



VIA E-MAIL TRANSMISSION

August 1, 2002

MEMBERS COMMITTEE; ENERGY MARKET COMMITTEE

Dear Committee Members:

This letter provides a restatement and a clarification of the interim rules for pricing external transactions that are scheduled for delivery at or delivery from the PJM-VAP interface. These rules were introduced on Friday, July 19, 2002 and announced via the eData system and the OASIS. These rules will be in effect until further notice.

Interim Rules For External Transaction Pricing

1. If a transaction path, based on the NERC tag, for a transaction into PJM at the PJM-VAP interface, includes an ECAR or MAIN control area, then the transaction will be priced at the PJM-AEP interface price. For example, a transaction from a control area within MAPP through an ECAR control area to the PJM-VAP interface will receive the PJM-AEP interface price, regardless of the scheduled delivery point.
2. If a transaction path, for a transaction out of PJM from the PJM-VAP interface, includes an ECAR or MAIN control area, then the transaction will be priced at the PJM-AEP interface price. For example, a transaction from PJM-VAP interface to a control area within MAPP through an ECAR control area will receive the PJM-AEP interface price, regardless of the scheduled source.
3. If a transaction or an increment offer is scheduled at the PJM-VAP interface in the day ahead market and a transaction, which is sourced in ECAR or MAIN, as defined in point 1 above, is scheduled in real time for delivery at the PJM-VAP interface, the real time transaction will be treated as delivered to the PJM-AEP interface and there will be a deviation from the day ahead position.
4. PJM will develop a method for pricing external transactions at the interface buses based on an analysis of implicit LMPs in external control areas. This method, when completed, will replace the method defined in points 1 through 3 above.

Please contact me if you have any questions. I can be reached at 610-666-4563 or via e-mail at bowrij@pjm.com.

Sincerely,

Joseph E. Bowring
Manager

Service With Integrity