

# Basic Generation Service (BGS) Load

## Statewide Auction Process

October 1, 2021

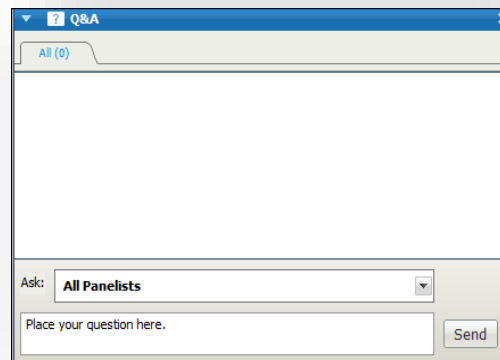
**bgs-auction.com**

NEW JERSEY STATEWIDE BASIC GENERATION SERVICE ELECTRICITY SUPPLY AUCTION



# HOW TO ASK A QUESTION

- **Questions are taken in writing through the WebEx interface:**
  - Locate the “Q&A” on the right-hand side of your screen
  - Select “All Panelists” in the “Ask” box
  - Type in your question
  - Click “Send” to submit your question



# DISCLAIMER

## ■ **Disclaimer.**

Any statements herein describing or referring to documents and agreements are summaries only, and are **qualified in their entirety** by our reference to the governing documents, which are all the documents included in the EDCs' July Filing dated July 01, 2021, posted to the *BGS Proceeding page* of the *Auction tab* on the *BGS Auction website*, [www.bgs-auction.com](http://www.bgs-auction.com) :

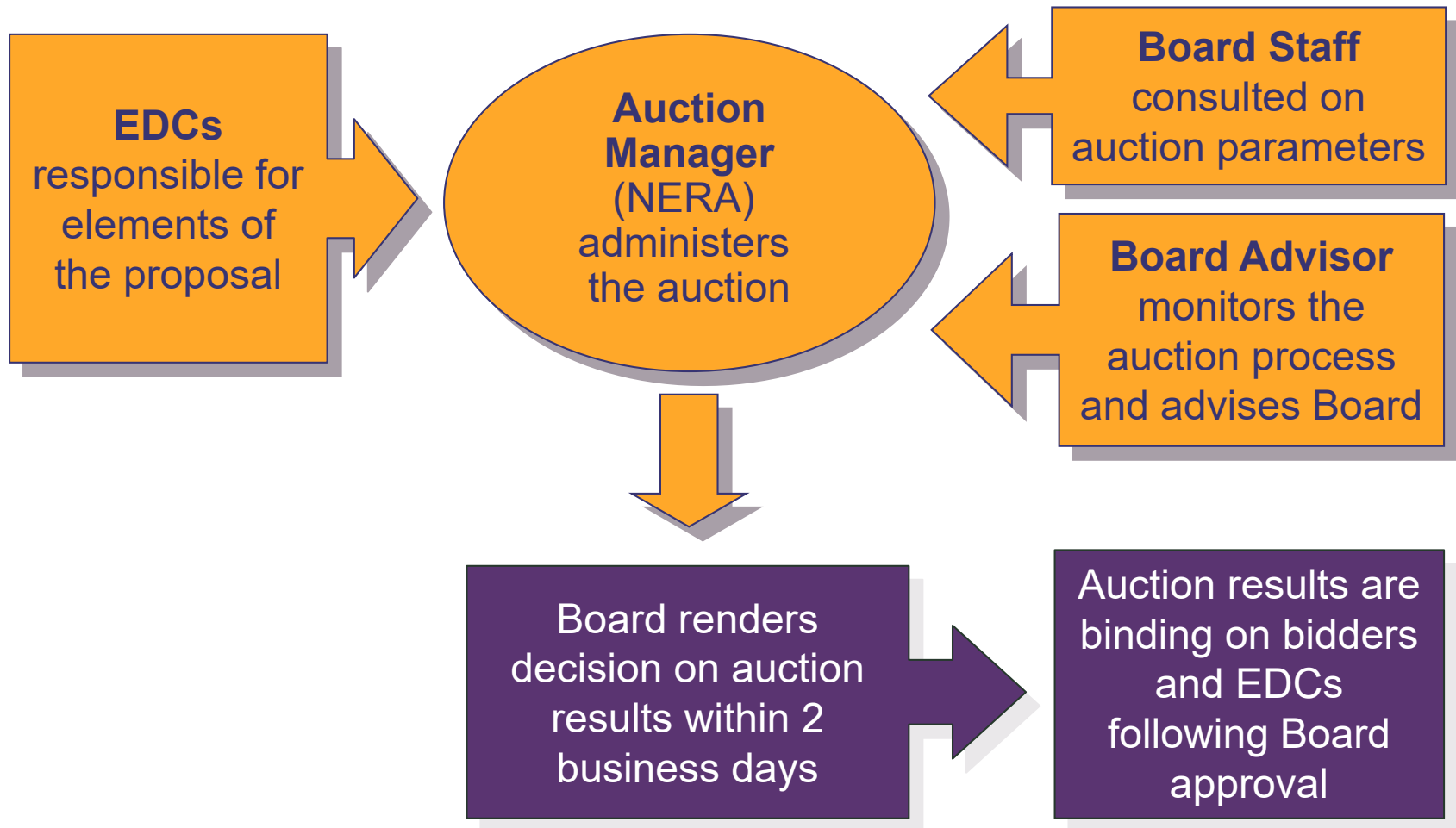
- **EDCs' Joint Proposal**
- **BGS-CIEP and BGS-RSCP Provisional Auction Rules**
- **BGS-CIEP and BGS-RSCP Supplier Master Agreements**
- **Each EDC's Company-Specific Addendum, including draft tariff sheets and pricing factors**

# THE PRESENTATION WILL COVER:

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- Roles
- Overview of the EDCs' Proposal (July Filing)
- Products and Rates
- Overview of Bidding in the Auctions
- Auction Process
- BGS Auction Website and Other Sources of Information

# ROLES



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# 1. OVERVIEW OF JULY FILING

# GOALS OF THE BGS AUCTION PROCESS

## **Two essential goals of the BGS Auction Process:**

- To procure supply for Basic Generation Service (“BGS”) customers at a cost consistent with market conditions
- To enable the participation of a broad spectrum of entities, including energy trading and marketing companies, by aggregating a portfolio of wholesale products and providing price-risk management services

# TIMELINE THROUGH PART 1 APPLICATION (REGULATORY MILESTONES)

<b>July 01, 2021</b>	EDCs' Proposal filed
<b>September 03, 2021</b>	Deadline for initial comments
<b>September 27, 2021</b>	Legislative-type Board hearing
<b>October 12, 2021</b>	Deadline for final comments
<b>November 2021 (Expected)</b>	Board decision on BGS proposals
<b>December 14, 2021</b>	Deadline to submit the Part 1 Application



# EDCs PROPOSE TWO AUCTIONS

- **BGS-RSCP Auction:** Residential and smaller commercial customers on a stable price
  - Auction determines all-in price in ¢/kWh
  - Suppliers are paid this price for every kWh of load served
  - **3-year supply period: June 1, 2022 to May 31, 2025**
  - **Laddered contracts:** procure approximately 1/3 of supply each year
  - **4 products:** the BGS-RSCP load for each EDC
- **BGS-CIEP Auction:** Larger commercial and industrial customers on an hourly price plan
  - Auction determines a CIEP Price in \$/MW-day that suppliers are paid based on the capacity obligation
  - Suppliers are paid for energy at the real-time hourly spot price and are paid a pre-determined rate for ancillary services
  - Suppliers also paid the CIEP standby fee levied on all CIEP customers
  - **1-year supply period: June 1, 2022 to May 31, 2023**
  - **4 products:** the BGS-CIEP load for each EDC

# PROPOSED AUCTION FORMAT IS A CLOCK AUCTION

- **Multi-product** design
  - Procure supply for all EDCs at once
- **Multi-round** design: bidding proceeds in rounds
  - Suppliers state how much they want to supply at prices suggested by the Auction Manager
  - Prices tick down if there is excess supply
  - Suppliers can switch their bids from one EDC to another in a given Auction
- **Auction ends** when the amount bid falls to the amount needed for each of the EDCs
- **Single price** determined through the Auction for each EDC

# BGS SUPPLIERS PROVIDE FULL REQUIREMENTS SERVICE

- BGS Suppliers will be physically and financially responsible for the hour-by-hour provision of electricity to BGS customers
- BGS Suppliers will be the **Load Serving Entities** (“LSEs”)
- BGS Suppliers provide energy, capacity, ancillary services, fulfill the obligations under the Renewable Portfolio Standards, and provide any other services as may be required by PJM
  - The EDCs assume the responsibility of transmission and transmission related costs

# SUPPLIER OBLIGATIONS SPECIFIED IN BGS SUPPLIER MASTER AGREEMENTS

- Contract is between BGS Supplier and EDC acting as agent for retail customers
- Final Agreements will be approved by Board prior to the Auction and will be **non-negotiable**
- Opportunities for comments during the regulatory proceeding

September 03, 2021	Deadline for initial comments
September 27, 2021	Legislative-type Board hearing
October 12, 2021	Deadline for final comments

# THE EDCs PROPOSE TO **TRANSFER THE RESPONSIBILITY OF UFE** TO THE EDCs

- The EDCs are proposing an enhancement to the settlement process by assuming the responsibility of:

Item	Definition	Suppliers Affected	Settlement Affected
<b>UFE in the FMEA</b>	The difference between an EDC's system load and the sum of an EDC's customer loads grossed for tariff losses	BGS, TPSs, and Municipalities	Suppliers' load obligations
<b>Meter corrections</b>	Adjustments to meter values used to derive an EDC's system load	BGS	Financial settlement
<b>Inadvertent Energy</b>	Adjustments related to metered energy transferred between ISOs	BGS	Financial settlement

- The transfer occurs through a supplement to the BGS SMAs
- The EDCs are proposing to provide each BGS-RSCP Supplier with the option to transfer responsibility to the EDCs from **existing BGS-RSCP contracts** via an amendment
- The proposed transfer is conditioned on all existing BGS-RSCP suppliers executing the amendment

# BGS-RSCP: SETTING OF CAPACITY PROXY PRICES

- The Board approved the use of a capacity proxy prices during the 2020 and 2021 BGS proceedings
- The BGS-RSCP Supplier is paid (or pays) the difference between the rate it pays for capacity and the capacity proxy price in that delivery year
- EDCs propose to set **capacity proxy prices** for the Delivery Years 2023/24 and 2024/25 and propose if the actual capacity price(s) are known **at least 20 business days** prior to the start of the Auction, the capacity proxy price(s) will be voided

# CUSTOMER RATES BASED ON AUCTION PRICES

- The EDCs' rate design allows BGS rates to be market-based and reflect auction prices
  - **BGS-RSCP:** Auction price determines customer rates for an EDC; transmission is charged separately
  - **BGS-CIEP:** Auction determines a final CIEP price which customers pay based on their capacity obligation; customer charged for other components of supply separately
- The rate design is part of the EDCs' Proposal and would be approved in advance by the Board

# TIMELINE OF PRELIMINARY POSTINGS AND COMMENT PROCESS

<b>October 07, 2021</b>	Illustrative Part 1 and Draft Part 2 Application Forms posted
<b>October 26, 2021</b>	Deadline for Expression of Interest in Alternate Guaranty Process
<b>October 26, 2021</b>	Deadline to propose modifications to the standard form of the Pre-Auction and Post-Auction Letters of Credit
<b>November 03, 2021</b>	Auction Manager responds to parties proposing modifications to the Letters of Credit
<b>November 05, 2021</b>	Posting of modifications to the Letters of Credit that are acceptable on an optional basis
<b>November 2021 (Expected)</b>	Board decision on Auction proposal
<b>November 17, 2021</b>	Statewide minimum and maximum starting prices announced
<b>December 14, 2021</b>	Deadline to submit the Part 1 Application



# OPPORTUNITY TO COMMENT ON LETTERS OF CREDIT

- Bidders may comment on a draft **electronic** Pre-Auction Letter of Credit that will be available on the Contract and Credit page on October 07, 2021: <http://bgs-auction.com/bgs.bidinfo.cc.asp>
  - A hardcopy Pre-Auction Letter of Credit will not be used during the 2022 Auctions
- Draft Post-Auction Letter of Credit is also available for comment
- Bidders propose modifications by submitting a redline of these documents in Microsoft Word by the deadline of **Tuesday, October 26, 2021**

# AUCTION BID DATE(S) ADMINISTRATION

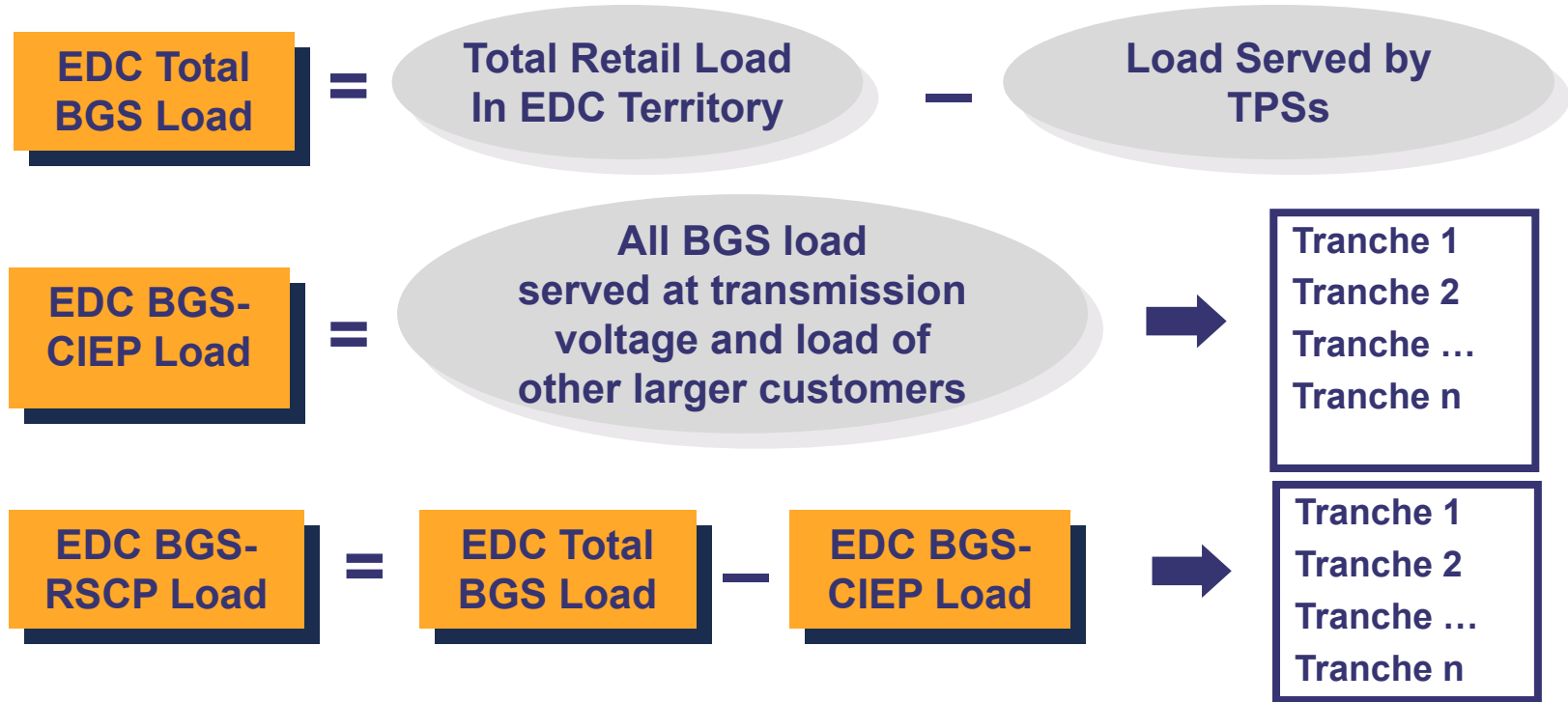
- The EDCs are proposing to conduct the 2022 BGS Auctions from a location other than the Auction office after the 2021 BGS Auctions were administered successfully from a remote setting
- The EDCs additionally propose to take steps to close and/or sublet the physical Auction office
- Bidders will have the option to participate in two (2) training sessions to practice bidding using the auction software as well practice the backup bidding procedures

Please send an email to [BGS-Auction@nera.com](mailto:BGS-Auction@nera.com) if you need to reach the BGS-Auction Manager

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## 2. PRODUCTS AND RATES

# LOAD DIVIDED INTO TRANCHES



- BGS customers are **free to come and go from BGS** with appropriate **notice to the EDC (13 days before** next scheduled meter reading date)
- BGS Suppliers are **Load Serving Entities** for a percentage of an EDC's load

# THE BGS-RSCP PRODUCTS

- The RSCP load is expected to be about 4,890 MW on an eligible basis
- A **tranche** is a fixed percentage of BGS-RSCP Load for an EDC that represents about 100 MW on an eligible basis
- The EDCs propose a statewide load cap as well as EDC-specific load caps

Tranche Targets and Sizes				
EDC	RSCP Peak Load Share (MW)	Tranche Target	Tranche Size (%)	MW-Measure (MW)
PSE&G	2,554.58	28	1.18	91.24
JCP&L	1,622.60	18	1.89	90.14
ACE	623.80	7	4.55	89.11
RECO	91.07	1	25.00	91.07

# BGS-RSCP CUSTOMER RATES BASED ON AUCTION PRICES

- **Auction prices determine an average cost** for each EDC
  - **Seasonally-adjusted:** average of winter and summer costs
  - **Tranche-weighted:** average of prices from three auctions
- A ratio translates average cost into rate for a particular class:
  - All classes have seasonal rates
  - Some classes also have time-of-day rates
- Customers will also pay an **EDC-specific transmission charge**

# BGS-RSCP SUPPLIER ROLE AND RISKS

- Under the EDCs' Proposal, BGS-RSCP Suppliers will provide a **full requirements product** which includes energy, capacity, ancillary services, fulfillment of the obligations under the RPS, and any other services as may be required by PJM
- BGS-RSCP Suppliers for an EDC are **paid the final auction price** for that EDC for each kWh of load served
- BGS-RSCP Suppliers assume the **risks** of providing the full requirements product

## Role

- Aggregate supply portfolio from wholesale sources
- Assess and price load variability, market price volatility, and migration risk
- Provide price-risk management services

## Risks

- Migration risk
- Load and weather risks
- Longer-term changes to RSCP class composition
- Change to rate design
- Change to RPS

# EDCs' PROPOSAL TO SET CAPACITY PROXY PRICES

EDC	2023/24 Capacity Proxy Price (\$/MW-day)	2024/25 Capacity Proxy Price (\$/MW-day)
PSE&G	128.79	87.98
JCP&L	118.12	87.98
ACE	118.12	87.98
RECO	118.12	87.98

- In addition to the auction price, winning BGS-RSCP suppliers may be paid (or may pay) the **difference between the rate paid** by BGS-RSCP suppliers for capacity **and the Capacity Proxy Price** for the 2023/2024 and/or the 2024/2025 delivery years
- These additional payments occur only during the applicable delivery year
- These provisions are provided in **Supplements A and B** to the BGS-RSCP SMA
  - Supplements take effect only if results for a BRA for a delivery year are not known at least twenty (20) business days prior to the BGS-RSCP Auction



# THE BGS-CIEP PRODUCTS

- The CIEP load is expected to be about 2,790 MW on an eligible basis
- A **tranche** is a fixed percentage of BGS-CIEP Load for an EDC that represents approximately 75 MW on an eligible basis

Tranche Targets and Sizes (provisional)				
EDC	CIEP Peak Load Share (MW)	Number of Tranches	Tranche Size (%)	MW-Measure (MW)
PSE&G	1,676.98	22	4.55	76.23
JCP&L	737.31	10	10.00	73.73
ACE	319.60	4	25.00	79.90
RECO	54.72	1	100.00	54.72

# BGS-CIEP CUSTOMER RATES BASED ON AUCTION PRICES

- Auction determines a final CIEP price which **customers pay** based on their capacity obligation
- **BGS-CIEP Customers also pay:**
  - The real-time **hourly spot price** for energy
  - A pre-determined EDC-specific **ancillary services rate**
  - An **EDC-specific transmission charge**
- All CIEP customers pay the **CIEP standby fee**

# BGS-CIEP SUPPLIER REWARDS AND RISKS

- **Supplier** provides full requirements service with energy priced at the real-time market
- **Supplier is paid the auction-determined CIEP price** for the BGS-CIEP customers' capacity obligation, the **CIEP standby fee** levied on all CIEP customers at retail meter, the real-time hourly spot **price for energy** at the EDC zone, and **pre-determined EDC-specific rates** for ancillary services

## Rewards

- Stable revenue on entire CIEP customer base via CIEP Standby Fee
- Ability to arbitrage day-ahead and real-time markets

## Risks

- Migration risks
- Ancillary services cost risk
- Change to RPS

# BGS-RSCP AND BGS-CIEP

## COMPLIANCE WITH RPS

- BGS Suppliers are responsible for fulfilling RPS during the supply period
  - Compliance with Class I and II requirements and solar must be demonstrated using **RECs** issued by PJM-EIS GATS
  - Suppliers must **register into GATS** and open a Retail LSE Account to be able to transfer RECs and SRECs to the EDCs
- TRECs are retired into the Administrator's GATS account and **reduce Class I requirements** on a 1-to-1 basis
  - TRECs do not count toward SREC requirements
  - The EDCs expect SREC-IIs to be administered in the same way as TRECs

# SOLAR OBLIGATIONS UNDER CLEAN ENERGY ACT

- BGS contracts executed prior to the enactment of the Act are **exempt** from the increased solar percentage requirement
- The increased solar obligations avoided by exempt BGS contracts in an EY are allocated to non-exempt BGS contracts in the following two EYs
- **For example**, the increased solar obligations avoided by exempt BGS contracts in EY 2021 is made up by non-exempt BGS contracts in EY 2022 and non-exempt BGS contracts in EY 2023
- **Starting with EY 2024**, there are no increased solar obligations to be made up by non-exempt BGS contracts
- Fulfillment of solar obligations for non-exempt BGS contracts will be counted toward the Class I requirement
- The BGS Auction Manager will make available to bidders an example of the calculation of obligations

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## 3. OVERVIEW: BIDDING IN THE AUCTIONS

# PROPOSED AUCTION FORMAT IS A CLOCK AUCTION

- **Multi-product** design
  - Tranches for all EDCs are procured at once
- **Multi-round** design: bidding proceeds in rounds
  - Suppliers state how many tranches they want to supply at prices suggested by the Auction Manager
  - Prices tick down if there is excess supply
  - Suppliers can switch their bids from one EDC to another

## BGS-RSCP

“Price” is a ¢/kWh all-in price

## BGS-CIEP

“Price” is a \$/MW-day CIEP Price

# RSCP EXAMPLE: PRICES TICK DOWN WHEN THERE IS EXCESS SUPPLY

Round 1					
EDC	Price (¢/kWh)	#bid	#to buy	Excess Supply	Oversupply Ratio
PSE&G	11.500	78	28	50	0.714
JCP&L	11.500	35	18	17	0.243
ACE	11.500	9	7	2	0.036
RECO	11.500	1	1	0	0.000

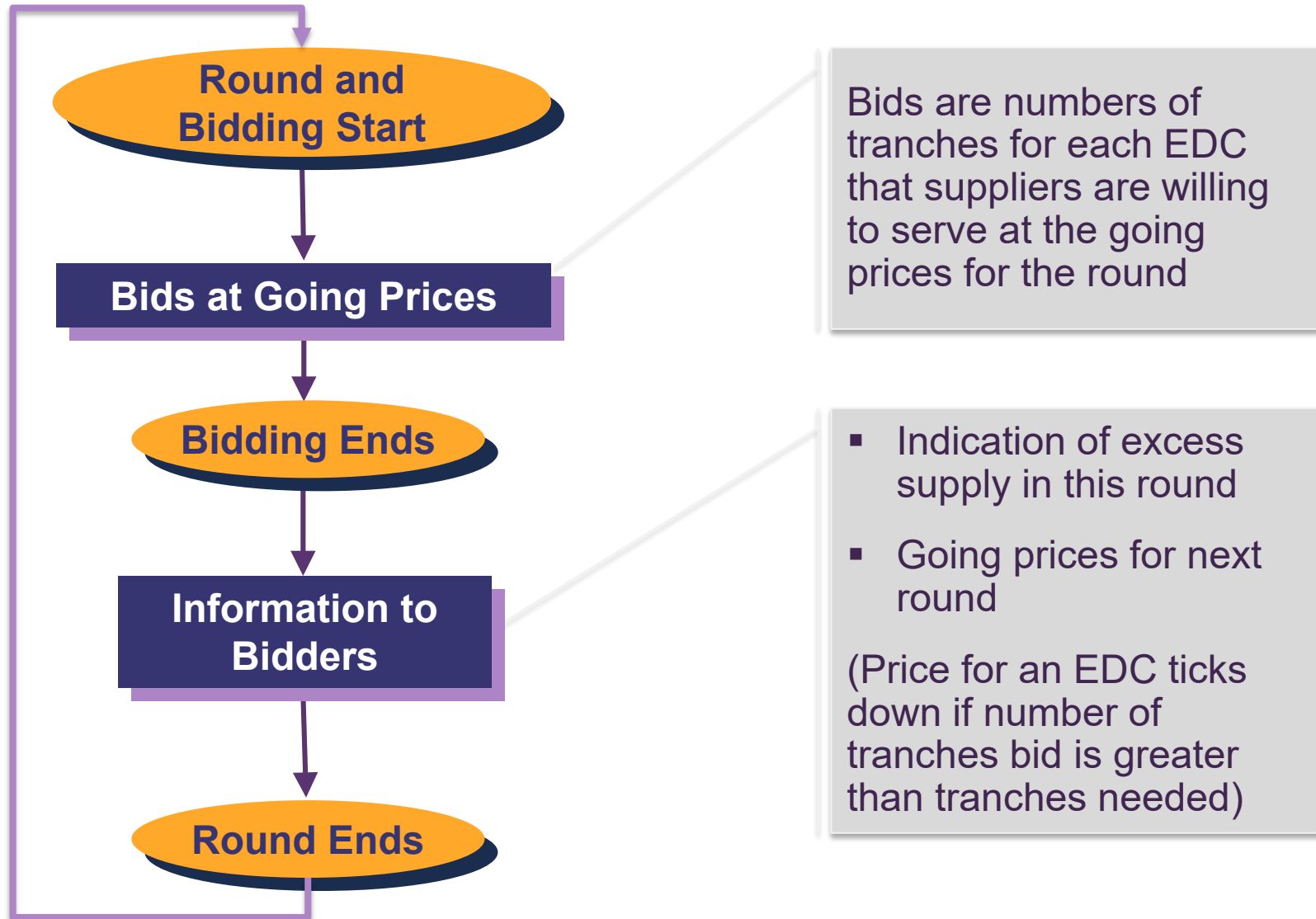
Round 2					
EDC	Price (¢/kWh)	#bid	#to buy	Excess Supply	Oversupply Ratio
PSE&G	10.925	60	28	32	0.533
JCP&L	11.155	38	18	20	0.333
ACE	11.328	9	7	2	0.036
RECO	11.500	5	1	4	0.200



# FOUR MAIN AUCTION FEATURES

- **Offers are binding:** If the price on an EDC is not reduced in a round, a bidder cannot reduce the number of tranches bid on that EDC
- **Total number of tranches bid cannot increase:** Bidders can maintain or reduce their total number of tranches bid, but bidders cannot increase the total number of tranches bid from one round to the next
- **Auction closes on all EDCs at once:** Winners are determined for all EDCs at once within each auction
- **Uniform price:** All winners on an EDC receive the same price

# TYPICAL ROUND



# ROUND 1 BID AND POSSIBLE VOLUME REDUCTION

- In round 1, **a bid** is a number of tranches for each EDC
- Volume is reduced if it is necessary to do so to ensure competitiveness of bidding environment
  - Whether an adjustment is necessary is decided on the basis of interest in the first round of bidding
- If volume must be reduced, it is reduced to:  
**$$\frac{[\text{\# tranches bid}]}{[\text{target eligibility ratio}]}$$**
- Ensures sufficient tranches bid for each tranche to be procured

# BIDDING IN SUBSEQUENT ROUNDS

- **In response to reduced prices, bidders**
  - Leave bids unchanged
  - Or if price for an EDC has ticked down, reduce the number of tranches they wish to provide for that EDC by
    - Withdrawing tranches from Auction
    - Bidding those tranches on one other or several other EDCs (switching)
- Bidders cannot increase the total number of tranches on which they bid

# SAMPLE ROUND REPORT FOR BGS-CIEP

- Each bidder also gets an individual report about the bidder's own bids
- A bidder has no information about bids or eligibilities of other bidders

Round Report: Round 5	
Total Excess Supply: 76-80	
EDC	Round 6 Price \$/MW-day
PSE&G	517.50
JCP&L	517.50
ACE	499.55
RECO	499.55

# AUCTION CLOSES

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- Auction closes on **all EDCs at once**
  - Bidding must have stopped on all EDCs
  - Total excess supply is zero
- **Same final price** for all winners of a given EDC

# POST-AUCTION

- **Board renders a decision** on auction results within two business days of close of last Auction
  - The Board has the option of rendering a decision on the results of each Auction at different times
- **If Board accepts results: SMAs executed within three business days of Board decision**
  - If any security is required under the creditworthiness standards of the Agreement, it is posted upon execution of the Agreement
  - Pre-auction security “expires” upon execution of the Agreement
- Power flows on **June 1, 2022**

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## 4. AUCTION PROCESS



# BOARD ORDER IS FINAL WORD ON PROCESS

**Approved Rules, Agreements, process and terms may be different than presented here**

- Board will decide on all aspects of the EDCs' Proposal
- Board Order will determine if EDCs' Proposal is approved or how it may be amended
- **Bidder is responsible** for reading all final documents which will be provided on the BGS Auction website

# AUCTION PROCESS: TENTATIVE CALENDAR

<b>Nov 2021 (Expected)</b>	Board Decision on EDCs' Proposal
<b>Nov 17, 2021</b>	Auction Manager announces minimum and maximum starting prices, tranche sizes and load caps
<b>Nov 30, 2021</b>	Part 1 Application made available to Applicants
<b>Dec 14, 2021 By NOON</b>	Part 1 Application deadline (to become a Qualified Bidder)
<b>Jan 12, 2022 by NOON</b>	Part 2 Application deadline (to become a Registered Bidder)
<b>Feb 01, 2022</b>	Auction Manager informs Bidders registered in BGS-CIEP Auction of starting prices
<b>Feb 02, 2022</b>	Auction Manager informs Bidders registered in BGS-RSCP Auction of starting prices
<b>Feb 04, 2022</b>	BGS-CIEP Auction starts
<b>Feb 07, 2022</b>	BGS-RSCP Auction starts

# PART 1 AND PART 2 APPLICATIONS

- **Part 1 and Part 2 Applications** will be submitted via two separate online forms
- Returning bidders will receive an email with instructions on how to activate their account, but **NEW** bidders must request an account
- **General Requirements of Applications**
  - Provide information
  - Upload supporting documents, including “Inserts” (separate forms in Microsoft Word that Applicants complete and upload to the online form)
  - Make certifications regarding the Auction Rules and SMAs (Final versions of Auction Rules and SMAs are filed to be in compliance with the Board decision on the BGS Proposals)

<https://www.BGS-Application.com>

# PART 1 AND PART 2 APPLICATIONS

## Part 1 Application

- **Contact Information** for Applicant
- Authorized Representative and Nominees (“**Bidder Team**”)
- Name a **Legal Representative**
- Name a **Credit Representative**
- No state licensing required but BGS Supplier must be **LSE in PJM** by start of supply period
- **Financial Information** for Applicant and Guarantor (if applicable)

## Part 2 Application

- **Indicative Offer** (number of tranches at the Minimum and Maximum Starting Prices)
- Provide **Pre-Auction Security** proportional to indicative offer at maximum starting price
- **BGS-CIEP: \$375,000 per tranche**
- **BGS-RSCP: \$500,000 per tranche** (Some Qualified Bidders provide additional security: Letter of Reference or Letter of Intent to Provide a Guaranty)

<https://www.BGS-Application.com>

# LETTERS OF CREDIT COMMENT PROCESS TIMELINE

- Potential bidders are invited to **propose modifications**
- Comments (clearly **redlined** in Microsoft Word) must be submitted by email to the BGS Auction Manager at the following address:  
[BGS-Auction@nera.com](mailto:BGS-Auction@nera.com)
- For **each proposed modification**, the EDCs will
  - Revise the standard form; or
  - Approve the use of the modification on an optional basis; or
  - Reject the proposed modification

<b>October 26, 2021</b>	Deadline to provide comments
<b>November 03, 2021</b>	Potential bidders will receive individual responses to their comments
<b>November 05, 2021</b>	BGS Auction Manager will post all modifications that are acceptable on an optional basis

# ALTERNATE GUARANTY PROCESS

- For potential bidders that may have corporate policies that prevent them from using the standard form of guaranty appended to the SMA
- Potential bidders planning to participate in the alternate guaranty process must provide an expression of interest to the Auction Manager by Tuesday, **October 26, 2021**
  - Additional deadlines and requirements will be made available to parties that express interest
- There is a specified **list of minimum requirements** that any alternate form of guaranty must satisfy (<http://www.bgs-auction.com/bgs.bidinfo.cc.asp>)
- In particular, the alternate form of guaranty must be for unlimited liability (while the standard guaranty has a liability limit)

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5. | BGS AUCTION WEBSITE  
AND OTHER SOURCES OF  
INFORMATION

# BGS AUCTION WEBSITE FEATURES

- **BGS Auction website:** [www.bgs-auction.com](http://www.bgs-auction.com)
- **Announcements** (upcoming deadlines and events)
- **Frequently Asked Questions**
- **Auction documents**
  - Auction Rules
  - Supplier Master Agreements
- **BGS Data Room**
  - Eligible Hourly Load & Eligible Peak Load Allocation
  - BGS Hourly Load & BGS Peak Load Allocations
  - Switching Statistics (data on customer migration when customers switch from taking BGS to taking service from a Third Party Supplier)



# BIDDER QUESTIONS

- Questions may be submitted to the Auction Manager
  - Via web form at:  
<http://www.bgs-auction.com/bgs.contactus.asp>
  - By email: [BGS-Auction@nera.com](mailto:BGS-Auction@nera.com)
- When needed, the Auction Manager will direct questions to appropriate EDC representatives (e.g., data questions)
- Answers will be routed back through the Auction Manager
- Questions and answers are posted to BGS Auction website **on a rolling basis**

# PJM WEBSITE IMPORTANT SOURCE OF INFORMATION

- Home page:  
<http://www.pjm.com/>
- Reliability Pricing Model  
<http://www.pjm.com/markets-and-operations/rpm.aspx>
- PJM OASIS  
<http://www.pjm.com/markets-and-operations/etools/oasis.aspx>
- PJM-EIS GATS  
<http://www.pjm-eis.com>

# HOW TO ASK A QUESTION

- **Questions are taken in writing through the WebEx interface:**
  - Locate the “Q&A” on the right-hand side of your screen
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  - Type in your question including the relevant slide number
  - Click “Send” to submit your question

