

# **Overview of The New Jersey Default Service Policy: Basic Generation Service**

**October 5 & 6, 2006**

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## **In New Jersey, Default Electric Service is known as Basic Generation Service (“BGS”):**

- BGS is defined as electric generation service that is provided to any customer that has not chosen an alternative electric power supplier. BGS is not a competitive service and shall be fully regulated by the New Jersey Board of Public Utilities (“NJBPU”).
- BGS is also referred to as the “provider of last resort” or “default electric service”

# Procedural Overview:

- New Jersey Restructuring law required:
  - Until July 31, 2002, each electric public utility shall provide BGS.
  - Power procured for BGS shall be purchased, at prices consistent with market conditions.
  - By July 31, 2002, the NJBPU shall issue a decision as to whether to make available on a competitive basis the opportunity to provide BGS.
  - By Order dated December 11, 2001, the NJBPU approved the first BGS auction proposal proposed by the NJ electric utilities.
  - Since the first BGS auction in conducted in 2002, New Jersey has completed 5 successful BGS Auctions.

# Auction Description:

- **Simultaneous multi-round descending clock auction**
  - BGS load for all four NJ electric distribution companies (“EDCs”) is auctioned 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 is conducted in a series of rounds, each with an announced starting and ending time.

# Auction Description Cont.:

- **Simultaneous multi-round descending clock auction**
  - Clock auction because:
    - Bidders bid a quantity to supply to each EDC at the announced price;
    - Auctioneer announces a price for each EDC's BGS requirement;
    - For each EDC, if [total supply bid] > [quantity needed by EDC], auctioneer lowers price a "tick" for the EDC, and bidding continues;
    - If [total supply bid] = [quantity needed by EDC], price is not lowered and bidders cannot reduce supply bid.
  - Auction ends when, for each of the four EDCs, the supply bid equals the BGS quantity needed by all four EDCs.

# What Is Bid:

- For the proposed 2007 BGS Auction for customers with an electric usage of 1000 kws or less, called the Fixed Price (FP) Auction:
  - Suppliers will bid on a percentage of the full requirement BGS load for each NJ electric utility.
  - This includes: energy, capacity, ancillary services and transmission.
  - The full requirement BGS load for each NJ electric utility is  $\frac{1}{3}$  of its total load for a three year period.

# What Is Bid Cont.:

- For the proposed 2007 BGS Auction for customers with an electric usage greater than 1000 kws, called the Commercial Industrial Energy price (“CIEP”) Auction:
  - Suppliers will bid on a percentage of the full requirement BGS load for each NJ electric utility.
  - This includes: providing a bid to serve the electric utility’s capacity obligation, a pass-through of the PJM hourly real-time zonal energy price, a pre-defined ancillary service charge and transmission.
  - The full requirement BGS load is for a one year period.

# BGS Fixed-Price Auction Summary

	Auction Year						
Auction Date	2/14/2002	2/3/2003		2/2/2004		2/10/2005	2/6/2006
Period Bid (months)	12	10	34	12	36	36	36
Load	Full	2/3	1/3	1/3	1/3	1/3	1/3
Customer (usage)	All	No large C & I Customers		Less then 1500 Kws		Less then 1250 Kws	Less then 1250 Kws
Electric Utility:							
PSE&G	5.11	5.38	5.56	5.48	5.52	6.54	10.25
JCP&L	4.87	5.04	5.59	5.33	5.48	6.57	10.04
ACE	5.12	5.26	5.53	5.47	5.51	6.65	10.4
RECO	5.82	5.56	5.6	5.57	5.6	7.18	11.1



# 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

# Impact of the BGS Auction

- Provides wholesale competition to the New Jersey energy marketplace, through the BGS auction process
- The BGS auction process leads to lowest possible prices for BGS supply
  - Thus smaller customers (residential and small commercial) who remain on BGS, receive the benefit of a low competitively bid fixed price
  - These customers have very limited alternative supplier choice options, at this time
- The hourly customer class gains greater control of its energy supply

# Impact of the BGS Auction

- The hourly class increases retail competition, as many customers look for alternative suppliers to avoid the volatility of the PJM hourly market
- The increase in switching, by hourly customers, helps develop the competitive energy market in New Jersey, by eventually making it cost efficient for alternative suppliers to market to smaller customers.
- Reduces risk to the EDCs, as a portfolio of suppliers are now responsible for providing BGS or default service
  - Winning bidders in the BGS auction must meet stringent creditworthiness standards