



New Jersey Board of Public Utilities

NEWS RELEASE

For Immediate Release:
November 21, 2014

Contact:
Greg Reinert
609-777-3305

NJ Board of Public Utilities Acts to Protect Integrity of Basic Generation Service Auction

- BPU opposes PJM proposal that would result in higher electricity rates –

TRENTON, N.J. – With uncertainty surrounding a draft PJM proposal that would spike electric prices and is threatening the State’s Basic Generation Service (BGS) auction, the New Jersey Board of Public Utilities (Board) today approved a process for the 14th annual BGS auction to ensure electric capacity is available for those customers served by the four regulated electric utility companies. The BGS auctions determine, in part, the cost of electricity for most New Jersey residents and many businesses for the twelve-month period starting June 1, 2015.

“The Board’s action today protects the integrity and competitiveness of the upcoming BGS auction,” said N.J. Board of Public Utilities President Richard S. Mroz. “Faced with the uncertainty of federal action on a draft PJM proposal, there was good reason to believe that electric suppliers would either not participate in the upcoming auction or would bid much higher prices to mitigate unknown risks.”

The BGS auction, held annually in February, is a process whereby bids are sought for pricing on electric supplies for NJ customers. Customers in New Jersey can choose buy electricity from any wholesale source known a third party supplier. If a customer chooses not to purchase supply from a third party supplier, then the customer “defaults” to having their electricity provided by a pool of suppliers who bid into the BGS auction. Approximately 85% of residential and 70% of smaller commercial customers do not buy electricity from third party suppliers; therefore the price of their electricity supply is determined through the BGS auction.

The Board oversees the BGS auction for three years “forward.” Each year the auction procures one third of the electricity that is projected to be needed for customers for the three years from the date of the auction. This laddered approach was intended to and has proven to smooth out spikes in electric prices.

Recently PJM, the regional transmission organization (RTO) that coordinates the movement of wholesale electricity in 13 states and the District of Columbia, indicated it would propose certain requirements on generators allegedly designed to ensure sufficient generation levels, especially in cold weather. This draft proposal is in response to the cold weather issues that

delayed or prohibited some generation from being delivered during the 2014 winter “Polar Vortex” in January.

PJM’s proposal will need the approval of the Federal Energy Regulatory Commission (FERC). The proposal’s requirements may increase the amount of generation procured, increase the incentives to generators for “standing by,” and result in significant increases in costs for ratepayers. The Board’s staff, along with many other states, has filed objections to the PJM proposal on both procedural and substantive grounds.

PJM has not yet filed a proposal with FERC, nor is it known when FERC would act on such a plan. It’s also possible any plan that FERC may approve could diverge significantly from the present proposal. In any event, it does not appear likely that FERC will render a final resolution before the Board’s BGS auction is held in February.

Due to the uncertainty and the possibility that the requirements may be applied retroactively to existing contracts, bidders in the upcoming BGS auction would have either placed large risk premiums on their bids or refrained from participation in the auction entirely.

With the Board’s concern for the integrity and competitiveness of the upcoming BGS auction, the Board adopted rules and standards for the auction, including a mechanism for the pass through by PJM of unanticipated costs approved by FERC. Additionally, the Board will continue to represent New Jersey’s interests before PJM and FERC.

By removing the potential risks of any proposal that is ultimately approved by FERC, the BGS auction bidding process is expected to be competitive based upon the number of bidders and the number of offerings for each block of power auctioned, which will result in competitive prices for ratepayers.