



Up-to Congestion/Spread Bidding in the Day Ahead Energy Market

MIC Meeting
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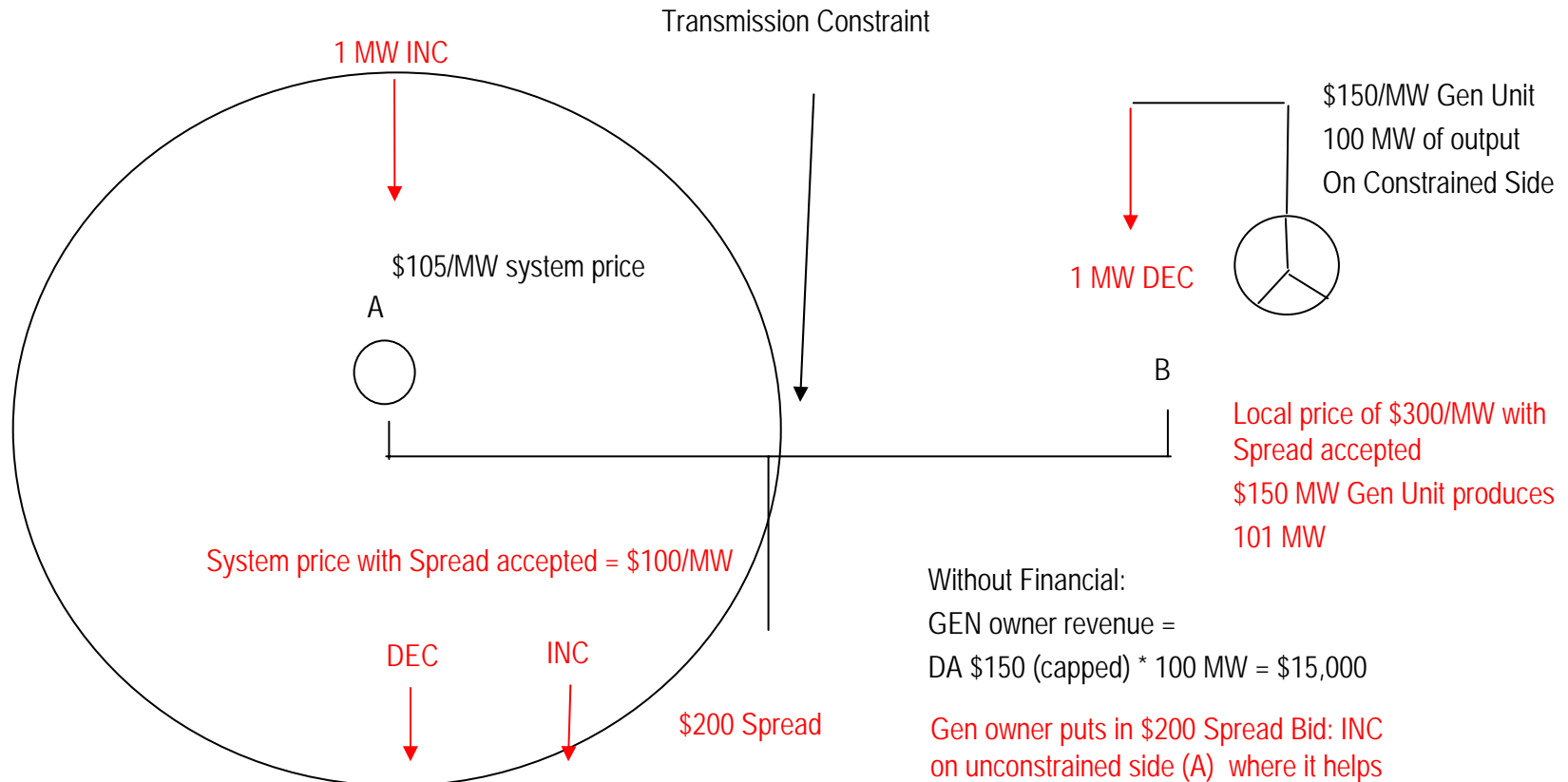
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- Spread bids have been proposed as a substitute for the up-to congestion product
 - Up-to congestion product now limited to \$50
 - Limited number of points
 - No operating reserves
- Spread bid proposals
 - +/- \$2000
 - All points
 - No operating reserves

- Spread bid proposals
 - +/- \$2000 (like INC/DEC?)
 - All points (like INC/DEC)
 - No operating reserves (like up-to congestion)

- Purpose of up-to congestion?
- Purpose of Spread Bids?
- Can INCs/DECs provide the same function?

- MMU 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



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.

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: $300 \times 101 \text{ MW} - 150 \times 1 \text{ MW} - 5 \times 1 \text{ MW} = \$30,455$

- Argument was made that this ability exists with INC/DEC (market power abuse potential), so it should not be an obstacle to Spread Bidding.
- Premise: INC/DEC = Spread Bid
- If true why have Spread Bids?
- Short answer: Premise is Incorrect
 - Uncertainty about load DA vs. RT--hourly
 - Uncertainty about LMP DA vs. RT—hourly
 - Uncertainty about participant behavior

- Example was provided:
 - Market power abuse is possible via the use of virtuals.
 - Declares that virtual bids will arbitrage market power away.
 - Therefore, market power abuse is not an issue with INCs/DECs
 - Declares the same would be true of spread bids

- Response: Cannot rely on market participants to correct for market power abuse
 - PJM markets rely on market rules to mitigate market power
 - Uncertainty about load DA vs. RT--hourly
 - Uncertainty about LMP DA vs. RT—hourly
 - Uncertainty about participant behavior
 - At best one day lag between action and reaction
 - No incentive to fully arbitrage

- If there is to be a spread bid product, it should be modeled as a substitute for the “original” up-to congestion product that operates as an INC and DEC set
 - Limited to +/- \$50
 - Limited number of points (interfaces)
 - Must pay operating reserves as both an INC and a DEC
 - FTR forfeiture rule needs to be modified to address concerns prior to implementation
 - Offer cap rule concerns need to be addressed before further modifications of the spread product