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IN THE MATTER OF THE PROVISION OF  
BASIC GENERATION SERVICE  
FOR THE PERIOD BEGINNING JUNE 1, 2023

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:  
: **Docket No. ER22030127**  
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Public Service Electric and Gas Company, Jersey Central Power &  
Light Company, Atlantic City Electric Company  
and  
Rockland Electric Company

**PROPOSAL FOR  
BASIC GENERATION SERVICE  
REQUIREMENTS TO BE PROCURED EFFECTIVE  
JUNE 1, 2023**

**July 1, 2022**

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## I. INTRODUCTION

The New Jersey electric distribution companies (“EDCs”) are Public Service Electric and Gas Company (“PSE&G”), Jersey Central Power & Light Company (“JCP&L”), Atlantic City Electric Company (“ACE”), and Rockland Electric Company (“RECO”). On April 6, 2022, the New Jersey Board of Public Utilities (“BPU” or “Board”) issued an Order in BPU Docket No. ER22030127 instructing the EDCs to submit a proposal to procure basic generation service supply (“BGS Supply”) beginning June 1, 2023. Accordingly, the EDCs hereby submit this proposal to completely specify how the EDCs intend to procure supply for their BGS customers.

This will be the twenty-second year where the EDCs have submitted a joint proposal for the procurement of electric power for all BGS customers in the state through a statewide Auction Process. While the core elements of the EDCs’ joint proposal have been stable over the years, the EDCs have continually and incrementally refined the Auction Process aiming to maintain or strengthen the level of participation by suppliers so that prices at the Auctions, and rates paid by customers, are the product of vigorous competition and are consistent with market conditions. For instance, in 2009, the EDCs introduced a process by which prospective suppliers could provide comments from their financial institutions on the pre-auction letter of credit so as to facilitate compliance with the requirement for financial guarantees in the application process. This comment process was expanded in 2015 to include the letter of credit appended to the BGS Supplier Master Agreements (“BGS SMAs”) used during the supply period. In 2018 and 2019, the EDCs modified the shape of the decrement formulas, which are auction parameters that are important to ensure that the round-by-round pace of the Auctions is appropriate. Additionally, transmission was removed from the BGS product during the 2021 BGS proceeding<sup>1</sup> in response to concerns raised by BGS suppliers regarding a disparity in timing between BGS suppliers’ payments to PJM for transmission costs and the receipt of payment for such costs from the EDCs. Following the Board’s directive, Board Staff, the EDCs, and interested stakeholders successfully found a resolution to the issues surrounding this disparity in timing through the removal of transmission from the BGS product and the development of amendments to past BGS SMAs to

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<sup>1</sup> *I/M/O the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2021*, BPU Docket No. ER20030190.

remove transmission from the suppliers' obligations. The EDCs have also monitored closely through the years changes in the markets that could adversely impact suppliers and customers. This led, for example, to the introduction of supplements to the SMAs to protect BGS suppliers from uncertainty in capacity costs as a result of the introduction of the Capacity Performance Resource construct in PJM for the 2015 Auctions and again in 2020 as PJM delayed the base residual auction for the 2022/2023 delivery year until changes to its capacity market were finalized at the Federal Energy Regulatory Commission ("FERC"). In turn, the latter change protected the EDCs' customers by reducing the likelihood that suppliers would find it necessary to include a risk premium in their BGS-RSCP bids to account for an uncertain capacity price in the 2022/2023 delivery year. The EDCs continued the use of supplements to the SMAs for the 2021 Auctions as the issues surrounding the postponement of PJM's base residual auctions persisted, and the base residual auctions for both the 2022/2023 and 2023/2024 delivery years remained delayed. Keeping consistent with this past practice, the EDCs proposed, and the Board approved, the use of supplements to the SMAs for the 2022 Auctions as the base residual auctions for both the 2023/2024 and 2024/2025 delivery years remained delayed. The continued use of these supplements to the SMAs again protected the EDCs' customers by reducing the likelihood that suppliers would include a risk premium in their BGS-RSCP bids in response to the uncertainty surrounding the capacity prices of the 2023/2024 and 2024/2025 delivery years.

The continued refinement of the BGS Auction Process has contributed to its longevity. Through the cooperation of the Board and Board Staff, the EDCs, and other stakeholders, the Auction Process has adapted over time in response to market changes and concerns of suppliers and other stakeholders to the benefit of BGS customers. The cooperation across parties and the flexibility of the BGS Auction Process allowed the BGS Auctions to be conducted successfully during the COVID-19 health crisis. Specifically, the 2021 BGS Auctions were held remotely for the first time since their inception by implementing collaborative changes to protocols. For instance, in response to concerns expressed by the New Jersey Division of Rate Counsel, in the 2021 Board Order, the Board directed NERA, as Auction Manager, to "provide additional training to prospective bidders and mock auctions to test BGS bidders' connectivity in order to have [a] seamless auction" (2021 Board Order at page 18). As such, bidders in the 2021 BGS Auctions were able to take part in multiple training opportunities, at their option, to ensure their

technical preparedness in the event that bidders were not participating in the BGS Auctions from their usual places of business. The Board found that this collaborative effort led to the successful implementation of the 2021 BGS Auctions, indicating in its Order approving the results of the 2021 BGS Auctions<sup>2</sup> that “the adjustments to typical practices and protocols in administering and monitoring the BGS Auctions that were in place to accommodate State and Federal COVID-19 restrictions did not materially affect the Auctions in unanticipated ways” (Order Approving 2021 BGS Auctions at page 4).

In regard to conducting the 2021 BGS Auctions from a place other than the physical Auction office in Newark, New Jersey, the Board Advisor, Bates White, LLC (“Bates White”), in its Annual Final Report on the 2021 BGS-RSCP and BGS-CIEP Auctions stated that it “felt the effort was successful and could be repeated if the Board wishes to do so” and that “the effort served as a ‘proof of concept’ that the Auction can be conducted remotely in the future if there is a similar disruption or if the Board decides that it is appropriate” (Bates White’s Annual Final Report on the 2021 BGS RSCP and CIEP Auctions at page 19). As a result of this successful conduct of the 2021 BGS Auctions, the EDCs proposed, and the Board approved, conducting the 2022 BGS Auctions from a remote setting. In its Order approving the results of the 2022 BGS Auctions<sup>3</sup>, the Board again found that “the adjustments to typical practices and protocols in administering and monitoring the BGS Auctions that were in place to accommodate State and Federal COVID-19 restrictions did not materially affect the Auctions in unanticipated ways” (Order Approving 2022 BGS Auctions at page 4).

The EDCs further proposed, and the Board approved, the closing and/or subletting of the physical Auction office in Newark, New Jersey. Upon the Board’s approval, the EDCs worked to vacate the physical Auction office and a subtenant moved into the space in May 2022. After having already conducted the 2021 and 2022 BGS Auctions in a remote setting, those protocols that were adjusted to accommodate holding the Auctions remotely continue to be in place. As

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<sup>2</sup> See Order, *I/M/O the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2021*, BPU Docket No. ER20030190, (February 11, 2021).

<sup>3</sup> See Order, *I/M/O the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2022*, BPU Docket No. ER21030631, (February 9, 2022).

discussed in their Final Comments submitted in the 2022 BGS proceeding<sup>4</sup>, the protocols put in place to facilitate the remote conduct of the auctions “made the [BGS Auction] process at least as secure, and possibly, more so” compared to holding the auctions from a physical location as had been done in prior years (EDCs’ Final Comments at page 19). The EDCs noted that “[using] the internet for digital review and using digital storing of the round results not only increased efficiency but arguably increased security as well. The Auction Manager had absolute control over who had access to the digital rooms and the servers on which Auction results were stored had layers of security. There was no risk that an uninvited and/or unwanted party could view the digital room where round results were reviewed or access the Auction records” (EDCs’ Final Comments at page 19). As such, the EDCs are proposing to continue the remote conduct of the 2023 BGS Auctions. Additionally, the Auction Manager again commits to working with Board Staff and the Board Advisor should Board Staff and the Board Advisor wish to be located with a subset of personnel from the Auction Manager Team during the Auctions in a place other than the now sublet physical Auction office.

The refinements of the BGS Auction Process discussed above came about following careful consideration by the Board, and collaboration across Board Staff, the EDCs, and various stakeholders. Any changes to the BGS Auction Process, rate structure, product, etc., should be appropriately supported. The Board echoed this sentiment in its Order approving the 2022 Auction Process<sup>5</sup> (“2022 Board Order”) in its discussion of Electrify America’s (“EA’s”) Initial Comments and Final Comments submitted in the 2022 BGS proceeding in which EA called for various changes to the BGS rate design. Specifically, the Board stated that “any proposal to modify the BGS rate structure related to [electric vehicle] charging needs to be supported by facts and [the Board] is concerned an uninformed change at this time will have cost allocation implications for other BGS customers” (2022 Board Order at page 18). As such, in the 2022 Board Order, the Board directed the EDCs to collect “[electric vehicle] charging data required to support the review and potential establishment of [electric vehicle] specific BGS rates” and to

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<sup>4</sup> *I/M/O the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2022*, BPU Docket No. ER21030631.

<sup>5</sup> See Decision and Order, *IMO the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2022*, BPU Docket No. ER21030631, (November 17, 2021).

“file a proposal to address BGS rates for [electric vehicle] charging” within the EDCs’ 2023 BGS proposal (2022 Board Order at page 18). Thus, the EDCs have included within this proposal a response to those directives by the Board given within the 2022 Board Order. This response is included within Section II of the EDCs’ joint proposal.

Critical aspects of the joint proposal for a statewide Auction Process are explained in the next section. Section III explains how the EDCs’ joint proposal is best suited to meet the objectives of the Auction Process. Section IV provides additional details regarding the conduct of the Auctions. Section V closes by providing a list of material changes the EDCs are proposing in this filing as compared to last year’s approved Auction Process.

## **II. OVERVIEW OF THE EDCS' PROPOSAL FOR THE 2023 BGS AUCTIONS**

The EDCs have again worked together to develop a detailed proposal for the competitive bidding process to procure BGS Supply that builds on the experience of prior BGS Auctions. The EDCs' proposal for the BGS competitive bidding process for the supply period beginning June 1, 2023 ("2023 BGS Auctions") is summarized below.

### **II. A. Product Definition**

The EDCs propose that the BGS product remain unchanged from the prior BGS proceeding. Specifically:

1. Each BGS supplier will be required to assume PJM Load Serving Entity ("LSE") responsibility for the portion of BGS Load (whether BGS-CIEP or BGS-RSCP) served by that BGS supplier. In accordance with PJM Agreements, BGS suppliers will be physically and financially responsible for the hour-by-hour provision of electricity to BGS customers. The product will be a "full requirements service", which will exclude charges for transmission and transmission-related costs, but which will continue to include the provision of capacity, energy, ancillary services, fulfillment of the obligations under the RPS, and any other services as may be required by PJM.
2. The EDCs, rather than the BGS suppliers, will continue to be responsible for transmission and transmission-related costs. Each EDC will be responsible for payment of transmission-related costs to PJM for BGS Load. The specific charges and credits that will be the responsibility of the EDC rather than the BGS supplier are provided in the BGS SMAs included as Appendices C and D of this filing. Any PJM charges (or credits) and/or other obligations not specifically addressed therein as being the EDCs' responsibility will remain or, if a newly implemented charge (or credit), will become the responsibility of the BGS suppliers.
3. Each EDC will collect from its BGS customers the amounts required to meet its transmission payment obligations to PJM through a specific transmission charge. The details of the transmission charge for an EDC are included in its Company Specific

Addendum. The EDCs will file the level of the transmission charge along with the BGS tariff sheets twice a year for the rates to customers to become effective January 1 and June 1 of each year. If there is a material transmission cost increase (or decrease), the EDCs will (either individually or jointly) make a supplemental filing to the Board to change the transmission charge paid by BGS customers. The EDCs propose that any filed change in the transmission charge become effective 30 days after such filing is made, absent a determination of manifest error by the Board.

4. The BGS SMAs will set forth the commercial terms and conditions under which each BGS supplier will operate and will govern the interaction of each EDC and its BGS suppliers during the supply period. The BGS SMAs for BGS-CIEP and BGS-RSCP, as proposed by the EDCs and subject to Board approval, are attached to this filing as Appendices C and D. The BGS SMAs include an appendix (Appendix E of the BGS-CIEP SMA and Appendix H of the BGS-RSCP SMA), which lists current PJM billing line items and specifies those billing line items that will be the financial responsibility of the EDC.
5. Aside from transmission, BGS suppliers assume responsibility for the LSE obligations of each BGS tranche and assume responsibility for managing any uncertainty associated with these obligations, including uncertainty associated with migration risk. All BGS customers are free to come and go from BGS, provided that they give notice at least 13 days before their next scheduled meter reading.

## **II. B. BGS – Residential Small Commercial Pricing (“BGS-RSCP”)**

The EDCs’ proposal for the 2023 BGS-RSCP Auction can be summarized as follows:

1. BGS-RSCP procurement offers will be solicited through a statewide Auction Process that simultaneously seeks offers for all BGS-RSCP Load in the State. Appendix B, the BGS-RSCP Auction Rules, further describes this Auction Process.
2. The BGS-RSCP Auction will seek offers for the supply of full requirements tranches of each EDC’s BGS-RSCP Load for a three-year period. Full requirements service includes

energy, capacity, ancillary services, as well as the obligation to meet the requirements under the RPS. For each EDC, tranches in the 2023 BGS-RSCP Auction will be identical and uniform and will represent a fixed percentage of that EDC's total BGS-RSCP Load. Approximately two-thirds of the EDCs' BGS-RSCP Load for the period from June 1, 2023 through May 31, 2024 was secured through the 2021 and 2022 Auctions. Therefore, approximately one-third of the EDCs' BGS-RSCP Load will be procured for the BGS Supply period beginning June 1, 2023. Following a successful Auction Process, the EDCs will have under contract approximately one-third of their total BGS-RSCP Load with a remaining contract term of one year, approximately one-third of their total BGS-RSCP Load with a remaining contract term of two years, and approximately one-third of their total BGS-RSCP Load for a term of three years.

3. The EDCs will use a multiple round descending clock auction to procure BGS-RSCP Supply. In a round, bidders will state how many tranches they wish to serve of an EDC's BGS-RSCP Load at the price in that round. The going price will decrease each round in which there is excess supply and the BGS-RSCP Auction will end when the amount proposed to be supplied is equal to the amount the EDCs wish to procure. There will be a single clearing price for each EDC's BGS-RSCP Load that will apply to all tranches for that EDC procured in this Auction. Payments to bidders from June through September will be shaped by the use of a summer multiplicative factor on the Auction price, and payments for the remaining months will be shaped by the use of a winter multiplicative factor.
4. In the 2020 BGS proceeding<sup>6</sup>, the EDCs proposed, and the Board approved, the use of a capacity proxy price ("Capacity Proxy Price") for each EDC to be treated as the capacity price for the 2022/2023 delivery year as the capacity price for that delivery year, established by PJM's capacity auctions, was expected not to be known prior to the 2020 BGS Auctions. Similarly, in the 2021 BGS proceeding, the capacity prices for the 2022/2023 and 2023/2024 delivery years were expected not to be known prior to the 2021

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<sup>6</sup> *I/M/O the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2020*, BPU Docket No. ER19040428.

BGS Auctions. As such, the EDCs again proposed, and the Board approved, the use of capacity proxy prices for each EDC, for each delivery year, to be treated as the capacity prices for the 2022/2023 and 2023/2024 delivery years. In the 2022 BGS proceeding, again, the EDCs proposed, and the Board approved, the use of capacity prices for the 2023/2024 and 2024/2025 delivery years (the second and third year of the supply term for winning bidders in the 2022 BGS-RSCP Auction). As in prior years, the proposal to use Capacity Proxy Prices for the 2023/2024 and 2024/2025 delivery years came in response to the expectation that the capacity prices for the 2023/2024 and 2024/2025 delivery years were expected not to be known prior to the 2022 BGS Auctions.

5. PJM has released a schedule for its capacity auctions through the 2026/2027 delivery year. The results of PJM's base residual auction for the 2023/2024 delivery year (the first year of the BGS-RSCP supply term) were made available on June 21, 2022, and the results of the base residual auction for the 2024/2025 delivery year (the second year of the BGS-RSCP supply term) are scheduled to be made available on December 20, 2022. However, the auction opening date of the base residual auction for the 2025/2026 delivery year (the third year of the BGS-RSCP supply term) is scheduled for June 2023, and as such, the capacity price for the 2025/2026 delivery year will not be known prior to the 2023 BGS-RSCP Auction.
6. If the capacity price is not known for the 2025/2026 delivery year prior to the BGS-RSCP Auction, BGS-RSCP suppliers are likely to include risk premiums into their bids and it may be the case that some bidders choose not to participate altogether. This could result in higher closing prices in the BGS-RSCP Auction than would otherwise be the case, to the detriment of BGS-RSCP customers. To address this potential problem, the EDCs propose to continue the approach approved by the Board in the 2020, 2021, and 2022 BGS proceedings. The EDCs propose to address this issue by setting a Capacity Proxy Price for the 2025/2026 delivery year that suppliers will be able to incorporate into their bids. Additionally, although the results of the base residual auction for the 2024/2025 delivery year are expected to be made available on December 20, 2022, if an unforeseen schedule delay at PJM occurs, it is feasible that the capacity price for the 2024/2025 delivery year may also not be known prior to the BGS-RSCP Auction. As such, the EDCs

propose to set a Capacity Proxy Price for the 2024/2025 delivery year that suppliers will be able to incorporate into their bids. However, if the results of the base residual auction for the 2024/2025 delivery year or the 2025/2026 delivery year are known at least five business days prior to the start of the BGS-RSCP Auction, the Capacity Proxy Price for the applicable delivery year will no longer be needed and will be voided. The EDCs proposed a similar approach in the 2020, 2021, and 2022 BGS proceedings, proposing that a Capacity Proxy Price not be used if the results of the applicable base residual auction were available 20 business days prior to the start of the BGS-RSCP Auction. During the 2022 BGS proceeding, while the Board approved the EDCs' proposal of the continued use of Capacity Proxy Prices, the Board ultimately reduced the number of days prior to the start of the BGS-RSCP Auction that the results of the base residual auction were required to be known for the 2023/2024 delivery year from 20 business days to five business days. The EDCs' proposal for the 2023 BGS Auctions is consistent with the 2022 Board Order whereas the EDCs' are proposing that if the results of the base residual auction for the 2024/2025 delivery year or the 2025/2026 delivery year are known at least five business days prior to the start of the BGS-RSCP Auction, the Capacity Proxy Price for the applicable delivery year will no longer be needed and will be voided.

7. In its Annual Final Report on the 2020 BGS-RSCP and BGS-CIEP Auctions, Bates White, in reference to the Board's approval of the EDCs' proposal to institute a Capacity Proxy Price for the 2020 BGS-RSCP Auction, indicated that "the Auction saw solid participation and market-reflective prices, it appears that this was a positive decision" (Bates White's Annual Final Report on the 2020 BGS RSCP and CIEP Auctions at page 5). Bates White further noted that the winning prices in the 2020 BGS-RSCP Auction "were reflective of current market conditions," that their analysis suggested that bidders incorporated the Capacity Proxy Prices into their bids, and that bidders "did not add any additional risk premiums into their offers" (Bates White's Annual Final Report on the 2020 BGS RSCP and CIEP Auctions at page 9). Bates White echoed these sentiments in its Annual Report on the 2021 BGS-RSCP and BGS-CIEP Auctions, stating that Bates White "would recommend that the BPU continue to employ a proxy capacity price for the June 2024 through May 2025 period as this method has proven to be an effective way

to incent bidder participation” (Bates White’s Annual Final Report on the 2021 BGS RSCP and CIEP Auctions at page 19). The EDCs propose a Capacity Proxy Price for the 2025/2026 delivery year, as well as a Capacity Proxy Price for the 2024/2025 delivery year to account for any potential delays in PJM’s base residual auction for the 2024/2025 delivery year that could lead to the results of said base residual auction not being known prior to the BGS-RSCP Auction. Again, if the results of the base residual auction for the 2024/2025 delivery year or the 2025/2026 delivery year are known at least five business days prior to the start of the BGS-RSCP Auction, the Capacity Proxy Price for the applicable delivery year will no longer be needed and will be voided.

8. The proposed values for the Capacity Proxy Prices for each of the 2024/2025 and 2025/2026 delivery years are provided in the table below.

**Table 1. Proposed Capacity Proxy Prices.**

<b>EDC</b>	<b>2024/2025 Capacity Proxy Price (\$/MW-day)</b>	<b>2025/2026 Capacity Proxy Price (\$/MW-day)</b>
PSE&G	66.38	44.63
JCP&L	66.38	44.63
ACE	66.38	44.63
RECO	66.38	44.63

9. The Capacity Proxy Prices proposed above for the 2024/2025 delivery year are calculated by applying a factor of 0.9 to the average of the most recent incremental auction results for the 2022/2023 delivery year and the base residual auction for the 2023/2024 delivery year. The Capacity Proxy Prices proposed above for the 2025/2026 delivery year are calculated by applying a factor of 0.9 to the most recent base residual auction results for the 2023/2024 delivery year. This method is entirely consistent with the method used to calculate the Capacity Proxy Prices in the 2020, 2021, and 2022 BGS proceedings. The most recent results from the PJM capacity auctions for the two delivery years prior to the year for which the Capacity Proxy Price is calculated are used (if available)<sup>7</sup> and a factor

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<sup>7</sup> The Capacity Proxy Price for the 2025/2026 delivery year is calculated using the Zonal Net Load Price (\$/MW-day) from the results of PJM’s 2023-2024 base residual auction. PJM has not yet held the base residual auction for the 2024/2025 delivery year so these results are not available.

of 0.9 is used to recognize the potential for lower prices in any pending PJM capacity auctions.

10. Winning BGS-RSCP suppliers will be paid the closing price (cents/kWh) in the BGS-RSCP Auction for load served. In the 2024/2025 delivery year and in the 2025/2026 delivery year, BGS-RSCP suppliers will additionally be paid (or will pay) the difference between the rate paid by BGS-RSCP suppliers for capacity and the Capacity Proxy Price for that delivery year. Consistent with the processes approved by the Board for the 2020, 2021, and 2022 BGS Auctions, these payments will only occur in the 2024/2025 delivery year or in the 2025/2026 delivery year, even if the value of the capacity price for that delivery year is known prior to the start of that delivery year - but only if the results are not known at least five business days prior to the start of the BGS-RSCP Auction. This construct provides certainty to BGS-RSCP suppliers that they will be fully compensated for the actual rates for capacity that they pay in the 2024/2025 delivery year and in the 2025/2026 delivery year.
11. The conditions under which BGS-RSCP suppliers are paid (or pay) for the difference between the rate paid by BGS-RSCP suppliers for capacity and the Capacity Proxy Price are provided in detail in the Supplements to the BGS-RSCP SMA, attached to this filing as Appendix D (the "Capacity Supplements").
12. If the base residual auction for the 2024/2025 delivery year is held as scheduled, and the results are available at least five business days prior to the start of the BGS-RSCP Auction, then the Capacity Supplement for the 2024/2025 delivery year will no longer be needed and will be voided. Furthermore, in the event the results of the base residual auction for the 2024/2025 delivery year are known at least five business days prior to the start of the BGS-RSCP Auction, the EDCs also propose to update the Capacity Proxy Price for the 2025/2026 delivery year to average the results of PJM's capacity auction for the 2024/2025 delivery year and the most recent results for the 2023/2024 delivery year (multiplied by 90%). Although it is not expected that the results of the base residual auction for the 2025/2026 delivery year will be known prior to the BGS-RSCP Auction, if the results are available at least five business days prior to the start of the BGS-RSCP

Auction, then the Capacity Supplement for the 2025/2026 delivery year will no longer be needed and will be voided.

13. A rate design methodology that accounts for supply procured in prior Auctions will be used to translate final Auction prices into BGS-RSCP customer rates for one year beginning June 1, 2023. With respect to BGS-RSCP customer rates for the second and third year of the BGS-RSCP supply period, the EDCs include a worksheet for purposes of calculating the adjustment to the Auction price necessary to recover (or reimburse) BGS-RSCP customers for the estimated additional payments made to (or from) BGS-RSCP suppliers under each Capacity Supplement. The rate design also includes a line item to add the adjustment of the Capacity Proxy Price to the Auction price.
14. The EDCs' rate design proposals, including the timing of setting these rates, the setting of the transmission charge, and the adjustment in the BGS price because of the unknown capacity price, are detailed in each EDC's Company Specific Addendum. Suppliers will be provided with a spreadsheet that converts final Auction prices into customer rates. This will enable suppliers to assess migration risk at various price levels. BGS-RSCP rates will reflect market-influenced seasonality and time-of-day use, where appropriate and feasible, in order to provide efficient price signals.
15. The rate design methodology yields, for each EDC, a summer multiplicative factor and a winter multiplicative factor used for supplier payments. The EDCs propose that the summer and winter payment factors both be set to 1 for any EDC whose rate design methodology results in a summer payment factor less than 1 and a winter payment factor over 1. The EDCs will update the seasonal payment factors at the time of the compliance filing to the Board to reflect updates of the inputs. Further, the EDCs will update inputs to the rate design methodology one final time approximately 10 days before the BGS-RSCP Auction. All such updates will be communicated to bidders. The last update will be early enough to provide bidders certainty before the Auction while allowing the EDCs to update the PJM transmission obligations to their 2023 values and also allowing the EDCs to incorporate the most recent results of the PJM capacity auctions into the generation capacity cost component of their rate design methodology, to the extent that

the base residual auction results for the 2024/2025 delivery are available in line with PJM's current timeline.

16. To ensure supplier diversity, each EDC will have a load cap for its BGS-RSCP Load ("EDC load cap"). An EDC load cap is a maximum number of tranches that a bidder can win in the BGS-RSCP Auction for that EDC. In addition, there will be a statewide load cap that limits the aggregate amount of BGS-RSCP Load for all EDCs that can be won by any bidder.
17. As reflected in the BGS-RSCP Auction Rules (Appendix B to this filing), the EDCs propose adjustments to the decrement formulas to incorporate the final decrements used in the 2022 BGS-RSCP Auction.

## **II. C. BGS – Commercial and Industrial Energy Pricing ("BGS-CIEP")**

The EDCs' proposal for the 2023 BGS-CIEP Auction can be summarized as follows:

1. The EDCs propose a multiple round descending clock auction to procure BGS-CIEP Supply. BGS procurement offers will be solicited through a statewide Auction Process that simultaneously seeks offers for all BGS-CIEP Load in the State. Appendix A, the BGS-CIEP Auction Rules, further describes this Auction Process.
2. The BGS-CIEP Auction will seek offers for the supply of full requirements tranches of each EDC's BGS-CIEP Load. Full requirements service includes energy, capacity, ancillary services, as well as the obligation to meet the requirements under the RPS. For each EDC, tranches will be identical and uniform and will represent a fixed percentage of that EDC's total BGS-CIEP Load based on a tranche size of approximately 75 MW on an eligible basis. The procurement term for BGS-CIEP load will be one year with the BGS-CIEP Supply period beginning on June 1, 2023.
3. The BGS-CIEP Auction will determine the BGS-CIEP Price, which will be paid to bidders on the basis of the capacity obligation of customers.

4. Rate schedules for BGS-CIEP customers will specify the BGS-CIEP charge resulting from the final BGS-CIEP Auction Price as a per kW or per kWh rate. Rate schedules will also include a pre-specified per kWh rate for ancillary services, a provision to pass through the hourly real-time energy spot price,<sup>8</sup> as well as a transmission charge. All CIEP customers will be charged the CIEP Standby Fee, which the EDCs propose be set at 0.015¢/kWh.
5. BGS-CIEP suppliers will receive a proportional share of revenue, comprised of four elements: (i) the pre-specified CIEP Standby Fee for sales made to all CIEP-eligible customers at the customer meter, (ii) the daily BGS-CIEP capacity obligation times the BGS-CIEP Price determined at the BGS-CIEP Auction, (iii) the hourly BGS-CIEP Load at the EDC's PJM zone bus times the hourly real-time energy spot price, and (iv) the pre-specified ancillary services rate times BGS-CIEP sales adjusted for losses. The EDCs propose, consistent with previous BGS-CIEP Auctions, a pre-specified ancillary service component of \$6.00/MWh.
6. The number of tranches available for PSE&G and JCP&L during the 2022 BGS-CIEP Auction decreased relative to the number of tranches available for those EDCs during the 2021 BGS-CIEP Auction. The initial calculation of the tranche targets for the 2023 BGS-CIEP Auction are the same as the tranche targets for the 2022 BGS-CIEP Auction for each EDC. Several variables, including the tranche targets, are considered when proposing the parameters used to pace the BGS-CIEP Auction. The EDCs are proposing adjustments to the ranges of excess supply and decrement parameters as the tranche targets for PSE&G and JCP&L continue to be lower than the tranche targets for these EDCs during the 2021 BGS-CIEP Auction. These adjustments are expected to promote an appropriate pace for the BGS-CIEP Auction, with price decreases sufficiently large when excess supply is abundant and price levels are above those consistent with the market, and with smaller price decreases as the BGS-CIEP Auction nears its end and

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<sup>8</sup> Hourly real-time energy spot price refers to PJM's Residual Metered Load aggregate real-time Locational Marginal Price ("LMP").

prices approach bidders' valuations. These decrement formulas are provided in an appendix to the BGS-CIEP Auction Rules (Appendix A to this filing).

## **II. D. BGS-RSCP and BGS-CIEP**

The EDCs' proposal for additional items with respect to both the 2023 BGS-CIEP Auction and the 2023 BGS-RSCP Auction can be summarized as follows:

1. The EDCs propose that the CIEP line remain unchanged at 500 kW for the 2023 BGS Auctions. BGS customers with a Peak Load Contribution ("PLC") of 500 kW or more will be required to take service under a BGS-CIEP tariff or rate.
2. The EDCs propose to continue to allow potential bidders to propose modifications to the standard form of the post-auction letter of credit as well as to the standard form of the pre-auction letter of credit. The EDCs propose to continue to make available an alternate guaranty process for bidders that have corporate policies that preclude them from using the Standard Form of Guaranty appended to the BGS SMAs.
3. The EDCs have developed contingency plans, tariff sheets, and accounting and cost recovery proposals that are detailed in each EDC's respective Company Specific Addendum. These are essential elements of the EDCs' proposal, and the EDCs request that the Board review and approve these elements of the proposal.
4. The Board will render a decision on the Auction Process and render a decision on the Auction results. Under the proposed Auction Process, the Board will approve or reject in their entirety the results of the BGS-RSCP Auction and, separately, the results of the BGS-CIEP Auction, by the end of the second business day following the day on which the last Auction closes. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and of rendering a decision on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress.

5. The bids at the Auctions will represent binding commitments on behalf of bidders and full acceptance of all contract terms. Upon Board approval, Auction results will be a binding commitment on the EDCs and the winning BGS suppliers.

## II. E. Regulatory Milestones and Tentative Auction Timeline

The proposed Auction timeline is as follows. The EDCs request that the Board approve this tentative timeline as a guideline for the conduct of the Auctions with the understanding that the time lapses between the various steps be materially adhered to (e.g., the time between the Part 2 application and the Auction not be unreasonably shortened). However, the specific dates would be subject to adjustment to accommodate holiday schedules, the schedules of other procurements in the region, and external events.

<b>Event</b>	<b>Date</b>
EDC proposal filed	Friday, July 1, 2022
Discovery request deadline	Friday, July 22, 2022
Discovery response deadline	Friday, August 5, 2022
First FAQ is posted	Thursday, August 11, 2022
Release of Preliminary Draft of RSCP Pricing Spreadsheet	Thursday, August 18, 2022
Deadline for Initial Comments on all proposals	Friday, September 2, 2022
Announce Alternate Guaranty Process Available	Tuesday, September 13, 2022
Legislative-type Board Hearing	TBA
Public Hearings	TBA
Illustrative Part 1 and DRAFT Part 2 Application Forms are posted	Thursday, October 6, 2022
Comment Process for Letters of Credit is posted	Thursday, October 6, 2022
Information Webcast for Potential Bidders	Friday, October 7, 2022
Deadline for Final Comments	Tuesday, October 11, 2022
Deadline for Expression of Interest in Alternate Guaranty Process	Tuesday, October 25, 2022
Deadline to propose modifications to the standard form of the Pre-Auction and Post-Auction Letters of Credit	Tuesday, October 25, 2022
Auction Manager provides individual responses to parties proposing modifications to the Letters of Credit	Wednesday, November 2, 2022
All modifications to the standard form of the Letters of Credit that are acceptable on an optional basis are posted	Friday, November 4, 2022
Post final credit instruments	Friday, November 4, 2022

Event	Date
Statewide minimum and maximum starting prices announced	Friday, November 11, 2022
Load caps announced	Friday, November 11, 2022
Tranche sizes announced	Friday, November 11, 2022
FINAL Illustrative Part 2 Application Forms are posted	Thursday, November 17, 2022
Online Application Portal made available to Bidders	No later than Tuesday, November 29, 2022
Deadline for Foreign Applicants/Guarantors to submit draft documents	Tuesday, November 29, 2022
Information Webcast for Potential Bidders	Tuesday, November 29, 2022 (tentative)
Board decision on Auction proposal	Expected November 2022
EDC Compliance Filing	December 2022
Expected Board Decision on Compliance Filing	December 2022
Final Supplier Master Agreements and Rules are posted	December 2022
Deadline to submit Part 1 Application due by NOON	Tuesday, December 13, 2022
Part 1 Applications are reviewed	December 13-16, 2022
Applicants are notified of Part 1 Application results	Friday, December 16, 2022
Deadline to submit Part 2 Application due by NOON	Wednesday, January 11, 2023
Deadline for Foreign Applicants/Guarantors to submit revised draft documents	Wednesday, January 11, 2023
Part 2 Applications are reviewed	January 11-19, 2023
Applicants are notified of Part 2 Application results	Thursday, January 19, 2023
Auction Manager informs Registered Bidders of changes to decrement formulas or ranges of total excess supply (if necessary)	Tuesday, January 24, 2023
Mark-to-Market Information Release	Tuesday, January 24, 2023
Tranche Fee is announced	Wednesday, January 25, 2023
Information Webcast for Registered Bidders	Wednesday, January 25, 2023 (tentative)
Final rate spreadsheets are posted	Thursday, January 26, 2023
Final seasonal factors announced	Thursday, January 26, 2023
First Trial Auctions for Registered Bidders	Thursday, January 26, 2023
EDCs provide Foreign Applicants/Guarantors with assessment of revised documents	Friday, January 27, 2023
Second Trial Auctions for Registered Bidders	Tuesday, January 31, 2023
Auction Manager informs Bidders registered in BGS-CIEP Auction of starting prices	Tuesday, January 31, 2023

Event	Date
Auction Manager informs Bidders registered in BGS-RSCP Auction of starting prices	Wednesday, February 1, 2023
<b>BGS-CIEP Auction Starts</b>	<b>Friday, February 3, 2023</b>
<b>BGS-RSCP Auction Starts</b>	<b>Monday, February 6, 2023</b>
Board decision on Auction results	Within two business days of close of the BGS-RSCP Auction or BGS-CIEP Auction, whichever comes later
Winning suppliers execute BGS Supplier Master Agreements	Within three business days of Board decision
Documents provided to bidders by Auction Manager containing confidential information must be destroyed	Within five business days of Board decision
BGS-RSCP rates filed with Board	No later than 30 days prior to becoming effective
Power Flows	Thursday, June 1, 2023

## **II. F. Electric Vehicle Charging**

In its Initial Comments and statements made at the Board’s legislative-type hearing held on September 27, 2021 (the “Hearing”) during the 2022 BGS proceeding, EA requested that the Board direct the EDCs to create a volumetric rate specific to portfolios of Direct Current Fast Charging (“DCFC”) stations as a solution to the issue raised by EA surrounding the setting of the initial capacity tag for DCFC stations. EA argued that this modification for a “stable and predictable price for electricity supply is critical for the ability of Electrify America to operate at a profit” (EA Initial Comments at page 2) and is further needed to provide the necessary support for EA to fully incentivize electric vehicle (“EV”) adoption and usage as well as to recover its investments. EA made clear that this issue exists in the first year of operation for DCFC stations, but implied that this issue is resolved in subsequent years following the resetting of the capacity tags. Further, EA did not discuss station profitability past year one nor did they address the time horizon needed to recover the initial capital investment required to build a DCFC station.

In response to EA’s proposal and comments in the 2022 BGS proceeding requesting (among other things) that the Board require the EDCs to establish volumetric capacity rates for EV DCFC stations, the Board (in its 2022 Board Order) directed the EDCs to “collect, subject to customer consent, the EV charging data required to support the review and potential establishment of EV specific BGS rates” and “as part of their 2023 BGS filing, file a proposal to address BGS rates for EV charging” (2022 Board Order at page 18). The EDCs note that, at present, only PSE&G, JCP&L, and ACE have Board-approved EV programs<sup>9</sup>, with RECO’s EV

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<sup>9</sup> *I/M/O the Petition of Public Service Electric and Gas Company For Approval of its Clean Energy Future – Electric Vehicles and Energy Storage (“CEF-EVES”) Program on a Regulated Basis*, BPU Docket No. EO18101111, Decision and Order Approving Stipulation (January 27, 2021, Effective January 30, 2021); *I/M/O the Verified*

filing currently pending before the Board.<sup>10</sup> With respect to PSE&G, JCP&L, and ACE, the companies are presently initiating, or are in the early stages of, the process of collecting data from EV installations related to the EDCs' programs. Thus, data from EDC EV program installations is not available or sufficient to utilize for purposes of an analysis supporting the establishment of BGS rates for EV charging stations. As a result, the EDCs have investigated available data for DCFC installations in their service territories (which are not necessarily associated with an EDC EV program) in order to identify hourly metered installations where the metering load was solely related to the DCFC installations (and not other "house" load).<sup>11</sup> This effort resulted in the identification of 26 installations in PSE&G's service territory that met these criteria. While DCFC installations may exist in the other EDCs' service territories, individually (hourly) metered installations, measuring only DCFC (and not other "house" load) were not identified or available for review.<sup>12</sup> The EDCs collectively reviewed the anonymized PSE&G DCFC data to determine the installations' cost profiles (utilizing hourly interval data, hourly LMP data, and current capacity and transmission rates to develop costs), and share the following observations from the data:

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*Petition of Jersey Central Power & Light Company For Approval of an Electric Vehicle Program and an Associated Cost Recovery Mechanism, BPU Docket No. EO21030630, Decision and Order Approving Stipulation (June 8, 2022, Effective June 15, 2022); I/M/O the Petition of Atlantic City Electric Company For Approval of a Voluntary Program for Plug-in Vehicle Charging, BPU Docket No. EO18020190, Order Approving Stipulation of Settlement (February 17, 2021, Effective February 25, 2021); (collectively, the "EV Board Orders").*

<sup>10</sup> *I/M/O the Petition of Rockland Electric Company for Approval of an Electric Vehicle Program, Establishment of an Electric Vehicle Surcharge, and for Other Relief, BPU Docket No. EO20110730 (November 23, 2020).*

<sup>11</sup> Hourly data reflecting DCFC station usage is desired to perform an accurate cost of service analysis for supply charges.

<sup>12</sup> In response to the Board's directive in its 2022 Board Order, JCP&L identified 16 locations that are primarily serving DCFC chargers outside of the company's EV charging program (which was approved by the Board in June 2022). These locations did not have interval metering installed that can provide the data necessary for an appropriate cost of service analysis. JCP&L is in the process of installing interval metering at all of the identified locations so that the data collected can be used to further inform future cost of service analyses for DCFC stations.

- Most of the installations have very low capacity/transmission obligations (caused by low utilization during system peak hours), resulting in unit costs between \$0.04/kWh and \$0.11/kWh.
- Four accounts (15% of total) make up roughly 40% of the kWh usage of the sample, have higher than average load factors, and incurred higher capacity and transmission costs as compared to the others, resulting in unit costs between \$0.08/kWh and \$0.11/kWh.
- All of these installations are beyond their initial year of operation (with capacity and transmission values based on actual usage from the preceding year, not initial estimates).
- There is considerable variability across the installations in terms of total \$/kWh cost.

See below for a table summarizing the data.

**Table 2. Summary of PSE&G DCFC Data (using Calendar Year 2021 data).**

<b>Number of Customers</b>	<b>Total kWh</b>	<b>Minimum \$/kWh</b>	<b>Maximum \$/kWh</b>	<b>Average \$/kWh</b>	<b>Average Load Factor</b>	
4	5,565,625	\$ 0.080	\$ 0.105	\$ 0.092	24%	
22	8,249,673	\$ 0.048	\$ 0.105	\$ 0.080	5%	
<b>Total</b>	26	13,815,298	\$ 0.048	\$ 0.105	\$ 0.085	7%

While the EDCs maintain that the BGS rate design should reflect market prices, be consistent with cost causation principles (that enable parity with Third Party Suppliers (“TPSs”)), and not be specifically tailored to individual technologies or end-uses, the initial assessment of DCFC data demonstrates and affirms that the development of an EV-specific BGS rate is not warranted. To establish a rate for a group of customers with a specific end use, it is important that the usage characteristics (and, accordingly, the \$/kWh cost of service) be relatively comparable and predictable across a large majority of such group. In this instance, the EDCs’

initial analysis of the data provided by PSE&G indicates that there is significant variability across the installations in terms of usage and \$/kWh cost. As such, the establishment of a rate for DCFC stations is not supported by the available data.

The EDCs further maintain that any changes to the BGS rate structure should be appropriately supported. The Board echoed this sentiment in its 2022 Board Order in reference to EA's Initial Comments and Final Comments submitted in the 2022 BGS proceeding. Specifically, the Board stated that "any proposal to modify the BGS rate structure related to EV charging needs to be supported by facts and [the Board] is concerned an uninformed change at this time will have cost allocation implications for other BGS customers" (2022 Board Order at page 18). The EDCs acknowledge that the data utilized in this analysis is PSE&G-specific (as hourly metered data for DCFC stations for JCP&L, ACE, and RECO is not available) and is limited in both the number of installations available and the time period covered. Accordingly, the EDCs will endeavor to broaden the sample size and time period of DCFC station data to determine if an increased sample of data would provide additional insight, and PSE&G, JCP&L, and ACE will initiate or continue the collection of EV data as may be required in their respective EV Board Orders.

In addition to the subject of BGS rate design, EA also raised concerns in its Initial Comments and statements made at the Hearing surrounding the EDCs' current practices related to the setting of capacity and transmission obligations (collectively referred to as "capacity tags" in EA's Initial Comments, and herein) for newly installed DCFC stations. EA stated that capacity and transmission obligations assigned to new DCFC stations precluded profitable operation in a station's first year: "The high initial capacity tag assignments put DCFC station operators into

an untenable commercial situation during the first year of station operations as utilization is low and the cost of capacity often exceeds \$1/kWh” (EA Initial Comments at page 4). Further, EA advocated for initial capacity tags to be set lower than the level at which initial capacity tags are currently set, stating “initial capacity tags for new DCFC station accounts should be set at zero or at a minimum [to] much lower levels than current practice” (EA Initial Comments at page 5). The EDCs’ processes of setting initial capacity tags aim to establish values that are reflective of the projected actual loads (relative to the connected load) of the end-use being served. As customers’ future use of energy (and contribution to system peak loads) are not accurately known at the time of the initiation of service and must be estimated, each EDC’s current process aims to efficiently develop rates that, on average, present a reasonable capacity tag to customers (understanding that some customers may ultimately have capacity tags higher or lower than these initial values).

In its Initial Comments and statements made at the Hearing, EA took issue with the EDCs’ process of setting initial capacity tags (the capacity tag in effect during the first year of DCFC station operation), but not when those tags are reset, due in large part to low customer demand in a DCFC station’s first year of operation: “These initial tags resulted in burdensome and unwarranted costs that Electrify America’s DCFC stations had to bear during the first year of operation when load factors are typically the lowest” (EA Initial Comments at page 5). In its statements made at the Hearing, EA implied that the resetting of the capacity tags following the first year of operation for a DCFC station resolves this burden, stating “[It] was pretty painful until the capacity tags reset” (Hearing Transcript at page 41, lines 2-3). EA did not discuss station profitability past year one nor did they address the time horizon needed to recover the initial

capital investment required to build a DCFC station. EA did note, however, that capacity costs decreased significantly when capacity tags reset.

In their Final Comments submitted in the 2022 BGS proceeding, the EDCs committed to review their respective processes for establishing capacity and transmission obligations to ascertain if a change in how initial obligations are established is warranted and supported by data. PSE&G has since made alterations to its process of setting initial capacity and transmission obligations for DCFC stations to address the concerns raised by EA. JCP&L has reviewed its policies regarding the setting of initial capacity tags and has determined that there is already a process in place for a customer to dispute and offer an alternative capacity tag for the initial year of operation. JCP&L's policies state that new customers will be assigned the average capacity peak load contribution for the applicable profile class. If a specific forecast of the customer peak load contribution is established for the customer, the forecast will be used if agreed to by the operating company and the TPS. JCP&L conforms with this policy statement and encourages DCFC station owners to provide supporting evidence for an alternative initial capacity tag for JCP&L to consider when submitting their application for service. Further, as ACE and RECO do not have sufficient historical data to make a determination about the accuracy of their current process for setting initial capacity tags, they have not made alterations to their initial capacity and transmission obligation processes.

Lastly, in their Final Comments submitted in the 2022 BGS proceeding, the EDCs argued that the creation of a BGS rate specific to DCFC stations to accommodate EA's proposal was premature (EDC Final Comments at page 15). The EDCs maintain this view and, as discussed above, the EDCs' initial analysis of the data provided by PSE&G indicates that the establishment

of a rate for DCFC stations is not supported by available data. As such, the EDCs respectfully request that the Board: (i) maintain its position expressed in its 2022 Board Order in stressing that any modification to the BGS rate structure be supported by facts; and (ii) recognize that due to the limited availability of data, and the initial findings by the EDCs after examining data that is available, any change to the BGS rate structure relating to DCFC stations or EV remains premature at this time. The EDCs remain committed to examining BGS or supply-related issues surrounding DCFC stations and EV pursuant to directive by the Board.

### III. THE EDCS' PROPOSAL MEETS THE OBJECTIVES OF THE BGS PROCUREMENT PROCESS

In this next section, the EDCs review why the joint proposal best meets the interests of New Jersey customers.

#### III. A. The Goals

The starting point of the explanation is a review of the goals of the BGS procurement process. In the Electric Discount and Energy Competition Act of 1999 (“EDECA”), the Legislature found and declared that it is the policy of the State, consistent with other important policy objectives, to rely upon competitive markets, where such markets exist, to deliver energy services to consumers (N.J.S.A. 48:3-50a(2)). To accomplish these policy objectives, EDECA directed the Board to implement “retail choice.” Retail choice allows retail electric customers to be given the choice of shopping directly for their electric service or opting not to shop and to receive BGS.

EDECA is quite clear on the subject of power procurement for BGS: “Power procured for basic generation service by an electric power supplier shall be purchased at prices consistent with market conditions.” (N.J.S.A. 48:3-57d). The same section goes on to note that “charges assessed to customers for basic generation service shall be regulated by the Board, and shall be based on the reasonable and prudent cost to the supplier of providing such service, *including the cost of power purchased at prices consistent with market conditions, by the supplier in the competitive wholesale marketplace.*” (Emphasis added.) BGS is a regulated *market-priced* service.

The goal of having BGS reflect market conditions and competitive power market prices not only is consistent with EDECA, but also is consistent with several other important objectives. Retail choice can only develop and proliferate efficiently if the alternative to retail choice – BGS – is efficiently priced.<sup>13</sup> As currently structured by the Board, the Auction Process ensures that BGS is efficiently priced. The BGS product is a full requirements product, as described in

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<sup>13</sup> “Efficient proliferation of retail choice” should not be confused with artificially stimulating retail choice or maximizing switching. Rather, efficient proliferation of retail choice occurs when Third Party Suppliers are able to offer added value that can induce customers to switch away from a market-priced BGS offering.

Section II.A above. Suppliers bear and include in their price a wide variety of risks including load variability, market volatility, fuel price increases, migration, and changes in the PJM marketplace. These risks are not managed by regulation; rather, these risks are managed by competitive entities that can employ creative risk management strategies. Hence, the price that TPSs compete against is the risk-adjusted price of competitive BGS suppliers providing full requirements service plus the transmission charge paid by BGS customers. The transmission charge paid by BGS customers is representative of the transmission costs of all load serving entities in PJM, including TPSs. A market price means the best or lowest market price that can be reasonably obtained, a price that will vary with market conditions including conditions in world energy markets. This is exactly what EDECA intended.

Intrinsic characteristics of the customer classes must also be considered in an examination of the appropriate BGS procurement process. In implementing the Auction Process, the Board recognizes that some customer classes are able to understand the risks of price movements in competitive power markets and will be able to absorb risks or contract for the management of those risks. On the other hand, other customer classes may neither understand nor be able to manage these price risks in a way that yields a more economical result than the BGS offering.

In this regard, the BGS-RSCP product is designed to provide residential customers as well as smaller commercial and industrial customers with BGS at a stable price that still reflects competitive, market-based costs for a price-risk managed service. While it is entirely appropriate that such customers receive a stable market price, larger, more sophisticated, commercial and industrial customers can react to real-time electricity price signals to facilitate demand response and can contract for price-risk management in the competitive market. The BGS-CIEP product, which reflects hourly real-time energy spot prices, has been implemented for such larger, more sophisticated customers.

These broad policy goals of the BGS procurement process are reflected in and expanded upon by several specific goals that apply to the BGS procurement process:

- To obtain reliable supply on behalf of BGS customers, at prices consistent with market conditions.

- To establish a fair and transparent competitive process that will maximize participation. The process should be transparent in terms of the requirements for participation, the supply contract, the retail rates that will result from the Auction, and the way final Auction prices are determined and in which winners emerge at the Auction. The process should be fair and transparent in terms of providing timely and equal access to information for all bidders.
- To allocate supply responsibility efficiently over the loads of the multiple EDCs. An efficient allocation of supply helps to ensure that prices best reflect the market, so that any market perceptions regarding differences in serving various EDCs are reflected in the prices.
- To have competitive entities take, manage, and price BGS risks. BGS is a price-risk management service where competitive entities assemble supply components in the competitive power market and assess and price these risks. This ensures that customers obtain the full benefits of competition by opening the price-risk management function to competitive discipline.
- To implement BGS at market rates that reflect customer class, seasonal and time-of-day market differences to encourage efficient consumption and conservation decisions, and in order to encourage the development of efficient retail competition. BGS rates should also minimize customer switching in response to rate design inefficiencies.
- To minimize customer confusion by presenting customers who stay on BGS with the appropriate type of retail rate structure and design.
- To design a BGS product consistent with the ability of various customer classes to react to price and manage energy price risks.
- To preserve the financial integrity of the EDCs. BGS costs and revenues exceed 60% of total EDC cost and revenues. BGS costs are an order of magnitude greater than EDC earnings. It is imperative that the BGS process protects the financial integrity of the EDCs, including through the timely collection of the transmission

charge from BGS customers to meet each EDC's transmission payment obligations to PJM.

### **III. B. Joint Proposal Meets the Objectives**

The Board's Auction Process fully specifies and provides structure to all necessary aspects of a procurement process. In addition, all of the elements of the Auction Process work together to achieve the goals identified in and flowing from EDECA's mandate. The remainder of this section discusses briefly how the principal elements of the Auction Process work together to achieve these goals.

#### **III. B. 1. Product Definition**

The Auction Process defines the product as a full requirements product including energy, capacity, ancillary services, as well as the obligation to meet the requirements under the RPS. BGS suppliers are responsible for serving a percentage of an EDC's default service load, whatever the load may be at any given point in time. Bidders compete to serve BGS customers by striving to be the best at assembling supply components (energy, capacity, renewable attributes, etc.) in the competitive power market, and at assessing and pricing the risks associated with serving a percentage of BGS Load. Having a full requirements product places the portfolio acquisition and price-risk management function in the hands of the competitive entities that can most efficiently carry out these tasks. The full requirements product is designed so that components of the BGS product that can be provided through the competitive market, including risk assessment and management, are provided and priced through the competitive market. This full requirements product is fully consistent with EDECA's preference for reliance on competitive forces. The full requirements product also obtains a price for BGS, which together with the transmission charge paid by BGS customers, serves as an efficient competitive benchmark for efficient retail choice and enables potential BGS suppliers to bid with knowledge as to the retail rates that will result from the Auction. The full requirements product thus also encourages the development and efficient working of competitive retail markets.

Currently, the full requirements product is procured separately for residential and smaller commercial and industrial customers (the “BGS-RSCP product”) and for larger commercial and industrial customers (the “BGS-CIEP product”). The BGS-RSCP product is procured on a three-year rolling portfolio basis and the BGS-CIEP product is procured on an annual basis. The use of an appropriate term structure enables smaller commercial and residential customers to benefit from a stable yet market-based rate that is appropriate for these customers, consistent with EDECA, and helps to minimize customer confusion. Providing larger customers price certainty for capacity, RPS compliance, and ancillary services also helps to minimize customer confusion and provides for an environment where the retail offerings can develop efficiently. This dual structure provides appropriate stability and a hedge against volatility for each customer type and achieves the goal of designing a product that is consistent with the ability of various customer classes to react to price and to manage energy price risks.

### **III. B. 2. Auction Format**

The Auction Process solicits bids through a clock auction: a multiple round process with dynamic information feedback. Bidders submit bids each round as prices tick down, and each round bidders get information about how the market views the auction opportunity. Based on that information, bidders have an opportunity to revise their bids, and switch their bids from one EDC to another. The information that bidders receive during the BGS Auction reduces the uncertainty that bidders face and leads to more aggressive bidding. In this way, the BGS clock auction format encourages competitive bidding and efficient market prices consistent with EDECA. The fact that bidders can switch from one EDC to another means that any price differences among the EDCs reflect the market’s view of differences in the cost to serve each EDC’s BGS Load. Hence, the BGS Auction achieves efficient relative prices and an efficient allocation of supply responsibility among the EDCs. As explained later in greater detail, the BGS Auction also provides a large degree of transparency as all bidders understand how prices are determined and how winners emerge. This transparency encourages participation and further helps to obtain reliable supply at prices consistent with market conditions.

### **III. B. 3. Competitive Safeguards**

In addition to the fact that a clock auction format promotes competitive bidding, several competitive safeguards are part and parcel with the Auction Process: (i) the Association and Confidential Information Rules; (ii) the setting of load caps; and (iii) the ability to reduce the volume at the Auction.

The Association and Confidential Information Rules ensure that bidders independently and vigorously compete against each other at the Auction, resulting in competitive bidding, and leading to the procurement of reliable supply at an efficient market price. Additionally, the Association and Confidential Information Rules ensure that the bidders' confidential information is properly kept confidential so that participation in the BGS procurement process does not damage or hinder any other market activities that the bidder undertakes. Through its Auction Orders, the Board has consistently upheld the confidentiality of bidders' information as an exception to the Open Public Records Act ("OPRA"), N.J.S.A. 47:1A-1 et seq. Bidders' certainty that their competitively sensitive information will be protected as confidential encourages participation. Robust participation in turn leads to efficient market prices.

The load cap limits the number of tranches that a bidder can bid and win at the Auction. This competitive safeguard not only controls the ability of any entity to unduly influence the auction-closing prices but also provides for needed diversity in the pool of BGS suppliers. This diversity limits the exposure of the EDCs and their customers to the credit risk of any one entity, providing reliable supply sources to BGS customers.

### **III. B. 4. Qualification Procedures**

The Auction Process provides for a standardized qualification process. As part of the qualification process, all prospective bidders must accept in advance the terms of a form of master contract between the BGS supplier and the EDC acting as agent for its customers, and the terms of the auction rules under which BGS is procured. All prospective bidders also must meet standard credit provisions, which ensure that customers receive the benefit of the BGS bargain in terms of reliable service for the term of the contract. The standard contract terms, qualification process, credit terms, and the price-only basis for the evaluation of bids, directly contribute to the transparency of the process as bidders understand the terms under which they participate in

the Auction Process. These features also contribute to the fairness of the process. Once a prospective supplier has been qualified, and registered as a bidder, its bids are evaluated on a price-only basis, which ensures that all bidders compete on a “level playing field.” The transparency and fairness of the process encourage maximum participation, and maximum participation leads to efficient market prices.

### **III. B. 5. Rate Design**

The Auction Process features a method for translating the auction closing prices into retail rates. For residential and smaller commercial and industrial customers, the rate design methodology properly reflects time-of-use pricing differentials. For larger commercial and industrial customers, the rate design methodology reflects energy prices at the hourly market. In both cases, the methodologies employed provide the proper benchmarks to advance the goal of efficient retail pricing and development of competitive retail markets. BGS customers also pay a specific transmission charge for each EDC to collect from its BGS customers the amounts required to meet its transmission payment obligations to PJM. The EDCs specify and communicate the rate design methodology to bidders in advance of the Auction. Thus, bidders can properly assess the risk in serving BGS Load, reducing bidders’ uncertainty and encouraging participation in the process. The EDCs’ prompt collection of the transmission charge from customers is crucial to ensuring that the EDCs meet their payment obligations to PJM and preserve the financial integrity of the EDCs.

### **III. B. 6. Roles**

The EDCs, the BGS Auction Manager, Board Staff, and the Board’s Advisor all have clearly defined roles that allow them to contribute to the management of the BGS procurement process. The EDCs file with the Board their procurement proposal each year, provide bidders with data and documents needed to prepare their bids, assess the financial and creditworthiness qualifications of suppliers, support the promotion of the auction opportunity, and manage the contracts with BGS suppliers on behalf of their customers. These activities maximize the participation in the process and ensure efficient market prices. The Board considers the procurement proposal as well as accounting, contingency plans, and cost recovery. Approval of these items helps to further the goal of protecting the financial integrity of the EDCs.

The BGS Auction Manager serves as a single point of contact for bidder questions and concerns, maintains a website through which bidders are kept informed about the process, ensuring the fairness of the process by providing equal access to information for all bidders. Additionally, the BGS Auction Manager manages the qualification procedure and the bid process. Board Staff and the Board Advisor monitor the entire process and monitor the bids round by round. This oversight further enhances the fairness and the transparency of the process, promoting participation.

Further, the BGS Auction Manager and the Board's Advisor each submit a report to the Board promptly at the close of the Auction so that the Board can be in a position to evaluate whether the process was competitive and whether the process was conducted as approved. The Board has in the past committed to make this assessment within two business days. This prompt Board review of auction results enables suppliers to give their best bids and contributes to the goal of obtaining reliable supply at prices consistent with market conditions. The way in which the Auction Process is managed, and the oversight provided by the Board and its Advisor are important factors in its success and in the ability of the process to meet its goals.

## **IV. CONDUCT OF THE AUCTIONS**

In this section, the EDCs explain particular aspects of the conduct of the 2023 BGS Auctions. The roles of the Board, the Board Advisor, the EDCs and the Auction Manager are explained. In addition, the EDCs' proposal for continued confidentiality of sensitive Auction information is presented. Finally, the EDCs present their request that the Board consider the results of the Auctions within two business days.

### **IV. A. The Roles of the Board, the Board Advisor, the EDCs and the Auction Manager**

#### **IV. A. 1. The Role of the Board and the Board Advisor**

Past Auction Processes have proven successful in achieving the benefit of market-based prices for BGS Supply. The EDCs believe that it is appropriate for the Auction Process to be similar to that approved in the previous Auctions.

The EDCs believe that the Board should again play a substantial role in the 2023 BGS Auctions. Specifically, the EDCs respectfully recommend that the Board and the Board Advisor be responsible for the following activities:

- The Board will approve the Auction Process set forth in this proposal, the Auction Rules, and the EDCs' Company Specific Addenda;
- The Board will approve the BGS-CIEP Supplier Master Agreement and the BGS-RSCP Supplier Master Agreement;
- The Board Advisor will oversee the conduct of the Auctions and brief the Board during the Auction Process; and
- The Board will render a decision on final Auction results by the end of the second business day following the day on which the last Auction closes. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress.

#### **IV. A. 2. The Role of the EDCs**

It is important for the EDCs to work with the Board and with other parties to design a process that assures that supply for BGS customers is procured at a cost consistent with market conditions, that there is a smooth and seamless transfer of responsibility for BGS Supply from the prior year's BGS suppliers to BGS suppliers for the supply period beginning June 1, 2023, and that adequate protections are in place to assure that the BGS suppliers are physically and financially reliable.

In that regard, the EDCs believe that it is appropriate for the EDCs to continue to assume the previously approved logistical responsibilities that include:

- Retention of NERA as Auction Manager to administer the Auctions;
- Development of the Auction Process, which is presented to the Board in this filing;
- Promotion of the Auctions in conjunction with the Auction Manager;
- Supply of the data and other key information that the suppliers would use to prepare their bids and that will be made available through an Auction website maintained by the Auction Manager;
- Provision of follow-up technical support to the Auction Manager in response to specific questions received from bidders and potential bidders with respect to the data and Auction Process information and pre-Auction information packages;
- Development of the BGS SMAs and instruments for financial guarantees;
- Review and approval of financial qualifications, including review of alternate guaranty forms; and
- Execution of the BGS SMAs on behalf of their customers.

In addition, the EDCs propose to continue to fund the Board's retention of an independent Board Advisor to oversee the Auctions under the Board's supervision and to advise the Board with respect to interim and final approvals. As in years past, the cost of the independent Board Advisor will be recovered through the tranche fees paid by winning bidders.

### **IV. A. 3. The Role of the Auction Manager**

The EDCs will retain NERA as Auction Manager to administer the Auctions. The Auction Manager will be responsible for day-to-day administration, and for dissemination of information about the Auction Process. Further, if necessary, the Auction Manager will be responsible for the development of software that will implement the rules of the Auction.

The Auction Manager would be primarily responsible for the following tasks:

- Setting up and maintaining a website for the dissemination of Auction information to stakeholders. This Auction information includes application deadlines and information webcast dates, as well as the information packages prepared by the EDCs and the Auction Manager;
- Receiving queries from interested parties, directing the questions to EDC representatives if necessary, and returning the answers to the inquiring parties. To maintain fairness and to ensure that all parties have the same information, the Auction Manager will also maintain a database of all questions and answers on the website;
- Receiving applications for qualification and notifying interested parties of the results of the qualification procedure;
- Managing the Alternate Guaranty process;
- Receiving indicative offers and letters of credit, ensuring that these are in accordance with the rules and notifying registered bidders of their initial eligibility;
- Developing and testing bidding procedures that implement the Auction Rules;
- Providing technical help to bidders with respect to the Auction Rules and the bidding procedures;
- Managing the interface during the Auctions, to ensure that Auction parameters such as length of rounds and decrements are set appropriately;
- Developing information packages that will be made available to bidders at the time of the bidder information webcasts;
- Drafting manuals for the Auctions;
- Reviewing other information required of bidders before and after qualification and resolving issues over associations with the Board Advisor;

- Training potential bidders in the bidding procedures;
- Providing to the Board and the EDCs a full factual report on the Auctions and on the final results; and
- Preparing the BGS SMAs for the EDCs upon the completion of the Auctions, but before the Board renders its decision on the Auction results, in order to streamline and expedite the contract execution process.

In addition, the Auction Manager would support the EDCs and the Board by providing assistance, when appropriate, with the following tasks:

- Promoting the Auctions to potential participants; and
- Coordinating between the Board with its Advisor, and the EDCs.

The Auction Manager is important to a well-run process, from the promotion of the Auctions to the certification of the results and performs an essential task in developing and testing the bidding procedures for the Auctions. As in years past, the cost of the Auction Manager will be recovered through the tranche fees paid by winning bidders.

#### **IV. B. Confidentiality of Auction Information**

On October 22, 2004, the Board issued an Order (BPU Docket No. EO04040288) wherein a list of information was found exempt from the requirements of OPRA and the rules promulgated by the Board at N.J.A.C. 14:1-12 et seq. The Board found the following information, filed as part of the Auction Process, resulting from the BGS-RSCP or the BGS-CIEP Auctions, or provided by market participants for the purpose of participating in the Auctions, to be information that would provide an advantage to competitors or bidders, and deemed it confidential and not included as a government record pursuant to OPRA:

1. EDC-specific starting prices that are in effect for the first round of bidding;
2. Logic processes and algorithms used by the Auction Manager to determine the starting prices, and volume adjustments during the Auction rounds;

3. Indicative offers consisting of the number of tranches a qualified bidder is willing to supply at the maximum and minimum starting prices;
4. Auction round prices and individual bids in each round;
5. Bidder information supplied to qualify for the Auctions from the Part 1 Application;
  - The identities of the bidders except for the identities of the winners as released by the Board;
  - Information on Bidding Agreements;
  - Financial and Credit Requirements;
  - Guarantors' Information;
  - Justification for Omissions.
6. Bidder information supplied to register for the Auctions from the Part 2 Application:
  - The identities of the bidders except for the identities of the winners as released by the Board;
  - Qualified Bidders' Indicative Offers and Calculations of Required Bid Bond;
  - Qualified Bidders' Preliminary Maximum Interest in Each Product;
  - Additional Financial and Credit Requirements;
  - Associations and Confidential Information Certifications;
  - Justification for Omissions.

The EDCs request that the Board find and conclude that the foregoing information be deemed non-public proprietary commercial and financial information that would provide an advantage to competitors or bidders and not included as a government record pursuant to OPRA.

#### **IV. C. Board Approval and Execution of BGS Supplier Master Agreements**

The EDCs propose that the Board decide formally, within two business days of the day on which the last Auction closes, whether or not to accept the Auction results. The Board, at its discretion, has the option of rendering a decision on the results of one Auction and of rendering a decision on the results of the other Auction at different points in time. For example, the Board may render a decision on the first Auction that closes while the second Auction is still in progress. Since the Auction Process would have been previously approved by the Board, accepted bids resulting from the Auction would be deemed reasonable and prudent.

The EDCs recommend that each winning bidder be immediately notified by the Auction Manager of the Board's approval of the Auction results, and that each winning bidder and each EDC be given a period of three business days from receipt of the notification to formally execute the BGS-CIEP and BGS-RSCP SMAs. The obligations outlined in those Agreements will be part of an irrevocable offer that will become a binding, contractual obligation upon the award of the bid and contract execution will memorialize this commitment.

In other words, the purpose of the review and approval process recommended by the EDCs is for the Board to take the necessary time at the start of the Auction Process to resolve potentially contentious issues, to provide a mechanism for an expeditious decision from the Board in response to the Auction results, and to provide assurance to potential bidders that, once they are notified by the Board that their offer to serve one or more tranches has been accepted, they will indeed be serving that BGS Load.

## V. LIST OF CHANGES

Below is a list of changes made in this proposal for the provision of BGS Supply for the period beginning June 1, 2023 compared to the Auction Process approved in the 2022 BGS proceeding.

### 1. Overview of Changes to Proposal

The EDCs maintain all material aspects of the prior year's proposal with respect to the product, auction format, rate design, bidder interface, and competitive safeguards.

The EDCs respectfully request that the Board maintain its position expressed in its 2022 Board Order in stressing that any modification to the BGS rate structure be supported by facts and recognize that due to the limited availability of data, and the initial findings by the EDCs after examining such available data, any change to the BGS rate structure relating to DCFC stations or EV remains premature at this time.

Lastly, the EDCs request that the Board approve the EDCs' proposal to continue to conduct the 2023 BGS Auctions from a remote setting consistent with the manner in which the 2021 and 2022 BGS Auction were conducted and support the continued coordination between the Auction Manager, Board Staff, and the Board Advisor should Board Staff and the Board Advisor wish to be located with a subset of personnel from the Auction Manager Team during the Auctions.

The EDCs propose the following changes as enhancements to the prior year's process, namely:

- The addition of the Capacity Supplements to the BGS-RSCP SMA for both the 2024/2025 delivery year and the 2025/2026 delivery year;
- Modifications to the EDCs' rate design methodology, as well as modifications to each EDC's Company Specific Addendum, to allow for the eventual calculation of the change in the Auction price necessary to accommodate additional payments to (or from) BGS-RSCP suppliers relating the Capacity Proxy Price for the 2024/2025 and 2025/2026 delivery years;

### 2. Additional Changes to documents

The following additional changes to the documents are minor and primarily administrative in nature.

#### BGS Supplier Master Agreements

- Updates to the footnote and dates are made to the MtM Exposure Amount Calculation Information within Appendix B of the BGS-RSCP SMA and updates to the text of the MtM Exposure Amount Calculation Information and to the footnote in Table 3 of Appendix B of the BGS-RSCP SMA to reflect the frequency that energy volumes are adjusted;
- Dates are updated to the current year; and
- The docket number is updated.

#### BGS Auction Rules

- Dates are updated to the current year;
- The tranche targets are updated with the most recent PJM data and the examples are modified as needed to reflect the change in the tranche targets;
- The BGS-RSCP Auction Rules include a description of the adjustment to payment for capacity in the 2024/2025 and 2025/2026 delivery years;
- Ranges of excess supply and decrement formulas for the BGS-CIEP Auction have been calibrated for the current tranche targets; and
- Decrement formulas for the BGS-RSCP Auction reflect the final decrement formulas from the prior year.

#### Company-Specific Addenda

- Dates are updated to the current year; and
- The docket number is updated.

**VI. APPENDIX A**

**Provisional BGS-CIEP Auction Rules**

**VII. APPENDIX B**

**Provisional BGS-RSCP Auction Rules**

**VIII. APPENDIX C**

**BGS-CIEP Supplier Master Agreement**

**IX. APPENDIX D**

**BGS-RSCP Supplier Master Agreement**