



PJM INC and DEC Credit Requirements

Problem / Opportunity Statement

The current PJM Increment Offer ("INC") and Decrement Bid ("DEC") credit requirements were established in 2003.

They currently involve a Nodal Reference Price that is used in the bid screen process. This Nodal Reference Price for INCs/DECs is calculated separately for each location on the PJM grid. The year is divided into six two-month periods (January-February, March-April, May-June, July-August, September-October and November-December). For each period, the absolute value difference between the cleared day-ahead price and the actual real-time price for each hour in each day during that period in the previous year is calculated. (There will be 1,488 such hourly values for each location in July-August.) Those values are then ranked, and the 97th percentile value (e.g. the ~44th highest for July-August) is chosen as the reference for that location. Reference prices are applied to the bid locations with which they are associated, so bids at different locations will be multiplied by different reference prices.

All Participants are subject to INC/DEC screening as follows. First, the MWh for all current market day and prior market day submitted day-ahead bids are summed and multiplied by the reference price. Second, the calculation is repeated using current submitted bids plus the three prior days of cleared bids. If the resulting dollar value of the lesser of those two calculations exceeds a Participant's Credit Available for Virtual Bidding, then the bids are rejected.

When the up to congestion credit review was being conducted, a comparison between a potential credit policy that included bid/offer prices, and one that did not, was completed by PJM Credit. Generally the credit requirement that included bid/offer prices covered more risk, with less overcollateralization. Given stakeholder desire to maximize credit coverage while minimizing overcollateralization, and given that the current rule has been in place for over 10 years, Twin Cities Power requests that stakeholders perform a review of the current INC/DEC credit rules and explore potential improvements.