Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

86 FERC ¶ 61,147

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
Vicky A. Bailey, William L. Massey,
Linda Breathitt, and Curt Hébert, Jr.

Atlantic City Electric Company	)
Baltimore Gas and Electric Company	)
Delmarva Power & Light Company	)
Jersey Central Power & Light Company	) Docket No. ER98-1581-000
Metropolitan Edison Company	)
Pennsylvania Electric Company	)
PP&L, Inc.	)
Potomac Electric Power Company	)
Public Service Electric and Gas Company	)
PJM Interconnection, L.L.C.	) Docket No. ER97-3189-014

ORDER REJECTING FILINGS AND PROVIDING GUIDANCE,
AND DIRECTING NEW FILINGS

(Issued February 11, 1999)

On December 31, 1997, Atlantic City Electric Company, Baltimore Gas and Electric Company, Delmarva Power & Light Company, Jersey Central Power & Light Company, Metropolitan Edison Company, Pennsylvania Electric Company, PP&L, Inc., Potomac Electric Power Company and Public Service Electric and Gas Company (PJM Supporting Companies) filed with the Commission (December 1997 Filing) two proposed amendments to Schedule 1 of the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement). Under the first proposal, the PJM Interconnection L.L.C. (PJM) would establish and implement an auction of Fixed Transmission Rights (FTR), which are rights to receive credits against congestion costs. Under the second, PJM would establish and implement a multi-settlement system which allows transmission customers to fix transmission costs ahead of the actual transmission transaction.

While we commend PJM Supporting Companies for fulfilling their commitment to make the December 1997 Filing, a commitment we recognized in our order on restructuring of the Pennsylvania-New Jersey-Maryland Interconnection, 1/ we reject the December 1997 Filing. We order PJM, rather than PJM Supporting Companies, to make new filings as discussed below.

In addition, on March 25, 1998, PJM filed a response to Ordering Paragraph Q (PJM March 25 Response) of the Restructuring

---

1/ PJM Interconnection, L.L.C., et al., 81 FERC ¶ 61,257 (1997), reh'g pending (Restructuring Order).

990212.0099

FERC - DOCKETED
FEB 11 1999

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

Order. 2/ In the PJM March 25 Response, PJM generally endorsed the December 1997 Filing as containing procedures for mitigating lack of price certainty in PJM's transmission pricing. In addition, PJM stated that it would continue to explore other options. We encourage PJM to continue its explorations, and commend its efforts to date. We nevertheless reject the PJM March 25 Response for the reasons discussed below.

I. Background

Two aspects of the Restructuring Order are important here. One is the PJM Supporting Companies' commitment to file, by December 31, 1997, a proposal for auctioning FTRs and to create a multi-settlement system. 3/ The other is PJM's response to Ordering Paragraph Q in which we directed PJM to file a revised congestion pricing proposal.

FTR auction and multi-settlement system proposal

In the Restructuring Order, the Commission conditionally accepted, inter alia, a proposal by the PJM Supporting Companies to develop a scheme to manage transmission congestion through congestion charges using a locational marginal pricing methodology (LMP). 4/ In a period of congestion, the congestion price for transmission service would be the difference between the price of generation at the receipt point where energy enters the transmission system, and the price of generation at the delivery point where energy exits the system. Transmission customers who move energy during the period of congestion must pay the congestion charge. However, transmission customers holding FTRs would have a hedge against such congestion charges.

In the Restructuring Order, we indicated that, as an adjunct to the LMP, PJM Supporting Companies had proposed that all firm point-to-point transmission customers and network transmission customers would be allocated FTRs as a means of reducing or eliminating the congestion charges. 5/ The FTRs entitle the holders to credits to be applied against the congestion charges. PJM would allocate FTRs to a firm point-to-point transmission customer for the amount of energy for the specific transmission path that customer had reserved. PJM would allocate FTRs to a network transmission customer based on the amount of energy

---

2/ Id. at 62,283.

3/ Id. at 62,257, 62,260; see Operating Agreement, Schedule 1, § 1.7.21.

4/ 81 FERC at 62,253-61.

5/ Id. at 62,254.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

reserved, but that amount allocated would not exceed the annual peak load of the network transmission customer. 6/ The congestion credits for FTR holders would be equal to the cost of congestion that would occur between the specified receipt and delivery points. 7/

In the December 1997 Filing, PJM Supporting Companies proposed to auction FTRs that were not assigned at the time of the auction, as well as FTRs offered for resale by existing holders. Initially, each month, an auction would be held for the following month. PJM would be authorized to reconfigure FTRs that are available for sale in the auction. This means PJM could alter the receipt/delivery point combinations among available FTRs. PJM could reconfigure FTRs so as to maximize the value to the bidders of the FTRs sold. Because some FTRs would not be sold in the auction, however, a condition of any reconfiguration of available FTRs to be sold in the auction would be that the new receipt/delivery point combinations must be simultaneously feasible with those FTRs not sold in the auction. Offers to sell and bids to buy would specify a particular combination of receipt and delivery points. The winning bids would be determined by the set of simultaneously feasible FTRs with the highest total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. FTRs would be sold based on the market clearing price as determined by the bid value of the marginal FTR that could not be awarded because it would not be simultaneously feasible. 8/

In the December 1997 Filing, PJM Supporting Companies also included provisions describing a multi-settlement system. Currently, schedules are established a day ahead of a transaction, and advisory prices based on those schedules are determined. However, the day ahead advisory prices are not binding. In real time, PJM determines energy prices at each location based on the marginal costs at the locations, and financial settlements are determined based on these real time prices and the actual real time quantities transacted. Under the proposed multi-settlement system there would be two settlements,

---

6/ Id. at 62,254.

7/ The credit for the firm point-to-point service customer is equal to the amount of the FTRs multiplied by the congestion charge, and the credit for network service customer is the percentage of the customer's annual peak load assigned to the load bus in question multiplied by the product of the amount of the FTRs and the congestion charge. PJM OATT, Attachment K, § B(2)(c).

8/ December 1997 Filing (Multi-settlement system and FTRs auction), § 7.1 et seq.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

one on the day ahead of a transaction (Day Ahead), and the second on the day of the transaction (Real Time). In the Day Ahead settlement, a transmission customer would be able to lock in the transmission congestion charge it will have to pay the next day (the day of the transaction) if the system is constrained. The Real Time settlement occurs the next day. If the transmission customer on that next day deviates from the schedule set the day before, the customer is subject to any applicable real time congestion charge. 9/ Through this multi-settlement system, PJM Supporting Companies seek to provide greater certainty to customers today about the prices they may pay tomorrow. 10/

Thus, the day ahead market would enable market participants to purchase and sell energy through the PJM PX at binding day ahead prices, and enable transmission customers to reserve transmission service with congestion charges based on locational differences in day ahead prices. (Market participants submitting schedules for bilateral transactions may indicate that they are not willing to incur congestion charges. Such transactions would be curtailed during periods of congestion.)

As discussed below, PJM Supporting Companies' proposal would also allow incremental and decremental bidding by parties who are considering bilateral energy transactions. That is, with respect to the generator and/or load that would comprise a bilateral transaction, and prior to specified deadlines, a market participant may submit an offer at any price to purchase or sell energy during any given hour of the operating day.

PJM Supporting Companies have requested an effective date of April 1, 1998, for the December 1997 Filing, or such later date as the Pennsylvania-New Jersey-Maryland Office of Interconnection (PJM-OI) is able to implement the proposal.

PJM Response to Ordering Paragraph Q

The Commission expressed a concern about PJM Supporting Companies' LMP proposal in the Restructuring Order. That concern was about the lack of price certainty transmission customers face when they reserve transmission service. Because energy schedules, and flows associated with them, can change up to the hour of service, spot prices under LMP do not become known for any hour until after the hour has begun. This uncertainty creates a problem for transmission customers because they cannot submit fully informed bids or otherwise adequately express their willingness to pay for transmission service at the time they

---

9/ PJM Supporting Companies' Filing, Schedule 1 (FTRs auction and multi-settlement system), § 1.10.1.

10/ 81 FERC at 62,257.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

request PJM to schedule their transactions. The Commission recognized that assignment of FTRs to firm point-to-point transmission and network transmission customers, an FTR auction, and a multi-settlement system would mitigate to some degree lack of price certainty. The Commission, however, indicated that the issue should be explored further by PJM.

In Ordering Paragraph Q of the Restructuring Order, the Commission directed PJM to initiate a process for resolving the issue and to file a revised congestion pricing proposal that provided for greater price certainty.

On March 25, 1998, in response to Ordering Paragraph Q, PJM described nine options it had considered, and identified four options for further exploration. PJM indicated that in the December 1997 Filing, PJM Supporting Companies had adopted three of these options: 1) an FTR auction; 2) a multi-settlement system; and 3) an incremental and decremental bidding procedure by parties to bilateral transactions. 11/ PJM believes that it need not at this time file a proposal for the fourth option, standard trading hubs, since, in its view, the Pennsylvania-New Jersey-Maryland Open Access Transmission Tariff (PJM OATT) can accommodate such trading hubs. 12/

II. Notices of filing, interventions and protests

December 1997 Filing

Notice of the filing was published in the Federal Register, with comments, protests and interventions due on or before February 13, 1998. 63 Fed. Reg. 5,942 (1998). The Maryland Public Service Commission (Maryland Commission) filed a notice of intervention raising no substantive issues.

North Jersey Energy Associates (NJEA), and Delaware Municipal Electric Corporation, Inc. (DEMEC) filed timely, unopposed motions to intervene raising no substantive issues. New York Mercantile Exchange (NYMEX) and Duke Energy Trading and Marketing, L.L.C. (Duke Energy) filed motions to intervene out of time, and raised no substantive issues.

Electric Clearinghouse, Inc. (Clearinghouse), Public Power Association of New Jersey (PPANJ), Easton Utilities Commission of Easton, Maryland (Easton), PJM Industrial Customer Coalition (PJM Industrials), Coalition for Competitive Electric Market (CCEM), and US Generating Company (US Generating) filed timely, unopposed motions to intervene with comments or protests. PECO Energy

---

11/ PJM March 25 Response at 5-7.

12/ Id. at 8-10.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

Company (PECO Energy) filed a motion to intervene out of time with a protest.

PJM filed a timely motion to intervene and comments, and indicated that it would file additional comments later. On June 30, 1998, and on December 9, 1998, PJM filed additional comments, and, in effect, requested the Commission to accept them out of time.

PJM March 25 Response

Notice of the filing was published in the Federal Register with comments, protests and interventions due on or before April 17, 1998. 63 Fed. Reg. 16,998 (1998). The Maryland Commission filed a notice of intervention raising no substantive issues. PECO Energy and Clearinghouse filed timely, unopposed motions to intervene with protests. Eastern Power Distribution, Inc. (Eastern Power) filed a motion for leave to intervene out of time, raising no substantive issues.

Protests and comments concerning FTR auction

Clearinghouse does not oppose the FTR auction, and believes that, if LMP is implemented, the FTR auction is a step in the right direction. Clearinghouse does express concern that the secondary market would be illiquid because the FTRs would be for the fixed receipt and delivery point combinations of the originally allocated FTRs. Clearinghouse contends that the proposal lacks specificity and does not, for example, indicate the time by which entities offering FTRs in the auction must do so. 13/

CCEM also protests the lack of specificity in the FTR auction proposal. It notes, for example, that the precise manner in which the winning bid will be determined is unclear. CCEM further indicates that, for power marketers in particular, the secondary market for FTRs is important. 14/

PECO Energy maintains that in their proposal, PJM Supporting Companies have changed a provision that is unrelated to the FTR auction, and which was not discussed before the PJM Members Committee. That committee has authority to review proposed changes to the Operating Agreement. The change PECO Energy protests is that, in proposed section 5.2.2(b) of Schedule 1, PJM Supporting Companies establish a ceiling and floor for FTRs assigned to network transmission customers. The ceiling would be the customer's projected annual peak load, and the floor would be

---

13/ Clearinghouse's Motion at 4-5.

14/ CCEM's Motion at 3.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

the lowest monthly coincident peak load for the customer in the past 12 months. With the advent of retail competition in Pennsylvania, PECO Energy contends that establishing a floor based on use before retail competition is unreasonable. 15/

Easton asserts that the FTR allocation process discriminates against network transmission customers with network resources that are "behind the meter". Easton also contends that the FTR auction proposal is unclear in several ways, including how the market clearing price for FTRs is determined. 16/

PJM Industrials contend that the FTR auction proposal is unclear. They assert that the concept of "last bid in" needs clarification. They also insist that PJM-OI keep confidential each participant's day ahead and real time transmission schedules. Further, PJM Industrials maintain that, given retail access in Pennsylvania, end use customers should get the FTRs previously assigned to Load Serving Entities (LSEs). PJM Industrials also claim that the justification for allocating the proceeds from the FTR auction among LSEs is unsound. 17/

US Generating's primary concern is that LMP discriminates against independent power producers in the PJM control area because they are limited to the PJM PX's day ahead market. Vertically integrated public utility members of PJM, in contrast, have access to both the day ahead and the hour ahead market. 18/ The only issue PPANJ raises is that the filing does not address the requirement in the Restructuring Order that some members of PPANJ take network service. 19/

In its original and additional comments, PJM does not oppose the FTR auction proposal of the PJM Supporting Companies, except in one regard. PJM objects to the proposed section 5.2.2(b) which sets a floor for FTRs allocated to network transmission customers of a customer's lowest monthly coincident peak load for the prior 12 months. PJM claims that, with retail access in Pennsylvania, loads will likely change, and it is unreasonable to determine FTRs allocations based on data from a period prior to retail access. PJM adds that it has developed the software to

---

15/ PECO Energy's Motion at 4.

16/ Easton Commission's Motion at 5-6.

17/ PJM Industrials' Motion at 4-5.

18/ US Generating's Motion at 3.

19/ PPANJ's Motion at 3.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

implement the FTR auction, and anticipates starting April 15, 1999. 20/

Protests and comments concerning multi-settlement system

Clearinghouse asks the Commission to defer a ruling on the multi-settlement system until more details are in the record. 21/ CCEM contends that the multi-settlement system does not offer a long-term solution to transmission price certainty. 22/ In its last set of additional comments, PJM states that it has not completed the design for the multi-settlement system, and it asks that the Commission not set an implementation date. 23/

Protests concerning Paragraph Q

In its protest, Clearinghouse expresses disappointment that PJM held only one meeting to discuss a revised congestion pricing proposal. Clearinghouse also contends that the PJM March 25 Response lacks adequate detail about how PJM will address price certainty issues, and Clearinghouse requests that the Commission hold a technical conference on the matter. 24/

PECO Energy comments that fundamental problems with LMP remain. PECO Energy claims that the multi-settlement system will not alleviate price uncertainty for transactions longer than a day ahead. It adds that trading hubs will allow at least some traders to average out the effects of LMP on their own transactions. 25/

III. Discussion

Procedural matters: December 1997 Filing

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1998), the Maryland Commission's notice of intervention and the timely, unopposed motions to intervene serve to make the Maryland Commission and movants, respectively, parties to this proceeding. We grant the motions to intervene out of time of PECO Energy, NYMEX and Duke

---

20/ PJM's Second Additional Comments at 3.

21/ Clearinghouse's Motion at 6.

22/ CCEM's Motion at 3.

23/ PJM's Second Additional Comments at 6.

24/ Clearinghouse Paragraph Q Protest at 3-4.

25/ PECO Energy Paragraph Q Comments at 3-4.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

Energy, given their interests, and the lack of undue delay or prejudice. 18 C.F.R. § 385.214(d) (1998). We accept PJM's additional comments since they add to our understanding of this proceeding.

Procedural matters: PJM March 25 Response

The Maryland Commission's notice of intervention and the timely, unopposed motions to intervene of PECO Energy and Clearinghouse, similarly, serve to make them parties herein. We grant Eastern Power's motion for leave to intervene out of time given its interest and because of the lack of undue delay or prejudice.

FTR auction proposal

In the Restructuring Order, the Commission conditionally approved the use of FTRs. Again, FTRs entitle firm point-to-point transmission customers and network transmission customers to transmission congestion credits. Those credits are applied against congestion charges for a particular transmission path during periods of constraint, and reduce or eliminate the congestion charge for FTR holders. 26/ As the Commission recognized in the Restructuring Order, PJM Supporting Companies committed to developing an auction for FTRs ". . .beyond those retained by network and firm point-to-point transmission customers." 27/

As explained more fully below, we believe that an FTR auction similar to that in the December 1997 Filing has promise. After reviewing the filing, however, we note that it lacks clarity and too many important details, as CCEM, PJM Industrials and Clearinghouse maintain, to be implemented as filed. The filing does not identify the time by which FTRs must be offered on the day of the auction, or the time when the auction begins, for instance. In addition to the reservations expressed by those intervenors, we note that the December 1997 Filing does not clearly or fully indicate whether participants can specify minimum quantities of FTRs in their bids or offers, and if so, how these minimums would affect the relationship between simultaneous feasibility, market clearing prices and the level of auction revenues. Therefore, we reject the December 1997 Filing, and direct PJM, after consultation with stakeholders, to refile. (PJM is the appropriate entity to make such a filing because the Pennsylvania-New Jersey-Maryland power pool has restructured into an Independent System Operator.)

26/ Id. at § B.

27/ 81 FERC at 62,260.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

We offer the following additional guidance for PJM. We disagree with PJM Industrials and conclude that the allocation of net auction revenues appears reasonable. Moreover, whether PJM Industrials and those similarly situated should be able, under a state retail access program, to insist upon a particular allocation of FTRs directly to them is beyond the scope of this proceeding.

Finally, PJM Supporting Companies propose to establish minimum FTRs for network transmission customers in section 5.2.2(b) of Schedule 1. The minimum would be equal to the lowest monthly coincident peak load for each customer in the prior 12 months. PJM's objection to this minimum is well taken. The historical loads of network transmission customers who now participate in a state retail open access program may well not be a sound guide to their loads in the future. Therefore, we reject PJM Supporting Companies' proposal to establish minimum FTRs at this time. After the parties have experience with serving loads under a retail open access program, however, PJM, in consultation with stakeholders, may revisit this issue through an appropriate filing with the Commission, and we will consider it at that time.

We direct PJM, instead of PJM Supporting Companies, to file another FTR auction proposal that addresses the foregoing concerns identified in this order.

Multi-settlement system

In the December 1997 Filing, PJM Supporting Companies described a multi-settlement system, with incremental-decremental bidding in the day ahead and real time markets. PJM also notes that, as the operator of the PJM PX and the transmission system, it, not the PJM Supporting Companies, will have to implement this multi-settlement system. PJM has indicated that it cannot implement the proposal until the necessary complex computer software is developed. PJM estimates a year to accomplish this. Given the complexity of implementing the multi-settlement system, PJM requests that the Commission defer any specific ruling. Deferral would allow PJM and its requisite committees the opportunity to discuss thoroughly all facets of a multi-settlement system. We are persuaded to grant PJM's request and require PJM to refile at a later time.

PJM response to Ordering Paragraph Q

In Ordering Paragraph Q of the Restructuring Order, the Commission directed PJM to better address the price certainty issue. In the PJM March 25 Response, PJM identifies nine options for addressing price certainty. Generally, PJM supports the options advanced by the PJM Supporting Companies in the December 1997 Filing. Again, these are an FTR auction, and a multi-settlement system with incremental-decremental bidding. We agree

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

that these options, if fully and adequately implemented, would significantly address our concern about price uncertainty.

However, these options are not yet ready to be implemented. Therefore, to comply with Ordering Paragraph Q, we direct PJM in consultation with the various stakeholders to file proposals in sufficient detail to be implemented. 28/

In a recent filing, 29/ PJM has indicated that it expects to be able to implement the PJM Supporting Companies' proposed FTR auction as early as April 15, 1999. We direct PJM to file its proposal for an FTR auction with sufficient detail to be implemented within 90 days of this order. 30/ In the same filing, PJM indicated that it estimated that it would be able to implement the Supporting Companies' proposed multi-settlement system and incremental and decremental bidding by June 2000. We will require PJM to file a detailed proposal for implementing a multi settlement system and incremental and decremental bidding within 18 months of this order.

In its filing in response to Ordering Paragraph Q, PJM identified promising options for future implementation to help mitigate the adverse effects of uncertain prices: an FTR auction, a multi-settlement system with incremental and decremental energy bidding, and standard trading hubs.

First, we agree with PJM that an FTR auction similar to that proposed by the PJM Supporting Companies would help provide price certainty by simplifying and enhancing the process by which FTRs can be acquired and traded. Most importantly, the proposed auction process would allow PJM to reconfigure the receipt and delivery points associated with FTRs that are available or offered in the auction. Because of the interconnected nature of the transmission grid and network interactions, reducing the quantity of FTRs allocated between one pair of receipt and delivery points may sometimes increase the quantity of FTRs that may feasibly be allocated between another pair of points. Reconfiguring may make it possible for a prospective buyer to obtain additional FTRs between receipt and delivery points that

---

28/ This should also satisfy the concerns of intervenors such as Clearinghouse that complain that the process that PJM used to address the issue of price certainty was not adequate. However, we see no need for the Commission to hold a technical conference at this time.

29/ PJM Additional Comments at 1.

30/ We remind PJM that it should not seek to implement an FTR auction without our prior authorization.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

are not currently feasible and available without adversely affecting the FTRs held by other FTR holders.

However, according to PJM Supporting Companies' proposal, initially, the FTR auction is limited to buying and selling (or reselling) FTRs for the term of one month. Apparently PJM Supporting Companies contemplate at some future time having an auction for different terms shorter or longer than one month. We encourage such a development. We believe that the ability to reconfigure FTRs for flexible terms (shorter or longer than one month), wholly apart from the initial monthly auction, could improve the liquidity of the FTR market.

PJM representatives at the Commission's May 1997 Technical Conference stated that holders of FTRs would be able to reconfigure their FTR receipt and delivery points outside of the currently proposed auction, sometimes within days or hours of the request. 31/ In order to alleviate price uncertainty as much as possible, as well as to encourage a liquid and robust secondary market in FTRs, PJM should ensure that there are no unnecessary impediments to reconfiguring FTR receipt and delivery points. Therefore, we direct PJM to file a detailed description of the current process by which individual FTR holders may reconfigure their receipt and delivery points outside of an auction context. The description should include any additional requirements (such as additional fees or waiting times) for reconfiguring FTRs outside an auction context, compared with the process for reconfiguring FTRs through the proposed FTR auction. The description should also explain why any such additional requirements are necessary. The description should be included as part of PJM's filing to implement the FTR auction.

Second, we agree that the PJM Supporting Companies' proposal for a multi-settlement system could increase price certainty in that it allows transmission customers, on the day ahead, to lock in the congestion price for a specific reservation. 32/

31/ Responses of David B. Raskin and Steven Herling at the Technical Conference in the Matter of Pennsylvania-New Jersey-Maryland Interconnection, Tr. at 142-44, (Docket Nos. OA97-261 and ER97-1082, May 9, 1997).

32/ Customers still would not know the price they would have to pay in advance of their commitment to schedule service in the day ahead market, and, therefore, that price could exceed what they are willing to pay. However, as explained below, this limitation may be effectively eliminated when a multi-settlement system is implemented in conjunction with incremental and decremental bidding.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

Third, we agree with PJM Supporting Companies that allowing incremental and decremental energy bidding by parties may prove useful as a measure for mitigating the effects of congestion price uncertainty. We note that, while PJM Supporting Companies' proposal lacks detail as to how an incremental and decremental bidding process would operate in conjunction with a multi-settlement system, such a process appears to be a means by which those who buy and resell energy can reduce the risk that congestion charges will make a prospective buy-resale transaction unprofitable, through bids into the PJM PX. 33/

33/ For example, suppose that a trader had an opportunity for the next day to purchase 10 MWh of energy for $20/MWh from a generator at point A and sell it to a customer for $30/MWh at point B. This deal, if completed, would provide the trader with a margin of $10/MWh with which to pay congestion charges and earn a profit. Thus, the trader would be unwilling to pay more than $10/MWh in congestion charges. To ensure that it does not lose money on the transaction, the trader could submit a day ahead transmission schedule for a 10 MWh bilateral transaction from A to B, and also offer day ahead incremental and decremental energy bids. Specifically, the trader could offer to purchase spot market energy at A (i.e., offer a decremental energy bid) if the price at A falls below $20, and offer to sell energy into the spot market at B (i.e., offer an incremental energy bid) if the price at B rises above $30.

If, at the end of the day ahead scheduling process, the price at A is above $20 and the price at B is below $30, the trader's incremental and decremental energy bids would be rejected, but the congestion charge would be less than $10, so that the trader could complete the original bilateral deal and make a profit. On the other hand, if the price at A is below $20 and/or the price at B is above $30, the congestion price could exceed $10. However, in this case, the trader's incremental and/or decremental bids would be accepted in the day ahead schedule. Knowing in advance that its bids were accepted gives the trader time to finalize other business arrangements necessary to complete its transactions and avoid losing money.

To complete the point, suppose that the price at A is $15 and the price at B is $29, so that the congestion charge is $14. The trader's decremental bid at A would be accepted and its incremental bid at B would be rejected. Thus, the trader would purchase energy from the pool for $15 at A and would decline to purchase energy from the generator at point A. The trader would

(continued...)

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

However, we direct PJM to explicate fully in its future filing how incremental-decremental bidding will relate to the multi-settlement system. PJM Supporting Companies' proposal is unclear as to whether it would permit incremental and decremental bidding in both the day ahead and real time markets, or in only the real time market. We conclude that, in order to provide an adequate measure of price certainty, incremental and decremental bidding should be permitted in the scheduling process of the day ahead market. As illustrated by the example in the earlier footnote, if available in the day ahead market, incremental and decremental bidding would allow transmission customers to finalize profitable short-term business arrangements regardless of the level of congestion charges.

Finally, we agree with PJM that the development of standard trading hubs could prove to be an important complement to the other options that PJM has identified for addressing price certainty issues.

We note that PJM considered, but rejected, another option for alleviating price uncertainty that was discussed in the Restructuring Order: allowing a transmission customer to state in advance the maximum congestion charge it is willing to pay, information that PJM would use in determining which transmission customers would be included in the day ahead schedule. This option essentially would allow transmission customers to specify the maximum price they are willing to pay for congestion in much the same way that energy market participants place bids for energy. The transmission bidding option would treat bilateral transmission customers in a comparable way with energy market participants, and provide such transmission customers with an identical type of price certainty. That is, the transmission or energy customer would know in advance that it would not be scheduled unless the price is at least as favorable as its bid.

Since no party has submitted comments objecting to the exclusion of this particular option, we will not require it at this time. We note, however, that PJM has kept open the possibility of revisiting the option of allowing customers to specify the maximum congestion charge they would be willing to pay. In the PJM March 25 Response, PJM stated:

> PJM may, however, consider offering this option in the future if technology permits and the service is desired by participants. [PJM March 25 Response at 6.]

33/ (...continued)
then pay the $14 to transmit the energy to B (bringing its total costs to $29). The trader would complete its agreement to sell energy to the customer at B for $30, making a $1 profit.

Unofficial FERC-Generated PDF of 19990212-0099 Issued by FERC OSEC 02/11/1999 in Docket#: ER98-1581-000

Conclusion

For the reasons noted above, including the lack of detail in the PJM March 25 Response and in the PJM Supporting Companies' December 1997 Filing, we reject those filings and we find that PJM has not complied with Ordering Paragraph Q of the Restructuring Order. We encourage PJM to continue open and full discussions with the various stakeholders of the various options for enhancing price certainty in PJM markets.

The Commission orders:

(A) The proposed amendments to the Operating Agreement are hereby rejected, as discussed in the body of this order.

(B) PJM is hereby directed to file new FTR auction procedures, as discussed in the body of this order, within 90 days of the date of this order.

(C) PJM is hereby directed to file new multi-settlement system procedures, within eighteen months of the date of this order.

By the Commission.

(S E A L)

David P. Boergers,
Secretary.