



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

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|---------------------------------------|-----------------------|
| IN THE MATTER OF THE PROVISION OF) | ENERGY |
| BASIC GENERATION SERVICE FOR YEAR) | |
| TWO OF THE POST-TRANSITION PERIOD -) | DECISION AND ORDER |
| AUCTION RESULTS) | |
| | Docket No. EO03050394 |

(Service List Attached)

BY THE BOARD:

By Order dated December 2, 2003, the Board of Public Utilities (“Board” or “BPU”) approved, with modifications and clarifications, the joint Basic Generation Service (“BGS”) proposal of Public Service Electric and Gas Company (“PSE&G”), Jersey Central Power & Light Company (“JCP&L”), Conectiv Power Delivery (“Conectiv”) and Rockland Electric Company (“Rockland”) (collectively the “EDCs”), for two descending clock auctions, as the best means to secure electricity for Year Two (June 1, 2004-May 31, 2005), as well as a portion of the electricity required for Years Three and Four (ending May 31, 2006 and 2007, respectively) of the post-Transition Period¹. In an effort to mitigate the risk to ratepayers, the Board directed the EDCs to procure approximately one-third of the EDCs’ current fixed-price (“BGS-FP”) load for a 12-month period and one-third for a 36-month period². The Board also found that a 12-month procurement period for the EDCs’ hourly load (“ BGS-CIEP”) is appropriate and reasonable. In its December 2, 2003 Order, the Board also committed to review the results of the BGS-FP Auction and the BGS-CIEP Auction (collectively the “BGS Auctions”) each in its entirety and certify the results of each for all of the EDCs, or for none of them, no later than the second business day after the last Auction closes. This is the third year that the Board has authorized a similar auction process to secure BGS supply.

Additionally, in its Order dated December 2, 2003, the Board authorized a request for proposals (“RFP”) process for Rockland’s non-PJM load. That process was successfully completed, and the Board approved the results of the Rockland RFP process by Order dated January 28, 2004. However, in order not to prejudice the BGS Auctions or disadvantage the winning RFP bidders, the Board determined to hold confidential certain specific details of the RFP process, pending successful completion of the BGS Auctions. In light of the successful completion of the BGS Auctions, as discussed herein, this Board Order will also provide additional details with respect to the final results of the Rockland RFP process.

¹ The post-Transition Period began on August 1, 2003.

² Approximately one-third of the EDCs’ BGS-FP requirements are already under contract through May 31, 2006 as a result of the 2003 BGS-FP Auction.

The results of the BGS Auctions and the Rockland RFP process, once approved by the Board, will be converted into revised BGS rates for customers beginning June 1, 2004. Public hearings to take public comment on the proposed revision of BGS rates for each of the EDCs from this type of procurement process were held on January 14 in Mays Landing (Conectiv), January 15 in Morristown (JCP&L), January 20 in New Brunswick (PSE&G), and January 21, 2004 in Montvale (Rockland). No member of the public appeared at any of the public hearings.

AUCTION SUMMARY

The BGS-FP Auction began on February 2, 2004 and ended on February 10, 2004 after 71 rounds with all of the EDCs' 101 tranches³ filled (50 12-month tranches and 51 36-month tranches), and with the following closing prices for each EDC:

BGS-FP 12-Month Tranches

| <u>EDC</u> | <u>Closing Price</u> | <u>Total Tranches</u> |
|------------|----------------------|-----------------------|
| | <u>¢/Kwh</u> | <u>Available</u> |
| CONNECTIV | 5.473 | 8 |
| JCP&L | 5.325 | 12 |
| PSE&G | 5.479 | 28 |
| ROCKLAND | 5.566 | 2 |

BGS-FP 36-Month Tranches

| <u>EDC</u> | <u>Closing Price</u> | <u>Total Tranches</u> |
|------------|----------------------|-----------------------|
| | <u>¢/Kwh</u> | <u>Available</u> |
| CONNECTIV | 5.513 | 7 |
| JCP&L | 5.478 | 15 |
| PSE&G | 5.515 | 28 |
| ROCKLAND | 5.597 | 1 |

The BGS-CIEP Auction began on February 2, 2004 and ended on February 6, 2004 after 52 rounds with all of the EDCs' 108 tranches⁴ filled and with the following closing prices for each EDC:

BGS-CIEP

| <u>EDC</u> | <u>Closing Price</u> | <u>Total Tranches</u> |
|------------|----------------------|-----------------------|
| | <u>\$/Mw-day</u> | <u>Available</u> |
| CONNECTIV | \$49.90 | 14 |
| JCP&L | \$54.98 | 28 |
| PSE&G | \$52.01 | 65 |
| ROCKLAND | \$57.69 | 1 |

³ A tranche in the BGS-FP Auction is equivalent to approximately 100Mw.

⁴ A tranche in the BGS-CIEP Auction is equivalent to approximately 25 Mw.

A list of the twelve BGS-FP Auction winners and the six BGS-CIEP Auction winners is included in Attachment A to this Order.

The Auction Manager responsible for conducting the Auctions was National Economic Research Associates (“NERA”). NERA brings expertise in the conduct of simultaneous descending clock auctions in the energy and telecommunications industries, and was the Auction Manager for both previous BGS Auctions. The Auctions were continuously monitored by Staff from the Economist’s Office and the Division of Energy, as well as by the Board’s consultant, Charles River Associates (“CRA”). CRA was retained to assist the Board in this process, due to both its extensive experience with simultaneous descending clock auctions and its vast energy industry experience. CRA also advised the Board and Staff during previous BGS Auctions.

NERA has provided the Board and the Ratepayer Advocate with a confidential final report that includes an in-depth analysis on how the Auctions were conducted, and also includes a post-Auction evaluation form. The analysis indicates the following in support of accepting the Auction results: bidders had sufficient information to prepare for the Auctions; information was provided to bidders in a timely manner; no issues nor questions were left unresolved prior to the Auctions that created uncertainty for bidders; no procedural problems nor errors were observed during the Auctions; all communication protocols were followed; no hardware nor software problems with the Auctions and communication systems were observed; appropriate data back-up procedures were planned and carried out; no security breaches were observed during the Auction process; all guidelines for setting or changing the Auction parameters were followed; calculations produced by the auction software were double-checked off-line by the Auction Manager; there was no evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auctions in a material manner; communications between the Auction Manager and bidders was timely and effective; there was no evidence that bidders were rushed; no complaints were received from the bidders; the Auctions were carried out in a fair and transparent manner; there was no evidence of collusion nor gaming by the bidders; there was no evidence of a breakdown in competition during the Auctions; public and sensitive information were treated appropriately; there were no factors exogenous to the Auctions that materially affected the Auctions; there were no concerns with the Auction outcomes with regard to any specific EDC(s); and finally the Auctions appear to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP and BGS-CIEP loads.

CRA has also provided the Board with a confidential pre-certification report on how the Auctions were conducted, which includes a post-Auction evaluation form. CRA’s analysis is consistent with NERA’s analysis, and both recommend that the Board accept the final Auction results.

AUCTIONS’ FINDINGS AND CONCLUSIONS

The independent NERA and CRA analyses are consistent with each other and indicate that the Auctions proceeded without meaningful interruption, according to the Board-approved Auction rules, in an acceptably fair and transparent manner and that the Board should certify the Auction results. Staff assigned to oversee the Auctions has also briefed the Board on the conduct of the Auctions and on the Auction results. After reviewing the reports from NERA and CRA, and discussing the results and conduct of the Auctions with Staff, the Auction Manager and CRA, the Board FINDS that:

- bidders had sufficient information to prepare for the Auctions;
- information was generally provided to bidders in accordance with the published timetable, and the timetable was adjusted appropriately as needed;
- there were no issues or questions left unresolved prior to the Auctions that created material uncertainty for bidders;
- from what could be observed, there were no procedural problems nor errors with the Auctions, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager;
- from what could be observed, communication protocols between bidders and the Auction Manager were adhered to;
- from what could be observed, there were no hardware or software problems nor errors with the Auctions system or its associated communication systems;
- appropriate data back-up procedures were planned and carried out;
- no security breaches were observed during the Auction process;
- from what could be observed, communication protocols among the EDCs, NERA, Staff, the Board, and CRA were followed during the Auctions;
- protocols were followed for decisions regarding changes in the Auction parameters (e.g. volume, load cap, bid decrements);
- the calculations (e.g. for bid decrements or bidder eligibility) produced by the Auction software were double-checked or reproduced off-line by the Auction Manager;
- there was no evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the Auctions in a material manner;
- from what could be observed, the communications between the Auction Manager and bidders was timely and effective;
- there was no evidence that bidders felt unduly rushed during the process;
- there were no legitimate complaints received from the bidders about the process;
- the Auctions were carried out in an acceptably fair and transparent manner;
- there was no evidence of gaming on the part of bidders;
- there was no evidence of collusion among bidders;
- there was no evidence of a breakdown in competition in the Auctions;
- information was made public in an appropriate manner, and from what could be observed sensitive information was treated appropriately;
- there were no factors exogenous to the Auctions (e.g. changes in market environment) that materially affected the Auctions in unanticipated ways;
- there are no concerns with the Auctions' outcome with regard to any specific EDC(s); and
- the Auctions appears to have generated a result that is consistent with competitive bidding, market-determined prices, and efficient allocation of the BGS-FP and BGS-CIEP loads.

Therefore, the Board HEREBY CERTIFIES the final results of the BGS-FP and BGS-CIEP Auctions in their entirety and subsequently APPROVES the closing prices for each EDC. The Board ORDERS the EDCs to execute the necessary documents, including the BGS Master Supply Agreements, with the winning bidders within three days of the date of this Order. Furthermore, the Board DIRECTS the EDCs to implement the BGS rates resulting from the Auctions beginning June 1, 2004 and to file tariff sheets reflecting those rates by March 1, 2004.

Consistent with the Board's practice of the past two years, the Board is releasing the names of the winning bidders at this time. The Board, however will not, at this time, release the specific tranche and service area details for each successful bidder, so as not to compromise the position of the winning bidders in the marketplace. The Board plans to make this additional information public prior to June 1, 2004.

ROCKLAND RFP

Consistent with the Board-approved RFP process, Rockland requested bids for energy and capacity for its non-PJM load, each for both a one-year and a three-year period. In reviewing the three-year bids, the low bids for both energy and capacity for the second and third years of the supply period were very attractive in terms of the differential between those prices and the low bids received for the same one-year products. However, the first year segments of the low three-year bids were higher than the low one-year bids for energy and for capacity. Consistent with the provisions of the RFP and in an attempt to obtain the best prices for customers, Rockland approached the qualified bidder with the lowest second and third year bids, which was Morgan Stanley Capital Group, to ascertain whether MSCG would be willing to commit to the second and third year prices in its bids without the first year. MSCG was willing to do so.

The winning bidders in the Rockland RFP process for energy were Mirant Americas Energy Marketing, LP, for the supply period from June 1, 2004 through May 31, 2005 at a price of \$50.50/Mwh and Morgan Stanley Capital Group, for the supply period from June 1, 2005 through May 31, 2007 at a price of \$51.25/Mwh. For capacity, the winning bidders were Constellation Power Source, Inc. for the June 1, 2004 through May 31, 2005 supply period at a price of \$1.62/kw-month and Morgan Stanley Capital Group for capacity for the supply period from June 1, 2005 through May 31, 2007 at a price of \$1.80/Mw-month.

The above combination of winning bids, resulting in contracts for three years of energy and capacity, which were recommended for Rockland's non-PJM load were found acceptable to the Board. Because of Rockland's initiative in pursuing all options available to it through the RFP rules, these contracts, as part of Rockland's overall supply portfolio, will provide competitive prices and at the same time provide a certain degree of price stability for customers over the next three years. Both of these results are reasonable in the context of the changes in market conditions over the past year. The Rockland RFP prices will be combined with the results of the BGS Auctions above to determine the new BGS rates for Rockland's customers beginning June 1, 2004. The Board wants to emphasize that the supply and capacity obtained through the Rockland RFP process, which is obtained from a different power pool and which does not include transmission, ancillary service or renewable portfolio costs, is not interchangeable with the products in the BGS-FP and BGS-CIEP Auctions, and any direct price comparisons could be misleading.

DATED: February 11, 2004

BOARD OF PUBLIC UTILITIES

SIGNED

JEANNE M. FOX
PRESIDENT

SIGNED

FREDERICK F. BUTLER
COMMISSIONER

SIGNED

CAROL J. MURPHY
COMMISSIONER

SIGNED

CONNIE O. HUGHES
COMMISSIONER

SIGNED

JACK ALTER
COMMISSIONER

ATTEST:

SIGNED

KRISTI IZZO
SECRETARY

ATTACHMENT A

I/M/O The Provision Of Basic Generation Service For Year Two Of The Post-Transition Period

Auction Winners Approved by the Board of Public Utilities on February 11, 2004.

BGS-FP Auction Winners

BP Energy Company
Conectiv Energy Supply, Inc.
Consolidated Edison Energy, Inc.
Constellation Power Source, Inc.
DTE Energy Trading, Inc.
FPL Energy Power Marketing, Inc
J. Aron & Company
Morgan Stanley Capital Group, Inc.
NRG New Jersey Energy Sales LLC
PSEG Energy Resources & Trade LLC
Reliant Energy Services, Inc.
Select Energy, Inc.

BGS-CIEP Auction Winners

Consolidated Edison Energy, Inc.
Constellation Power Source, Inc.
Dominion Retail, Inc.
PPL Energy Plus, LLC
PSEG Energy Resources and Trade LLC
Select Energy, Inc.