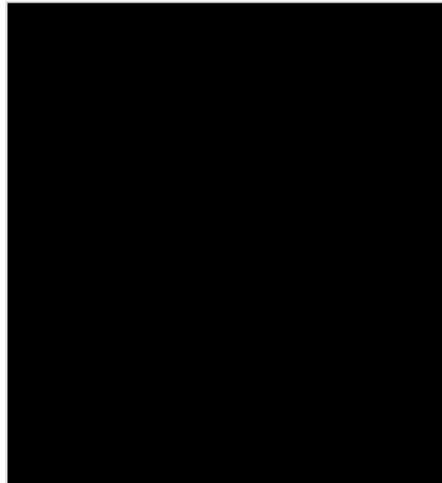
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

### C. LONG-TERM COMPETITIVENESS

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

[REDACTED]

[REDACTED]

A large rectangular area of the document is completely redacted with a solid black box, obscuring any data or text that might have been present.

[REDACTED]

To further examine long term competitiveness, we looked at trends in both Auction participation and winning bidders. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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

[REDACTED] we can make at least four observations. [REDACTED]

[REDACTED]

These metrics indicate a very competitive process. Second, the Auction continues to attract new bidders [REDACTED]. This is a good sign of the transparency of the Auction process. Third, [REDACTED]

[REDACTED]  
[REDACTED]



In terms of who is supplying the BGS-RSCP product, we looked at trends in RSCP winners. Figure One displays how much load each supplier served for each energy year (i.e., June-May period) from 2010-2011 to 2017-2018.<sup>8</sup> Each column in Figure One is organized from the bottom up from the largest supplier during this period to its smallest supplier. The columns then map out the growth or decline in load share through the energy years.

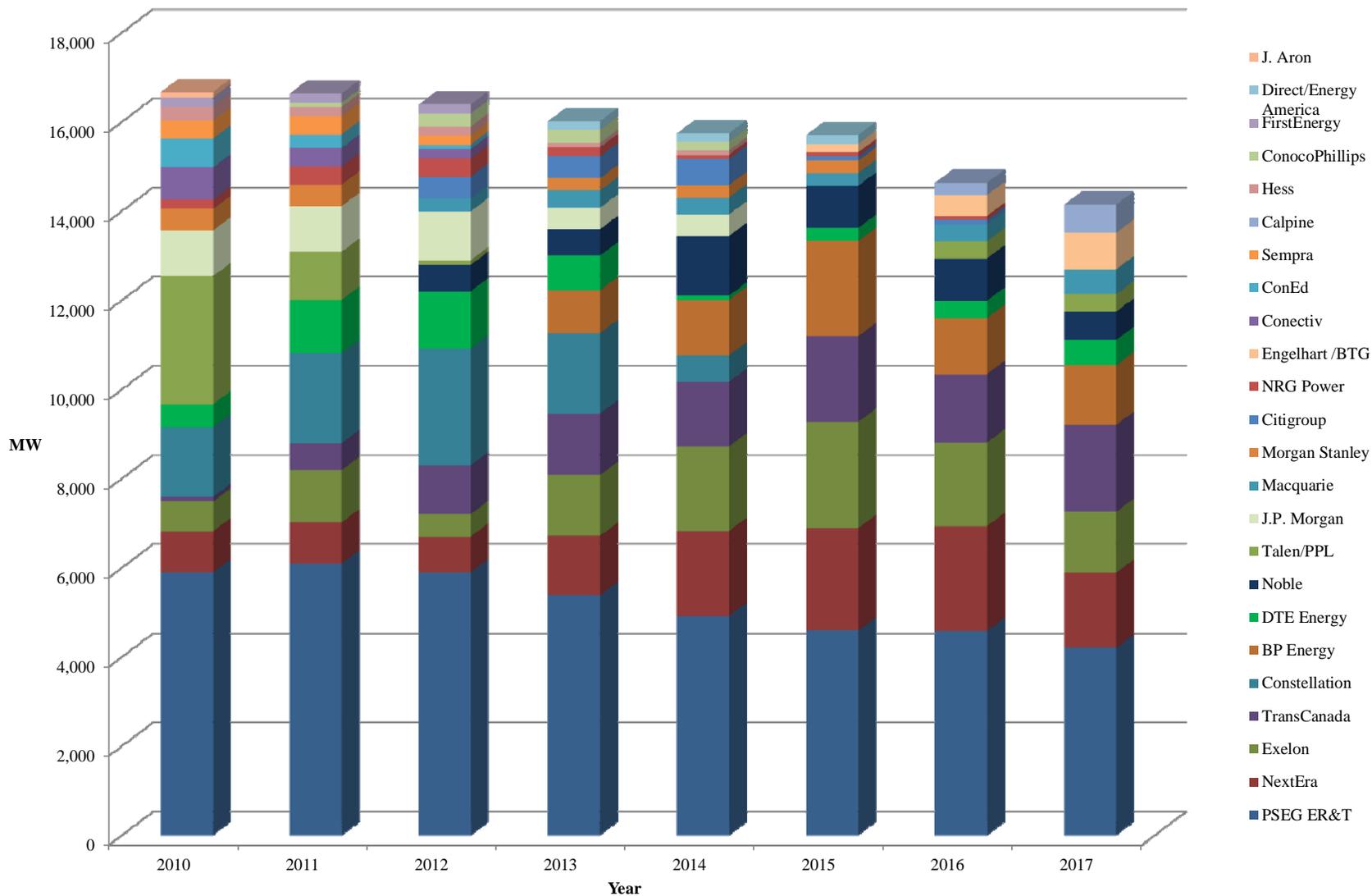
From this figure we see that 24 different suppliers have provided (or will provide) supply to RSCP ratepayers over the period 2009-2010 to 2017-2018.<sup>9</sup> For the 2017-18 year, 11 suppliers will provide RSCP service. PSE&G Energy Resources and Trade has been the largest supplier over that period, winning at or near the load cap, about one-third of total supply, in each year. Other bidders have made significant inroads over the last few years, notably, TransCanada, BP Energy, and NextEra. Also noteworthy is the fact that the supplier pool has consolidated somewhat. In 2010-11 there were 16 entities serving this load, while in 2017-18 there will be just 11 entities serving this load. This reflects the slightly lower participation numbers in recent Auctions as well as industry consolidation.

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<sup>8</sup> 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.

<sup>9</sup> J Aron won tranches in the 2008 Auction and was contracted to supply load in the 2008 to 2010 period.

**Figure One**  
**Estimated MW of RSCP Energy Served, by Supplier**



## D. 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.

At the current moment in time, we do not have any specific recommendations regarding the BGS Auction. This reflects the fact that the Auction has been refined over the years many times and is a competitive, well-functioning process. Having said that we would encourage the Board and Board Staff to continue to observe developments in the regulatory and competitive environment, which could influence the functioning and/or results of the Auction. This includes issues such as; a) cost allocation of transmission projects at FERC- which could increase the amount customers pay for transmission, b) the growing role of private equity in acquiring generation facilities – which has the potential to change the competitive landscape and c) the current debate over nuclear subsidies (sometimes known as Zero Emissions Credits, or ZECs) –which has inspired challenges to state authority that could ultimately limit the BPU's regulatory powers.

## **II. THE NEW JERSEY 2017 BGS-RSCP AUCTION**

A. POST-AUCTION CHECKLIST

**ATTACHMENT B  
DOCKET NO. ER16040337**

**POST-AUCTION CHECKLIST  
FOR THE NEW JERSEY 2017 BGS-RSCP AUCTION**

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Prepared by: Bates White, LLC

Auction began with the opening of Round 1 at 8:55 am on Monday, Feb. 6, 2017

Auction finished with the close of Round 19 at 11:45 am on Tuesday, Feb. 7, 2017

|                    | Start of Round 1 | Start of Round 2 *<br>(after volume reduction in Round 1, if applicable) | Start of Round n *<br>(after post-Round 1 volume reduction, if applicable) |
|--------------------|------------------|--|--|
| # Bidders          | <u>█</u>         | <u>NA</u>  | <u>NA</u>  |
| Tranche target     | <u>53</u>        | <u>NA</u>  | <u>NA</u>  |
| Eligibility ratio  | <u>█</u>         | <u>NA</u>  | <u>NA</u>  |
| PSE&G load cap     | <u>13</u>        | <u>NA</u>  | <u>NA</u>  |
| JCP&L load cap     | <u>7</u>         | <u>NA</u>  | <u>NA</u>  |
| ACE load cap       | <u>3</u>         | <u>NA</u>  | <u>NA</u>  |
| RECO load cap      | <u>2</u>         | <u>NA</u>  | <u>NA</u>  |
| Statewide load cap | <u>20</u>        | <u>NA</u>  | <u>NA</u>  |

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

**ATTACHMENT B  
DOCKET NO. ER16040337**

**Post-Auction Checklist for the New Jersey 2017 BGS-RSCP Auction**

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

**Table 1. Summary of BGS-RSCP Auction**

|  | <b>PSE&amp;G</b> | <b>JCP&amp;L</b> | <b>ACE</b> | <b>RECO</b> | <b>Total</b> |
|--|------------------|------------------|------------|-------------|--------------|
| BGS-RSCP peak load share (MW)  | 2,509.31         | 1,286.61         | 717.71     | 203.95      | 4,717.58     |
| Total tranches needed  | 28               | 15               | 8          | 2           | 53           |
| Starting tranche target in auction                                       | 28               | 15               | 8          | 2           | 53           |
| Final tranche target in auction  | 28               | 15               | 8          | 2           | 53           |
| Tranche size (%)   | 1.18             | 1.82             | 4.55       | 25.00       |              |
| Tranche size (approximate MW)  | 89.62            | 85.77            | 89.71      | 101.98      |              |
| Starting EDC load caps (# tranches)                                      | 13               | 7                | 3          | 2           | --           |
| Starting statewide load cap (#tranches)                                  | --               | --               | --         | --          | 20           |
| Final EDC load caps (# tranches)   | 13               | 7                | 3          | 2           | --           |
| Final statewide load cap (#tranches)                                     | --               | --               | --         | --          | 20           |
| Quantity procured (# tranches)   | 28               | 15               | 8          | 2           | 53           |
| Quantity procured (% BGS–RSCP load)                                      | 100%             | 100%             | 100%       | 100%        | 100%         |
| # Winning bidders  | 8                | 6                | 5          | 1           | 10           |
| Maximum # of tranches procured from any one bidder                       | 10               | 5                | 3          | 2           | 13           |
| Minimum and maximum starting prices prior to indicative bids (cents/kWh) |                  |                  |            |             | 12.5<br>18.0 |
| Starting price at start of auction (cents/kWh) *                         |                  |                  |            |             |              |
| Final auction price (cents/kWh) **                                       | 9.078            | 6.908            | 7.549      | 8.050       | 8.194        |

\* 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. ER16040337**

**Post-Auction Checklist for the New Jersey 2017 BGS-RSCP Auction**

**Table 2. Overview of Findings on BGS-RSCP Auction**

| Question |  | Comments            |
|----------|--|---------------------|
| 1        | <b>BW's recommendation as to whether the Board should certify the RSCP auction results?</b>  | <b>Yes, certify</b> |
| 2        | Did bidders have sufficient information to prepare for the RSCP 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 RSCP auction that created material uncertainty for bidders?   | No                  |
| 5        | From what BW could observe, were there any procedural problems or errors with the RSCP auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager? | No                  |
| 6        | From what BW could observe, were protocols for communication between bidders and the Auction Manager adhered to?   | Yes                 |
| 7        | From what BW could observe, were there any hardware or software problems or errors, either with the RSCP auction system or with its associated communications systems?   | No                  |
| 8        | Were there any unanticipated delays during the RSCP auction?   | No                  |
| 9        | Did unanticipated delays appear to adversely affect bidding in the RSCP auction? What adverse effects did BW 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 RSCP auction process?   | No                  |

| Question |   | Comments |
|----------|---|----------|
| 12       | From what BW could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and BW during the RSCP auction?             | Yes      |
| 13       | From what BW could observe, were the protocols followed for decisions regarding changes in RSCP 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 RSCP 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 BW 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 BW believed were legitimate?  | No       |
| 19       | Was the RSCP 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 RSCP auction?   | No       |
| 23       | Was information made public appropriately? From what BW could observe, was sensitive information treated appropriately?   | Yes      |
| 24       | Does the RSCP auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-RSCP load? | Yes      |

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

B. BATES WHITE SUPPLEMENTAL CHECKLIST

**BATES WHITE SUPPLEMENT TO NEW JERSEY BGS AUCTION  
CHECKLIST: RSCP AUCTION**

**QUESTION 1:**

**Bates White's recommendation as to whether the Board should certify the RSCP 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 RSCP 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 was held on October 14, 2016 and the second on December 2, 2016, both in-person in Philadelphia. The third was held January 24, 2017 and took place as a webcast that morning. 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 RSCP 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.

Two companies attended the first and second information sessions. In total, three companies showed interest in the RSCP and/or CIEP Auction by attending one of the first two bidder information sessions. This compares to four companies attending one of the first two sessions last year. [REDACTED] 13 registered RSCP bidders attended the third bidder information session this year, as compared to [REDACTED]. As with last year's turnout, this year's high turnout is likely due to the fact that the third information session was once again 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 6, 2017, 168 questions had been asked by bidders since August 10, 2016, 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, and (f) Data. NERA provided responses to all of these questions, which seemed to satisfy bidders.

Answers to FAQs were posted publically on the BGS website through late January. Starting on January 25, 2017, the Auction Manager sent answers to questions received only to Registered Bidders via email. Bates White 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 2016 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 the website.

NERA also posted models which translated potential winning prices for each EDC into customer rates. As we did last year, Bates White conferred with each EDC to go over their rate models and average bill calculations. We audited each sheet posted on the website to ensure it was correct and double-checked the EDCs calculation of rate and average bill impacts resulting from the actual Auction.

**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?**

Please see answer to 2b.

**f. Were bidders given an opportunity to provide proposals and comments concerning the 2017 Auction Process?**

Yes. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2016. Interested parties were also invited to file initial comments and final comments by September 6, 2016 and October 5, 2016, respectively. The Board also held a legislative-type hearing on September 16, 2016.

**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.

**b. Were there updates to the timeline?**

No.

**QUESTION 4:**

**Were there any issues and questions left unresolved prior to the RSCP 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 24, 2017 directly responded to by NERA?**

Yes, questions continued to be asked by Registered Bidders after January 24, 2017 and NERA provided answers to these questions directly to bidders via email. These answers were distributed regularly beginning on January 25, 2017. 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.

Questions were asked about potential new solar regulation (specifically SB 2276) that would increase the solar percentage of the State Renewable Portfolio Standard but NERA noted that, per the proposed legislation, existing BGS supply contracts would be exempted from the legal requirements. While there were a number of questions related to transmission costs, specifically (a) Rockland's filing for an increase in its NITS rate, (b) JCP&L's proposal to move to a formula rate regime, and (c) the allocation of costs for several major transmission projects pursuant to FERC Order 494 NERA explained that cost changes as a result of these actions will be covered under Section 15.9 of the Supplier Master Agreement. Based on the prices received and participation in this auction, bidders seemed to be comfortable with this answer.

Bates White 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 bidding opportunity by running four ads in Platts publications, two in *Megawatt Daily* on November 30, 2016 and December 7, 2016 and two in *Energy Trader* on November 29, 2016 and December 6, 2016.

The Auction Manager consulted with Bates White during each of the application processing periods. [REDACTED]

[REDACTED]

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

[REDACTED]

**QUESTION 5:**

**From what Bates White could observe, were there any procedural problems or errors with the RSCP 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 RSCP Auction?**

Yes, to our knowledge, the Auction was carried out according to the Auction Rules as approved by the Board and NERA's internal protocols.

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

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

Bates White 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, 2017, Bates White 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 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 26, 2017, Bates White 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 actual Auction, Bates White did not observe any significant software problems.

**c. Was the back-up bidding process followed?**

Yes. [REDACTED]

[REDACTED] Further, Registered Bidders also had the opportunity to practice the back-up bid procedure during the Trial Auction for Registered Bidders on January 26, 2017.

**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. Bates White reviewed all telephone conversations and electronic messages.

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

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

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

No.

**QUESTION 6:**

**From what Bates White 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. Bates White 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 16, 2016. The Part 2 Application deadline was on January 11, 2017 by which time there were a total of 134 questions posted and answered. 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]  
[REDACTED]

[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]

[REDACTED]

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

Yes, please see the answer to 5d.

**QUESTION 7:**

**From what Bates White could observe, were there any hardware or software problems or errors, either with the RSCP 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?**

Bates White is unaware of any material issues with NERA's communication systems based on our presence in the Auction room and 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?**

Bidders did not communicate any material technical concerns to NERA.

**QUESTION 8:**

**Were there any unanticipated delays during the RSCP Auction?**

**ANSWER 8: No.**

**QUESTION 9:**

**Did unanticipated delays appear to adversely affect bidding in the RSCP Auction? What adverse effects did Bates White 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?**

[REDACTED] 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 RSCP 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]

[REDACTED]

Bates White reviewed communications between NERA and bidders. [REDACTED]

[REDACTED]

**QUESTION 12:**

**From what Bates White could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and Bates White during the RSCP Auction?**

**ANSWER 12: Yes.**

**AUCTION WEEK CRITERIA**

**a. Were protocols followed as described by NERA?**

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

**b. Did BPU Staff and Bates White get all the information that we required?**

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

**QUESTION 13:**

**From what Bates White could observe, were the protocols followed for decisions regarding changes in RSCP Auction parameters (e.g., volume, load caps, bid decrements)?**

**ANSWER 13: Yes.**

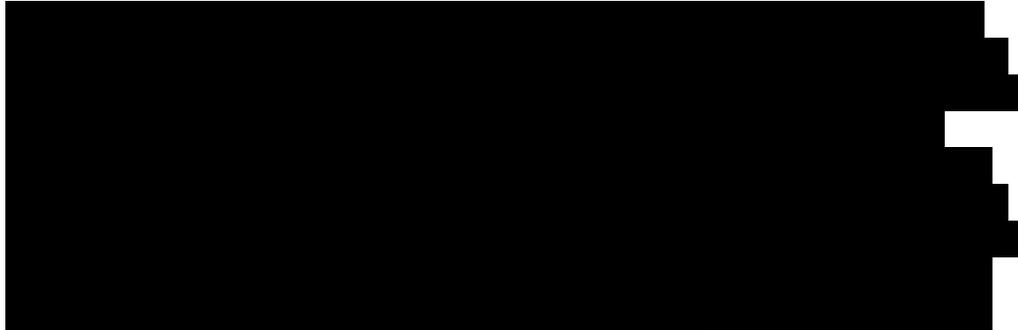
**PRE-AUCTION CRITERIA**

**a. Were notable changes made to the decrement formulas?**

NERA made changes to several of the decrement formulas [REDACTED]  
[REDACTED] in order to ensure that all prices would decline in a smooth fashion.

**AUCTION WEEK CRITERIA**

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



Bates White

independently calculated the bid decrements for each round.

**QUESTION 14:**

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

**ANSWER 14: Yes.**



**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, Bates White reviewed all electronic and voice communications.

**QUESTION 16:**

**From what Bates White could observe, were the communications between the Auction Manager and bidders timely and effective?**

**ANSWER 16: Yes.**

## **AUCTION WEEK CRITERIA**

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

Bates White 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 2017 RSCP Auction ended after 19 rounds, which compares to 18 rounds last year and 17 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 Bates White believed were legitimate?**

### **ANSWER 18: No.**

Bates White 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 RSCP 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 2017 BGS process. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2016. Furthermore, interested parties were also invited to file initial comments and final comments by September 6, 2016 and October 5, 2016, respectively. The Board also held a legislative-type hearing on September 16, 2016.

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 Bates White and BPU Staff concerning Part 1 and 2 Applications. [REDACTED]



[REDACTED]  
 Having returning bidders speaks well to the quality of the bidding opportunity.  
 [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] 10 actually won the right to serve some portion of the New Jersey RSCP load. This is same number of winners as last year.

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 (20 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 10 winners in the RSCP Auction, two bidders have a market share over 20%. PSE&G Energy Resources & Trade (ER&T) won 24.5% of the supply offered in this Auction and TransCanada Power won 20.8%. Looking at all suppliers who will provide BGS-RSCP supply over the June 2017 to May 2018

period (i.e., including winners from the 2015 and 2016 BGS Auctions), only PSE&G ER&T has a market share over 20% at 27.4%.

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 RSCP Auction, using the winning shares as market shares, the HHI is 1,463. This puts the HHI for the RSCP Auction in the un-concentrated range. This is similar to last year's HHI of 1,722. However, to include only winning bidders is a narrow focus for calculating an HHI. For example, a more appropriate focus would be the 11 suppliers who will serve consumers in 2017-2018; these are the winners in 2015 and 2016, as well as in this 2017 Auction. The HHI in this case would be 1,515. This compares to an HHI of suppliers who served customers for 2016-2017 of 1,620.

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 RSCP Auction. Bates White and its Auction expert, Professor Ken Hendricks, assessed

[REDACTED] we detected no evidence of explicit coordination of bidding.

**QUESTION 23:**

**Was information made public appropriately? From what Bates White 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 Bates White signed confidentiality agreements. [REDACTED]

In addition, Bates White 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 RSCP Auction appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-RSCP load?**

**ANSWER 24: Yes.**

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

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

| 2017 BGS Auction     |                 |                         |  |            |            |
|----------------------|-----------------|-------------------------|--|------------|------------|
| Product              | Tranches Filled | Final Price (cents/kWh) | Price Expectation Range (cents/kWh) <sup>1</sup> |            |            |
|                      |                 |                         | Average  | Low        | High       |
| PSE&G                | 28              | 9.078                   | [REDACTED]                                       | [REDACTED] | [REDACTED] |
| JCP&L                | 15              | 6.908                   | [REDACTED]                                       | [REDACTED] | [REDACTED] |
| ACE                  | 8               | 7.549                   | [REDACTED]                                       | [REDACTED] | [REDACTED] |
| RECO                 | 2               | 8.050                   | [REDACTED]                                       | [REDACTED] | [REDACTED] |
| Total                | 53              |                         | [REDACTED]                                       | [REDACTED] | [REDACTED] |
| Average <sup>2</sup> |                 | 8.194                   | [REDACTED]                                       | [REDACTED] | [REDACTED] |

[REDACTED]



Comparing this year's average final price to last year's average final price of 8.715 cents/kWh we can see that, on average, prices decreased 6%. Prices for each individual EDC decreased by 5.3% to 8.1% due mainly to lower energy, capacity and congestion costs. The only notable cost increase, was an increase in PSE&G's transmission rate.

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 2014 BGS Auction. For all utilities winning prices were lower than 2014 winning prices, ranging from a 6.8% to 18.2% lower. As a result, all EDCs forecast average bill decreases for the upcoming June to May period.

**QUESTION 25:**

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

**ANSWER 25: No.**

No, please see the answer to 24. Factors that influenced pricing included changes in energy costs, congestion costs, and changes in RPS costs as well as, for PSE&G in particular, increases in transmission charges.

**QUESTION 26:**

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

**ANSWER 26: No.**

### **III. THE NEW JERSEY 2017 BGS-CIEP AUCTION**

A. POST-AUCTION CHECKLIST

**ATTACHMENT B  
DOCKET NO. ER16040337**

**POST-AUCTION CHECKLIST FOR THE NEW JERSEY  
2017 BGS-CIEP AUCTION**

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Prepared by: Bates White, LLC

Auction began with the opening of Round 1 at 8:25 am on Friday, February 3, 2017  
 Auction finished with the close of Round 25 at 9:00 am on Monday, February 6, 2017

|                    | Start of Round 1 | Start of Round 2 *<br>(after volume reduction in Round 1, if applicable) | Start of Round n *<br>(after post-Round 1 volume reduction, if applicable) |
|--------------------|------------------|--|--|
| # Bidders          | █                | NA   | NA   |
| Tranche target     | 43               | NA   | NA   |
| Eligibility ratio  | █                | NA   | NA   |
| Statewide load cap | 20               | 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. ER16040337**

**Post-Auction Checklist for the New Jersey 2017 BGS-CIEP Auction**

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

**Table 1. Summary of BGS-CIEP Auction**

|  | <b>PSE&amp;G</b> | <b>JCP&amp;L</b> | <b>ACE</b> | <b>RECO</b> | <b>Total</b> |
|--|------------------|------------------|------------|-------------|--------------|
| BGS-CIEP peak load share (MW)  | 1,880.97         | 911.58           | 346.50     | 56.10       | 3,195.15     |
| Total tranches needed  | 25               | 12               | 5          | 1           | 43           |
| Starting tranche target in auction                                       | 25               | 12               | 5          | 1           | 43           |
| Final tranche target in auction  | 25               | 12               | 5          | 1           | 43           |
| Tranche size (%)   | 4.00             | 8.33             | 20.00      | 100.00      |              |
| Tranche size (approximate MW)  | 75.24            | 75.97            | 69.30      | 56.10       |              |
| Starting load cap (# tranches)   | --               | --               | --         | --          | 20           |
| Final load cap (# tranches)  | --               | --               | --         | --          | 20           |
| Quantity procured (# tranches)   | 25               | 12               | 5          | 1           | 43           |
| Quantity procured (% BGS-CIEP load)                                      | 100%             | 100%             | 100%       | 100%        | 100%         |
| # Winning bidders  | 5                | 5                | 4          | 1           | 6            |
| Maximum # of tranches procured from any one bidder                       | 8                | 5                | 2          | 1           | 13           |
| Minimum and maximum starting prices prior to indicative bids (\$/MW-day) |                  |                  |            |             | 400<br>575   |
| Starting price at start of auction (\$/MW-day)*                          |                  |                  |            |             |              |
| Final auction price (\$/MW-day)**  | 276.83           | 218.00           | 217.00     | 223.61      | 252.22       |

\* 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. ER16040337**

**Post-Auction Checklist for the New Jersey 2017 BGS-CIEP Auction**

**Table 2. Overview of Findings on BGS-CIEP Auction**

| Question |  | Comments     |
|----------|--|--------------|
| 1        | <b>BW's recommendation as to whether the Board should certify the CIEP auction results?</b>  | 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 BW 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 BW could observe, were protocols for communication between bidders and the Auction Manager adhered to?   | Yes          |
| 7        | From what BW 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 BW 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 BW could observe, were protocols followed for communications among the EDCs, NERA, BPU staff, the Board (if necessary), and BW during the CIEP auction?             | Yes      |
| 13       | From what BW 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 BW 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 BW 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 BW 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. BATES WHITE SUPPLEMENTAL CHECKLIST

**BATES WHITE SUPPLEMENT TO NEW JERSEY BGS AUCTION  
CHECKLIST: CIEP AUCTION**

**QUESTION 1:**

**Bates White'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 October 14, 2016 and the second on December 2, 2016, were both held in-person in Philadelphia. The third was scheduled for January 24, 2017 and took place as a webcast that morning.

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

Note that 2 companies attended the first information session and 2 companies attended the second information session. In total, 3 companies showed interest in the RSCP and/or CIEP 2017 Auction by attending one of the first two bidder information sessions. This compares to 4 companies attending one of the first two sessions last year. [REDACTED] attended the third bidder information session. This turnout is likely due to the fact that this was an online

webcast, 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 6, 2017, 168 questions had been asked by bidders since August 16, 2016, 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, and (f) Data. NERA provided responses to all of these questions, which seemed to satisfy bidders.

Answers to FAQs were posted publically through late January. Starting on January 25, 2017, the Auction Manager sent answers to questions received regularly to Registered Bidders via email. Bates White 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 2016, 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?**

No.

**f. Were bidders given an opportunity to provide proposals and comments concerning the 2016 Auction Process?**

Yes. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2016. Interested parties were also invited to file initial comments and final comments by September 6, 2016 and October 5, 2016, respectively. The Board also held a legislative-type hearing in September.

After reviewing all comments from the EDCs and other interested parties, the Board approved the Joint EDC Proposal for the 2016 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.

**b. Were there updates to the timeline?**

No, there were no adjustments to this schedule.

**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 24, 2017 directly responded to by NERA?**

Yes, questions continued to be asked by Registered Bidders after January 24, 2017 and NERA provided answers to these questions directly to bidders via email. These answers were distributed regularly beginning on January 25, 2017. 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. Questions were asked about potential new solar regulation (specifically SB 2276) that would have raised the solar percentage of the State Renewable Portfolio Standard (RPS) but NERA noted that, per the proposed legislation, existing BGS supply contracts would be exempted from the new requirements. While there were a number of issues related to transmission costs, specifically (a) Rockland's filing for an increase in its NITS rate, (b) JCP&L's proposal to move to a formula rate regime, and (c) the allocation of costs for several major transmission projects pursuant to FERC Order 494. Cost changes as a result of these actions will be covered under Section 15.9 of the Master Service Agreement. Based on the prices received and participation in this auction, bidders seemed to be comfortable with these issues.

Bates White 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. NERA also advertised the bidding opportunity by running four ads in Platts publications, two in *Megawatt Daily* on November 30, 2016 and December 7, 2016 and two in *Energy Trader* on November 29, 2016 and December 6, 2016.

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

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

[REDACTED]

**QUESTION 5:**

**From what Bates White 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 major problems with the Auction software during testing or trials.

Bates White 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, 2017, Bates White 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 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 26, 2017, Bates White 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 actual Auction, Bates White did not observe any software problems.

**c. Was the back-up bidding process followed?**

Yes, [REDACTED]

[REDACTED] Further, Registered Bidders also had the opportunity to practice the back-up bid procedure during the Trial Auction for Registered Bidders on January 26, 2017.

**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. Bates White reviewed all telephone conversations and electronic messages.

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

Yes. There were no extensions requested by bidders.

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

No.

**QUESTION 6:**

**From what Bates White 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. Bates White 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 16, 2016. The Part 2 Application deadline was on January 11, 2017 by which time there were a total of 134 questions posted and answered. 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 Bates White 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?**

Bates White is unaware of any material issues with NERA's communication systems based on our presence in the Auction room and 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 Bates White 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?**

[REDACTED] 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]

Bates White reviewed communications between NERA and bidders. [REDACTED]



**QUESTION 12:**

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

**ANSWER 12: Yes.**

**AUCTION WEEK CRITERIA**

**a. Were protocols followed as described by NERA?**

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

**b. Did BPU Staff and Bates White get all the information that we required?**

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

**QUESTION 13:**

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

**ANSWER 13: Yes.**

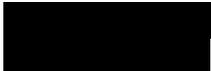
**PRE-AUCTION CRITERIA**

**a. Were notable changes made to the decrement formulas?**

NERA made adjustments to the ACE decrement coefficients from last year based on last year's bidding in order to ensure a smooth and more uniform price reduction during the auction.

**AUCTION WEEK CRITERIA**

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

 Bates White 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.**

[REDACTED]  
Bates White 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, Bates White reviewed all electronic and voice communications.

**QUESTION 16:**

**From what Bates White 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 Bates White seemed relevant and clear. Again, Bates White reviewed all electronic messages. In addition, Bates White also reviewed the phone conversations between bidders and the Auction Manager.

Bates White 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 CIEP Auction proceed smoothly, [REDACTED]

The 2017 CIEP Auction ended after 25 rounds, which compares to 22 rounds last year. [REDACTED]

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]

[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 Bates White believed were legitimate?**

**ANSWER 18: No.**

Bates White 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 2017 BGS process. In its Procedural Order, the Board invited all interested parties to file procurement proposals by July 1, 2016. Furthermore, interested parties were also invited to file initial comments and final comments by September 6, 2016 and October 5, 2016, respectively. The Board also held a legislative-type hearing on September 16, 2016.

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 Bates White and BPU Staff concerning Part 1 and 2 Applications. [REDACTED]

An additional factor boosting the competitiveness of the Auction is that this is the 16<sup>th</sup> 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).

There were 6 registered bidders. [REDACTED]

[REDACTED] This is an acceptable number of bidders for an auction this size.  
[REDACTED]



All 6 of the bidders won the right to serve at least some portion of the New Jersey CIEP consumer need. The biggest winner was ConocoPhillips, who won 13 tranches (8 of PSE&G and 5 of RECO). Last year's process saw 6 winners with the largest supplier (Exelon) winning 14 tranches.

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 6 winners in the CIEP Auction, 2 had a market share over 20% (ConocoPhillips and DTE won 30%, 23%, respectively). The other 4 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 2,093. This puts the HHI for the CIEP Auction in roughly the middle 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.

[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 CIEP Auction. Bates White and its auction expert, Professor Ken Hendricks of the University of Wisconsin, assessed [REDACTED] we detected no evidence of explicit coordination of bidding.

**QUESTION 23:**

**Was information made public appropriately? From what Bates White 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 Bates White signed confidentiality agreements. [REDACTED]

[REDACTED]

In addition, Bates White 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, Bates White 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 State 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.**