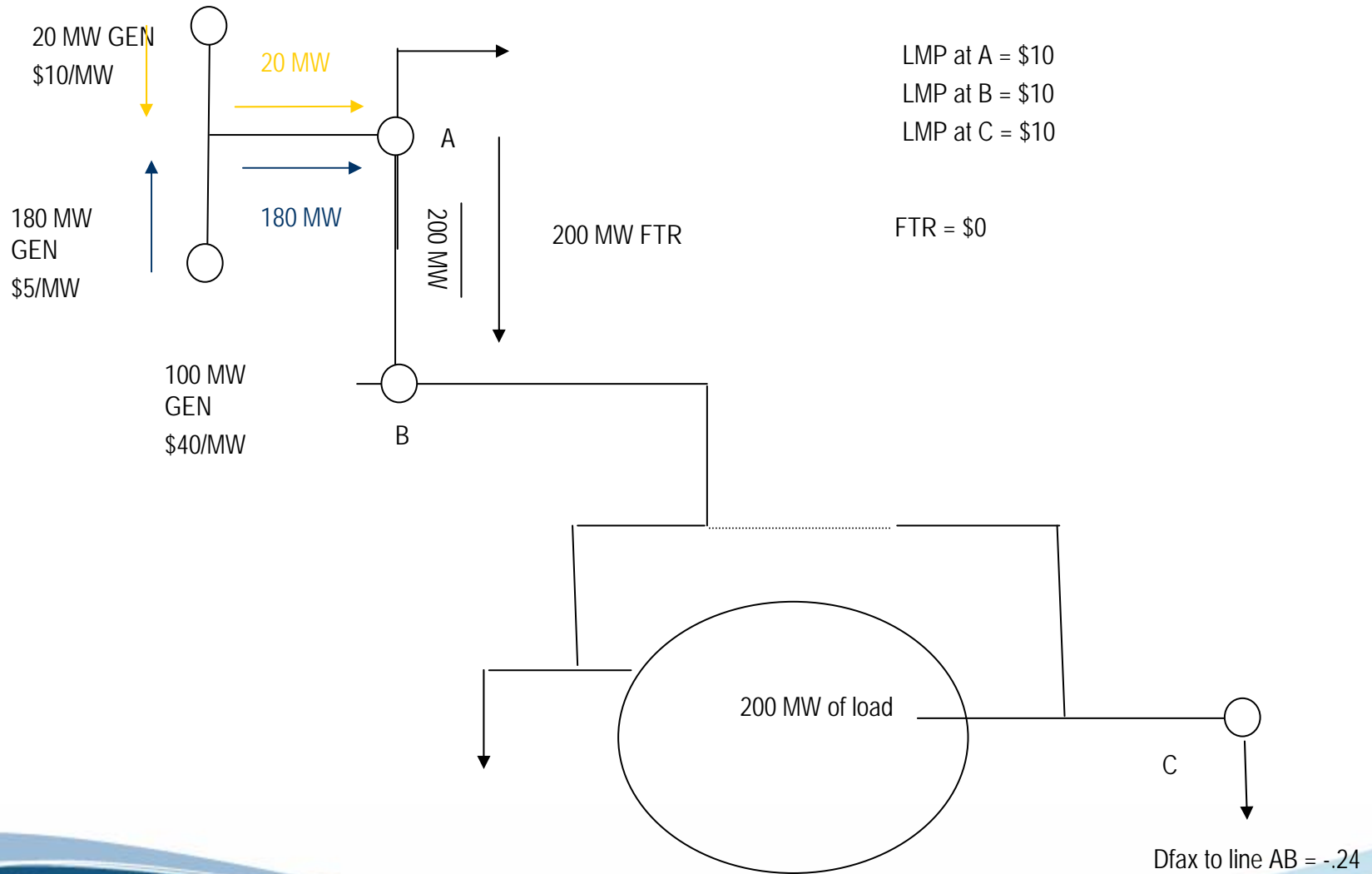


Spread Bidding in the Day Ahead Energy Market

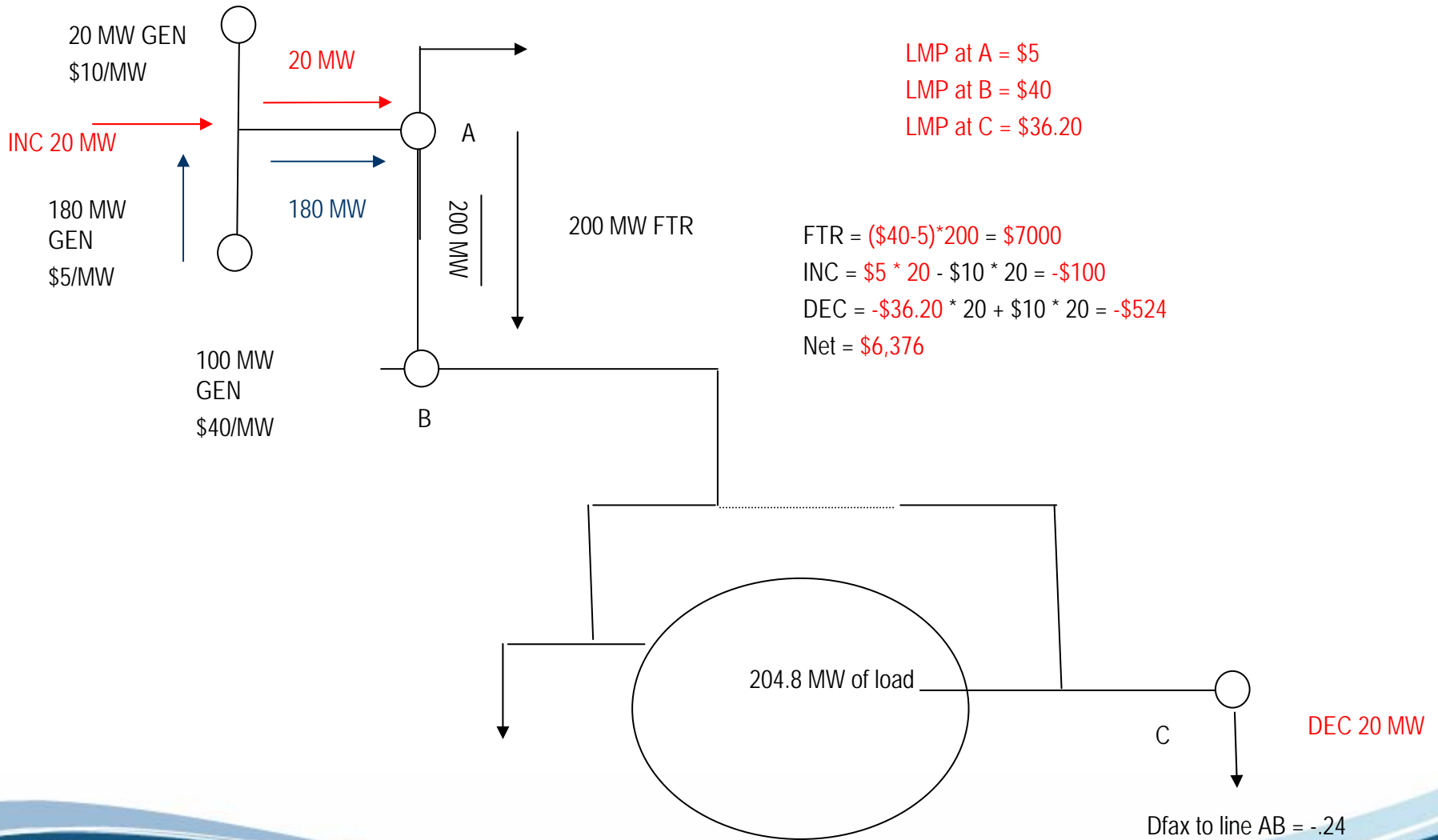
MIC Meeting
November 10, 2005

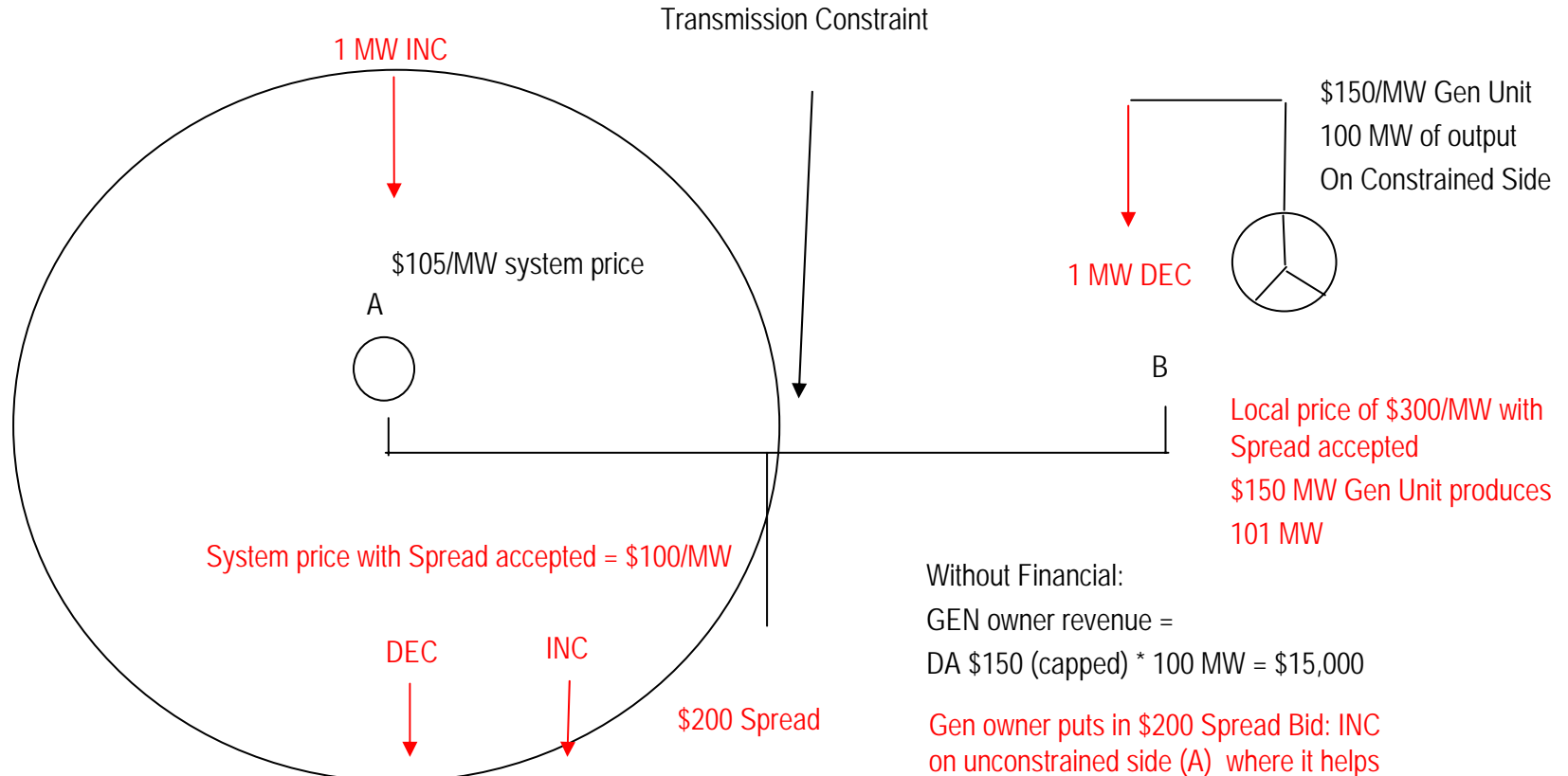
Howard J. Haas
Market Monitoring Unit

- PJM is opposed to the implementation of Spread Bids
 - Facilitates market power by forcing price spreads and creating artificial congestion DA
 - Facilitates circumvention of offer cap rules
 - Shifts risk in the form of higher prices and congestion costs DA
 - Facilitates manipulation of the FTR market



Using Spread Bids to Manipulate FTR Payouts





DA: $\$300 \times 101 \text{ MW} - \$300 \times 1 \text{ MW} + \$100 \times 1 \text{ MW}$
 RT: $+\$150 \times 1 \text{ MW} - \$105 \times 1 \text{ MW}$
 NET: $\$300 \times 101 \text{ MW} - \$150 \times 1 \text{ MW} - \$5 \times 1 \text{ MW} = \$30,455$

Without Financial:
 GEN owner revenue =
 DA $\$150$ (capped) * 100 MW = \$15,000

Gen owner puts in \$200 Spread Bid: INC on unconstrained side (A) where it helps lower overall system cost and DEC where local generation can meet change (B). For system to take the INC help, must accommodate \$200 Spread Bid.