What Do Utilities Procure and Why

- Utilities can be engaged in various types of procurement
  - New plants
  - Portfolio of power contracts
  - Contract to serve load

- Utilities in states that have restructured their electricity industry typically procure supply for default service
  - Utilities divested or transferred generation; regional system operator to ensure full access to transmission system
  - Utilities provide distribution under cost-based regulation

- Utilities in states that have not restructured typically design and manage a portfolio of resources to supply their customers

- The line between these two approaches is not so stark
What Is Full-Requirements Service?

- The “product” in restructured states typically is full-requirements
  - Each supplier provides all necessary services (energy, capacity, ancillary services, etc) for a percentage of the load at a fixed price

- Full-requirements is not a product that is exclusively the purview of restructured states

- Full-requirements puts the price-risk management function and the portfolio management functions in the hands of the competitive market
  - Suppliers can have different strategies to meet their percentage of load that can adapt and respond to changing market conditions
New Bidding Methods Have Been Developed

New Jersey uses a “clock auction”

- Multi-Product
  - Tranches from all EDCs are procured at once

- Multi-Round
  - Bidders stated how much they wanted to bid at prices suggested by the Auction Manager
  - Prices “tick” down if there are more tranches bid than needed
  - Process continues until there is no more excess supply

- Method also used to procure standard products as part of portfolio
Prices Come Down to Market Levels Through Many Bidding Rounds

- Bids at Going Prices
- Bidding Ends
- Information to Bidders
- Round Ends

Bids are the number of tranches that bidders are willing to serve at the going price of the round for a particular NJ Utility.

Bidders are informed of prices for the next round and prepare their next bids.

Price for a NJ Utility “ticks” down if the number of tranches bid is greater than the amount needed.

Suppliers bid from their regular place of business. Suppliers submit their bids through the internet each round.
Auction Clearing Prices in New Jersey Have Tracked Regional Power Markets

Local factors have little to no influence
Market Conditions / Procurement Method: Finding the Culprit

“Off hand, I'd say you're suffering from an arrow through your head, but just to play it safe, I'm ordering a bunch of tests.”
Rate Freeze Is An Additional Ingredient

- Divorces price of service from its cost
- Impedes development of retail markets
- Dampens demand response