



**NJ ELECTRIC RATES
JUMPING
12 – 13.7% ON JUNE 1ST
AS MUCH AS 22% JUNE, 2007**

Energy Prices Soar at State Auction In Closely Watched Sale, New Jersey's Utilities to Pay Up to 55% More for Power

By Rebecca Smith, The Wall Street Journal, 499 words



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New Jersey utilities will pay as much as 55% more for power bought at that state's annual energy auction this year, in a sign that the state's closely watched electricity auctions can't fully insulate electricity users from big increases in energy costs.

The impact on consumers won't be as dramatic. Prices fetched in the state's fifth annual auction will result in residential electricity rates rising 12% to 13.7% on June 1, depending on the utility. The impact on residential electricity bills is muted because power obtained in each auction is blended with power obtained in two prior annual auctions, which in this case were much lower.

Other states closely watch what happens in New Jersey as an indication of the overall health of deregulated energy markets. Ohio, Delaware and Illinois have gravitated toward auction programs loosely modeled on the New Jersey method.

The average price in this year's auction, announced yesterday, was 10.45 cents per kilowatt hour, pushed up by high natural-gas costs. Natural gas has fallen sharply from recent highs on commodity markets but remains expensive historically. At last year's auction, the average price was 6.73 cents per kilowatt hour. In 2004, the average price was 5.52 cents.

If natural-gas prices don't drop sharply in the next year, New Jersey consumers could expect rate increases to accelerate as cheaper contracts from earlier years expire. If natural-gas costs remained the same in 2007 as 2006, rates could jump 22% next year as electricity carrying a price of 5.52 cents a kilowatt hour was replaced by more expensive power.

The New Jersey auction was set up to provide a deep, robust marketplace for many suppliers to offer power to utilities. The idea is that the bigger marketplace will result in lower prices, especially for small residential and business customers who can't negotiate their own deals. Virtually all of New Jersey's residential consumers pay the auction price. The exception is customers who have signed up for renewable energy programs. The latest auction was for a large amount of power, more than 8,000 megawatts with a market value of \$7 billion.

Among the successful bidders in the latest auction were units of Pepco Holdings Inc., Constellation Energy Group Inc., Consolidated Edison Inc, Sempra Energy, FPL Group Inc., Public Service Enterprise Group Inc., J.P. Morgan Chase & Co. and Morgan Stanley. The issue is emotional because, in some cases, consumers are paying high prices for power from plants that once were owned by the state's utilities but now are free to sell energy at market prices, regardless of their underlying costs.

In Delaware, several prominent Republican lawmakers have said they are alarmed by a pending 59% rate increase at Delmarva Power that will take effect in May and have suggested the state explore re-regulating the power sector. The increase at Delmarva reflects high prices on the spot market and the fact that rates were frozen at Delmarva from 1999 until this year, so there were no incremental increases to track rising natural-gas costs.