



Agenda Date: 06/14/07

Agenda Item: LSB

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

DIVISION OF ENERGY

IN THE MATTER OF THE PETITION OF ATLANTIC)
CITY ELECTRIC COMPANY FOR APPROVAL OF THE)
SALE OF ITS B.L. ENGLAND GENERATION ASSET)
)
)
)
)

ORDER APPROVING AND
ADOPTING PARTIAL
STIPULATION OF SETTLEMENT
PHASE 2
EMISSION CREDITS-
MONETIZATION MECHANISM

BPU DOCKET NO. EM06090638

(SERVICE LIST ATTACHED)

BY THE BOARD

On September 8, 2006, Atlantic City Electric Company ("ACE" or "Company") filed a Petition with the Board of Public Utilities ("Board") seeking the Board's approval to sell its interests in the B.L. England Generation Station ("B.L. England"). The Board, by Order dated December 11, 2006, approved the sale of B.L. England to RC Cape May Holdings, LLC ("RC Cape May"). The Order accepted a proposed Stipulation of the parties, which included the recommendation that six issues be deferred to a Phase 2 proceeding, namely:

- (1) the appropriate mechanism for monetizing the value of the Excess Emission Credits;
- (2) the appropriate mechanism for returning the net proceeds of the sales transaction to ratepayer;
- (3) the prudence and reasonableness of ACE's transaction costs;
- (4) the prudence and reasonableness of the 2005 B.L. England capital projects which are the subject of BPU Docket No. ER04111425;
- (5) the appropriate quantification and ratemaking treatment for accumulated deferred investment taxes ("ADIT"), excess deferred income taxes ("EDIT"), and accumulated deferred investment tax credits ("ADITCs") associated with B.L. England; and

- (6) whether ACE will be permitted to seek recovery from its ratepayers of any of approximately \$3.0 million in costs incurred pursuant to the terms of the Administrative Consent Order ("ACO") entered into by ACE and the New Jersey Department of Environmental Protection ("NJDEP").

This Order addresses issue (1): "the appropriate mechanism for monetizing the value of the Excess Emission Credits", with the objective of maximizing the economic benefits to be passed through to ratepayers.

BACKGROUND

As a result of the sale of B.L. England to RC Cape May, ACE retained, for the benefit of its ratepayers, approximately 340,000 sulfur dioxide ("SO₂") allowances covering the period 2007 through 2036, and approximately 1,000 nitrogen oxide ("NO_x") allowances for the period 2007 and earlier, and 2008.

ACE contacted three (3) established emission allowance brokers, each of which participates in the markets for emission allowances on a regular and routine basis. ACE met with each of the brokers and solicited their respective expertise in these markets, their thoughts with respect to the most effective manner by which to monetize the Company's excess allowances and the prospective fees that might be associated with that service and activity.

On May 2, 2007, Evolution Markets, Inc. ("Evolution") was selected as the broker. Their fees were the lowest of the three brokerage firms interviewed and they demonstrated a clear understanding of the Company's concerns and objectives associated with the proposed sale.

In an effort to maximize sales value, Evolution plans to group the SO₂ allowances into three tranches:

- (1) selling the 2007 through 2009 vintage SO₂ allowances as quickly and confidentially as possible in the over-the-counter ("OTC") market, in up to five transactions;
- (2) selling via the OTC market the 2010-2014 vintage SO₂ allowances in up to five transactions as a stream of years (i.e., 2010-2014), or individual years, depending upon which tactic yields the higher bid;
- (3) conducting a well publicized auction for the 2015-2036 vintage SO₂ allowances due to the current lack of marketplace liquidity for these outer years.

The relatively small number of NO_x allowances are to be sold in the OTC market as soon after Board approval as possible.

The confidentiality and timing of transactions will be aimed at minimizing downward market price swings that can occur when traders sell in anticipation of a large supply of allowances coming on the market.

On May 8, 2007, the Company, Board Staff and Rate Counsel ("the Parties") met for a discovery conference with Evolution to review the Company's proposal for the monetization of the allowances. ACE is seeking an expedited Board approval process, recognizing that allowances trade in a volatile market, and that the up-turn in market prices in recent months has been noteworthy: On February 28, 2007, the market value of B.L. England's SO2 allowances was \$44.9 million. Three months later, on June 1, 2007, their market value had climbed to \$63.2 million, well above their ten-year average price. There is, however, no assurance that such a rate of increase will continue, or conversely, that the value of the allowances will not decrease.

PARTIAL STIPULATION OF SETTLEMENT

On June 11, 2007, the parties executed the annexed Partial Stipulation of Settlement, the key points of which are as follows:

- The Parties recommend that the Board approve ACE's proposed Monetization Plan for the retained emission allowances resulting from the sale of B.L. England to RC Cape May;

The Parties acknowledge that Evolution's per-share fee for their brokerage and auction services was the lowest of three brokerage firms interviewed, shall not exceed \$175,000, and shall be paid from the proceeds from the sale of the emission allowances;

- Expedited Board approval is sought to provide ACE with the timing flexibility necessary to maximize potential returns to ratepayers. The Parties also recommended that the Company have a flexible time period of approximately six (6) months, or until the end of calendar year 2007, in order to complete this process.

The appropriate method for refunding to ratepayers the net proceeds from the sale of the allowances will be decided in the on-going Phase 2 proceeding in this docket.

DISCUSSION AND FINDINGS

The Board notes that paragraph one of the Partial Stipulation of Settlement recommends that the Board approve the Monetization Plan and that "such approval provide for the requisite degree of flexibility and need for confidentiality as noted herein." It is the Board's understanding, however the Parties are not seeking a determination at this time from the Board that particular information is or should be confidential, and the Board is not making any determination in this Order that particular information is, or should be, confidential.

The Board has carefully reviewed the record in this proceeding, including the Partial Stipulation of Settlement, and is satisfied that the Partial Stipulation of Settlement is in the best interest of ACE's ratepayers and in accordance with the Board's December 11, 2006 Order. Accordingly, the Board **HEREBY ADOPTS** the attached Partial Stipulation of Settlement as its own, and incorporates its provisions as if they were fully set forth herein.

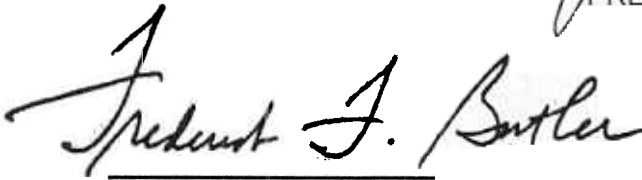
The appropriate method for refunding to ratepayers the net proceeds from the sale of the allowances will be decided in the on-going Phase 2 proceeding in this docket.


The authority granted under this Order is conditioned on the completion of the monetization process by the end of calendar year 2007. The Board hereby DIRECTS ACE to provide a report to Board Staff and Rate Counsel summarizing the results of the monetization of the emission allowances within 30 days of completion of the monetization process.

DATED: 6/20/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

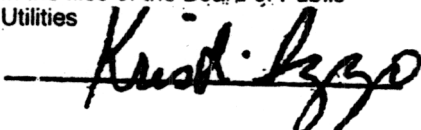

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



Kristi Izzo

SERVICE LIST
Atlantic City Electric Co. - Docket No. EM06090638
B. L. England – Phase 2 – Emission Credits

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VIA OVERNIGHT AND REGULAR MAIL

June 11, 2007

Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center,
Newark, NJ. 07102

**RE: In the Matter of the Petition of Atlantic City Electric Company for Approval of the
Sale of its B. L. England Generation Asset – Phase II**

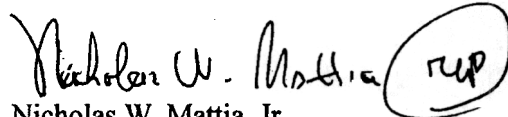
BPU Docket No. EM06090638

Dear Secretary Izzo:

Attached please find an original and ten (10) copies of the Partial Stipulation of Settlement of all Parties in the above referenced proceeding for the Boards' consideration at its June 14, 2007 Agenda meeting. This Partial Stipulation of Settlement addresses the Parties' proposal to monetize the retained SO₂ and NO_x emission allowances related to B.L. England, as required pursuant to the Board's Order in this docket dated December 11, 2006. In addition, I have enclosed an extra copy of this cover letter that we would appreciate date stamped as filed and returned in the enclosed self addressed envelope.

Thanks you for your attention to this matter.

Sincerely,



Nicholas W. Mattia, Jr.
Counsel for Atlantic City Electric Company

c: Victor Fortkiewicz, Executive Director
Service List

SERVICE LIST
I/M/O the Petition of Atlantic City Electric Company Regarding
the Sale of Its B. L. England Generation Station – Phase II

BPU Docket No. EM06090638

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Updated May 21, 2007

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of Atlantic City
Electric Company Regarding the Sale of Its
B.L. England Generation Asset --Phase 2

BPU Docket No.
EM06090638

**PARTIAL STIPULATION
OF SETTLEMENT-
PHASE 2**

APPEARANCES:

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Schulze, Esq., Assistant Deputy Public Advocates, for the Department of the
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Alex Moreau, Esq. and Arlene Pasko, Esq., Deputy Attorneys General, for the
Staff of the New Jersey Board of Public Utilities (Stuart Rabner, Esq., Attorney
General of New Jersey)

On September 8, 2006, Atlantic City Electric Company ("ACE" or the
"Company") filed a Petition with the New Jersey Board of Public Utilities
("Board" or "BPU") seeking the Board's approval to sell its interests in the B.L.
England Generation facility and related assets (hereinafter, "B.L. England"),

totaling 447 megawatts of electric generating capacity. The Board, by Order dated December 11, 2006, approved the sale of B.L. England to RC Cape May Holdings, LLC (hereinafter, "Cape May"). The Board's December 11 Order accepted a proposed Stipulation of the parties, which included the recommendation that several enumerated issues be deferred to a Phase 2 proceeding. Additionally, the Board specifically determined and ordered that ACE retain and monetize the B.L. England Excess Emission Allowances not included with the sale for the economic benefit of the Company's ratepayers. The Board further directed ACE, in consultation with the Board Staff and Rate Counsel, to develop an appropriate mechanism for monetizing retained Excess Emission Allowances at the highest achievable value. The purpose of this Stipulation is to address the limited Phase 2 issue involving the timing and methodology for monetizing the retained Excess Emissions Allowances in accordance with the Board's directive in that regard.

Following the commencement of Phase 2, the Company contacted three (3) established emission allowance brokers, each of which participates in the various markets for emission allowances on a regular and routine basis. ACE met individually with each of these brokers and solicited their respective expertise in these markets; their thoughts with respect to the most effective manner by which to monetize the Company's excess allowances; and the prospective fees that might be associated with that service and activity. As a result of those interviews, the Company selected Evolution Markets, Inc.

("Evolution") to assist with the monetization of ACE's Excess Emission allowances.

As the culminating step in finalizing its selection in this regard, the Company, along with Board Staff and Rate Counsel (hereinafter, the "Parties"), along with Rate Counsel's consultant, Matthew Kahal, met on May 8, 2007, with Evolution to review the Company's proposal for the monetization of the allowances, and to allow all Parties the opportunity to ask questions of Evolution and ACE, as well as express their respective views on this issue. On May 17, 2007, the Parties met again, this time without Evolution present, for the purpose of discussing the Company's proposal, and ultimately agreeing to the terms and conditions of this Stipulation.

The Excess Emission Allowances to Be Monetized

As a result of the sale of B.L. England to Cape May, ACE retained (after adjusting for its own emission requirements for 2007 up to the date of sale) for the benefit of its ratepayers approximately 336,000 SO₂ allowances (heretofore referred to as "SO₂ emission allowances ") for the period 2007 through 2036. For purposes of monetization, these SO₂ emission allowances are grouped into three (3) tranches as follows: Tranche 1, which covers allowances associated with the period of February 2007 through the end of 2009 and includes approximately 34,000 allowances; Tranche 2, which covers the period 2010 through 2014 and includes approximately 56,000 allowances; and Tranche 3,

which covers the period 2015 through 2036 and includes 246,000 allowances. In addition, the Company retains, and will also monetize, for the benefit of ratepayers, the NOx allowances associated with the years 2007 and earlier and 2008.

The Plan for Monetizing the Excess Emission Allowances
(referred to herein as the "Monetization Plan")

As noted hereinabove, the SO₂ allowances to be monetized fall within three (3) time period tranches. Based upon information provided by Evolution, the current market for Tranche 1 allowances is the most liquid. The consensus of the Parties, consistent with the recommendation of Evolution, is to sell the Tranche 1 allowances as quickly and confidentially as possible in the Over The Counter ("OTC") market. Because of the liquidity in the marketplace for Tranche 1 allowances, the Parties agree that ACE be authorized to sell these allowances in annual increments broken down into approximately two (2) to five (5) transactions.

Similarly, the marketplace for Tranche 2 allowances is also reasonably liquid, but not currently as liquid as for Tranche 1. For that reason, the agreement of the Parties, based upon the recommendation of Evolution, is also to monetize the Tranche 2 allowances through the OTC market, again moving these allowances in approximately two (2) to five (5) individual transactions. With respect to Tranche 2 allowances, however, the Parties agree that the Company should sell these allowances as a stream of years (i.e., 2010-2014), rather than in individual year increments. Depending upon market conditions at the time of

the sale, namely a positive change towards greater liquidity, the Parties agree to provide ACE with sufficient flexibility to also sell these allowances in annual increments.

Due to the current lack of marketplace liquidity for the Tranche 3 allowances, the Parties agree, based upon the recommendation of Evolution, that these allowances be sold through a two-stage auction process. Further, the Parties agree that a reserve price be established shortly before the commencement of the auction, and bids that fail to meet or exceed the reserve price shall not be accepted. The reserve price will be agreed upon by and among the Parties approximately two (2) weeks prior to the commencement of the Tranche 3 auction process, taking into account recent trading prices, the advice of Evolution, as well as the individual Parties' advisors. Should any allowances remain unsold as a result of there being insufficient bids at or above the reserve price, the parties agree to confer at that time as to the further disposition of the unsold allowances.

In Stage 1 of the auction, bids would be "open," thus allowing all bidders to see the pricing and quantity included in the bids, but not the identities of all other bidders. Stage 1 bidders would be required to submit Stage 2 bids, and the pricing and the quantity in such Stage 2 bids would be "closed" and not available to other bidders. All Stage 2 bids would be binding on the individual bidder, and the Tranche 3 allowances would be sold to the highest bidder first and declining from there until all allowances have been sold or until the reserve price is no longer met. The anticipated duration of the Tranche 3 auction -- from

the commencement of initial auction announcement through completion -- is approximately two (2) to three (3) weeks, with the auction itself occurring on a single day. The balance of the time is comprised of pre-auction activities surrounding the auction's announcement and the solicitation of the maximum number of auction participants.

The marketplace for NOx allowances is considered to be fairly liquid. There are a sizable number of NOx allowances generally available for sale in the eastern half of the United States. Given the relatively small number of NOx emission allowances retained by the Company, it is the agreement of the Parties, based upon the recommendation of Evolution, that these allowances be monetized via the OTC markets as soon after Board approval as possible.

Timing of the Monetization and Confidentiality

Based upon the advice of Evolution, and with the concurrence of Rate Counsel's consultant, the Parties agree that there is no identifiable or predictable benefit to be gained by delaying implementation of the Monetization Plan for the retained allowances. Over the past six (6) months, the total value for the Company's retained allowances has increased more than 30%. However, there is no assurance that such rate of increase will continue, or conversely, that the value of the allowances will not decrease. Current pricing for SO2 allowances is well above the ten year average price. The history of the pricing for these

allowances has been volatile, sometimes with sudden, unanticipated price swings, either up or down, and of varying time durations. Accordingly, it is the agreement of the Parties that the Monetization Plan be commenced as soon as practical, and that, in order to avoid a situation known as "front running" or advance selling by competing allowance holders, the Company have a flexible time period of approximately six (6) months, or until the end of calendar year 2007, in order to complete the monetization process.

While the marketplace for emission allowances has a high degree of transparency, the Parties understand that, in order to be able to achieve the maximum market value for the retained allowances, the identity of the specific allowances being monetized be maintained as confidential as possible. For example, the number of allowances being held in ACE's account related to B.L. England is a matter of public record and is easily ascertainable. Once the market knows that ACE is starting to sell B.L. England allowances, it can anticipate just how many allowances will be coming to market and act in a manner detrimental to the Company's ability to maximize value. For that reason, the Parties agree that ACE should utilize Evolution's services to act as the sales broker for an undisclosed quantity of allowances to be spread out over a period of time and in a manner that will maintain the confidentiality of the actual ownership of these allowances. Evolution's fees for its services are expected to be approximately \$170,000. It should be noted that Evolution does not trade in emission allowances for its own account. It only acts as an agent on behalf of its clients.

In light of the foregoing, the Signatory Parties executing this Stipulation HEREBY STIPULATE AND AGREE as follows:

1. The Parties agree and recommend that the Board approve the Monetization Plan for ACE's retained emission allowances, both SO₂ and NO_x, resulting from the sale of B.L. England to Cape May, as more fully set forth above, and that such approval provide for the requisite degree of flexibility and need for confidentiality as noted herein.

2. That the fee identified by Evolution for the brokerage and auction services described above appears reasonable, was the lowest of three brokerage firms interviewed, and therefore compares favorably to the fees proposed by the other brokers interviewed by ACE. The actual prudently incurred fees to be charged by Evolution, which the Parties agree shall not exceed \$175,000 for the services to be provided shall be used to offset the proceeds realized from the sale of the emission allowances covered hereby.

3. This Stipulation may be executed in any number of counterparts, each of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties.

4. In order to effectuate the implementation of this Partial Stipulation as quickly as possible following the Board's approval hereof, and conditioned upon the Board's approval hereof without

material modification, no Signatory Party hereto shall seek to contest or appeal the Board's Order adopting this Partial Stipulation.

5. While the Signatory Parties agree that it is not possible to accurately "time the market" with assurance, it is requested that the Board expedite approval of this Stipulation in order to provide the Company flexibility in the timing of the emission allowance sales process in order to maximize credits to ratepayers.

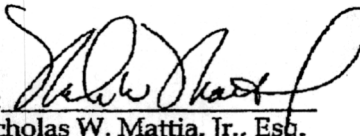
6. The appropriate method for refunding to ratepayers the net proceeds from the sale of the allowances will be decided in the ongoing Phase 2 proceeding in this docket.

CONCLUSION

Wherefore, for the reasons set forth above, the Signatory Parties to this Partial Stipulation of Settlement, by execution hereof, request that the Board determine that the proposed Monetization Plan as submitted by the Company pursuant to the Board's December 11, 2006 Order in this docket to monetize the retained SO₂ and NO_x emission allowances related to B.L. England: (1) is in compliance with the requirements of that Order; and (2) is in the best interests of Atlantic's ratepayers. The Signatory Parties further request that the Board approve the Monetization Plan as proposed herein.

Respectfully submitted,

**ATLANTIC CITY ELECTRIC
COMPANY**

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Dickstein Shapiro, LLP

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ACTING DIRECTOR, DIVISION OF
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By: _____
Kurt S. Lewandowski, Esq.
Asst. Deputy Public Advocate

Dated: June 8, 2007

ATLANTIC CITY ELECTRIC COMPANY

By: _____
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Asst. Deputy Public Advocate

Dated: June 8, 2007

**ATLANTIC CITY ELECTRIC
COMPANY**

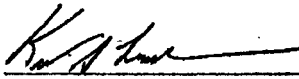
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Dated: June ¹¹/₈, 2007