

# **Overview of The New Jersey Basic Generation Service Solicitation Process**

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Presented By

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# Procedural Overview:

- New Jersey Restructuring Law mandated:
  - Basic Generation Service (BGS) is electric generation service that is provided to:
    - Any customer that has not chosen an alternative electric power supplier; and
    - Any customer that cannot obtain such service from an electric power supplier for any reason, including non-payment for services.
  - The charges assessed to BGS customers shall be fully regulated by the NJBPU.

## Procedural Overview Cont:

- Starting on August 1, 1999, and until July 31, 2002, each NJ electric public utility shall provide BGS.
- Power procured for BGS by an electric public utility shall be purchased, at prices consistent with market conditions.
- No later than July 31, 2002 the NJBPU shall issue a decision as to whether to make available on a competitive basis the opportunity to provide basic generation service to any electric power supplier, any electric public utility, or both.

## Procedural Overview Cont:

- By Order, the NJBPU directed each NJ electric utility to file by June of 2001 a proposal to implement a competitive process for BGS for the period August 1, 2002 through July 31, 2003. In addition, the Board invited others to submit alternative proposals.
- In June 2001 each of the NJ electric utilities filed a joint generic proposal to implement BGS. The generic proposal would implement a bid process for BGS supply using a simultaneous, multi-round, descending clock auction (“Auction”) format.

# Customers with Retail Suppliers

	Residential	C&I
Jan 2000	51,897	12,033
Jan 2001	66,783	36,344
Jan 2002	7,917	453
Total statewide customers 2002	3,136,696	415,552

# Procedural Overview Cont:

- By Order dated December 11, 2001, the NJBPU approved with modifications and clarifications the BGS auction proposed by the NJ electric utilities.
  - In approving the proposed Auction process the NJBPU determined for the period August 1, 2002 through July 31, 2003 that the utilities should continue to provide BGS, with the procurement of supply to be achieved via an auction process. The Board decision was based on:
    - Consistent with NJ restructuring law (i.e. competitive pricing at market conditions);
    - Could be implemented in a timely fashion;
    - At that time the Board could not find any reason for BGS to be competitive;
    - Represents a smooth transition to competitive markets;
    - Does not exclude participation by electric power suppliers; and
    - Will diversify the supply for BGS.
  - The Board also determined that a further review of some complex policy issues would be required to determine whether and/or how to make BGS available on a competitive basis starting August 1, 2003 and beyond.

# Procedural Overview Cont:

- **Major Issues to be Examined:**

- Should there be multiple BGS suppliers, other than the utility?
- Who should be the BGS supplier if a BGS supplier defaults?
- Will reliability be maintained?
- If BGS is competitive, what should be the role of the distribution companies?
- Does competitive BGS pricing have to be uniform to all customers within a customer class?
- The percentage of BGS load that should be competitive.
- If there is more than one BGS supplier, can customers be randomly assigned?
- What customer account services should be if BGS is competitive?
- Should the different customer classes such as residential, small commercial, and large commercial and industrial customers be treated differently with regards to BGS?
- Should the same type of auction format be used?

## Procedural Overview Cont:

- On January 10, 2002, the NJBPU requested comments on the key policy issues relating to BGS, so that it could make a decision whether BGS should be provided on a competitive basis.
- Further the NJBPU, on June 6, 2002, ordered each electric utility, as well as other interested parties to file formal proposals as to how BGS should be provided for August 1, 2003 and beyond.
- On July, 1, 2002 the NJBPU received numerous proposals, with the NJ electric utilities filing a joint proposal to implement an Auction process, with the modification that large customers will be exposed to real-time pricing signals

# Procedural Overview Cont:

- On December 18, 2002, the NJBPU approved with modifications and clarifications the BGS Auction proposed by the NJ electric utilities. The Board in making its decision found that:
  - Many of the policy issues that were examined by the Board presented complex, and in some instances unworkable solutions;
    - Thus, the electric utilities should continue to provide BGS to consumers;
  - The NJBPU indicated that the previous auction worked well, resulted in the best possible prices for ratepayers and should be continued;
  - Most interested parties support the continuation of the Auction; and
  - To encourage the movement to competition, the NJBPU supports providing real-time pricing signals to customers that are prepared to advantage of this type of pricing.

## Auction Description:

- **Simultaneous multi-round descending clock auction**
  - BGS load for all four NJ electric utilities is auction simultaneously;
  - Auction is a “reverse auction” or procurement auction – where bids are offers to supply at a price (not buy as in more common auction) – so bids offers decline through auction;

## Auction Description Cont:

- Auction is conducted in a series of rounds, each with an announced starting and ending time.
- Auction ends when, for each of the four EDCs, the supply bid equals the BGS quantity needed by all four EDCs.
- Auction approval process:
  - Auction results must be addressed the NJBPU by the end of the second business day after the close of the auction.
  - Auction results must be accepted or rejected for all NJ electric utilities in their entirety or for none of them.

# Advantages of Auction:

- Efficiency – BGS is supplied by lowest-cost suppliers
- Lowest prices – leads to lowest possible prices for BGS supply
- Market value – leads to BGS prices that reflect market forces
- Proper risk sharing – risk is borne by those who can manage it at lowest cost
- Transparency – leads to more aggressive bidding
- Objective and fair – attracts more bidders and minimizes post-auction challenges

## 2002 BGS Auction:

- **Period: August 1, 2002 to July 31, 2003**
- **What was bid?**
  - Full requirement slices, a.k.a. tranches, of BGS load of each NJ electric utility. This includes: energy, capacity, load following, ancillary services and transmission. Each winning bidder will become the PJM Load Serving Entity (LSE) for the load they have won in the auction.
  - Each utility's load was considered one product in the auction.
  - These products differ due to items such as load factor, size of load, congestion costs, etc.

## 2002 BGS Auction cont:

- Each utility product was broken down into slices/tranches that are approximately 100 Mws in size for each utility (each winning bidder will serve a fixed percentage of BGS load). The breakdown was follows:
  - PSE&G slices – 96
  - JCP&L slices – 51
  - Conectiv slices – 19
  - Rockland slices – 4
  - Total slices – 170
- It should be noted that the utility will still be required to perform all customer account services (i.e.billing, metering)

## 2003 BGS Auction:

- **Same format as previous auction.**
  - Simultaneous multi-round descending clock auction.
- **What was bid:**
  - For the 1750 larger customers on hourly pricing (CIEP) the right to be the reliability backstop/provide capacity (Note: this was not a capacity auction).
  - For the remaining customers, fixed price service (FP), the full load requirement of BGS load of each electric utility. This includes: energy, capacity, load following, ancillary services and transmission.

## 2003 BGS Auction cont:

- **Notable changes from previous auction:**
  - Removal of all customer switching restrictions.
  - Bring auction schedule in line with PJM markets.
  - Auction periods:
    - One 10 month auction for large commercial and industrial customers (CIEP customers);
    - For FP customers there was a 10 and 34 month auctions.
  - Generation pricing for customers receiving BGS:
    - CIEP customers would pay auction price, administrative fee, PJM spot energy price;
    - FP customers would continue to pay a fixed price based on auction results.

## 2004 BGS Auction:

- **Same format as previous auction.**
  - Simultaneous multi-round descending clock auction.
- **Notable changes from previous auction:**
  - One-third of required FP load for one year, one-third for three years;
  - Mandatory expansion of the CIEP class to include all commercial & industrial (“C & I”) customers with a peak load share (“PLS”) of 1500 kw and greater
    - Adds approximately 128 accounts to the CIEP class
  - Allow for limited, voluntary participation in the CIEP class, by any C & I customer
    - Approximately 100 customers volunteered statewide

## 2004 BGS Auction Cont:

- Retail margin expanded to include all customers with a PLS of 750 kw or greater
- Funding of certain peak load management programs (i.e. appliance cycling programs) now fall under the umbrella of BGS procurement, through a per kwh charge
- Expanded educational seminars directed towards; existing CIEP customers, new CIEP customers, and potential future CIEP customers with a PLS of 750kw or greater
  - Held 5 seminars statewide

## 2002 Auction Prices:

- Final Auction Prices and bidders:

- PSE&G            5.11 cents/Kwh
- JCP&L            4.87 cents/Kwh
- Conectiv        5.12 cents/Kwh
- RECo             5.82 cents/Kwh

# 2003/2004 Auction Price Comparisons:

	ACE	JCP&L	PSE&G	Rockland	Average
<b>1-YEAR FP</b>					
2003	5.26	5.042	5.386	5.557	5.3113
2004	5.473	5.325	5.479	5.566	5.46075
% Increase	4.05%	5.61%	1.73%	0.16%	2.89%
<b>3-YEAR FP</b>					
2003	5.529	5.587	5.56	5.601	5.5693
2004	5.513	5.478	5.515	5.597	5.52575
% Increase	-0.29%	-1.95%	-0.81%	-0.07%	-0.78%

# Auction Price Comparisons:

	ACE	JCP&L	PSE&G	Rockland	Average
1-YEAR CIEP					
2003	56.1	65.25	60	59.8	60.288
2004	49.9	54.98	52.01	57.69	53.645
% Increase	-11.05%	-15.74%	-13.32%	-3.53%	-10.91%

# Auction Price Comparisons:

		ACE	JCP&L	PSE&G	Rockland	Average
3-YEAR FP	Comparison to 2003 10-month Prices					
	2003 1-Year	5.26	5.042	5.386	5.557	5.3113
	2004 3-Year	5.513	5.478	5.515	5.597	5.52575
% Increase		4.81%	8.65%	2.40%	0.72%	4.14%
3-YEAR FP	Comparison to 2004 1-year Prices					
	2004 1-Year	5.473	5.325	5.479	5.566	5.46075
	2004 3-Year	5.513	5.478	5.515	5.597	5.52575
% Increase		0.73%	2.87%	0.66%	0.56%	1.20%