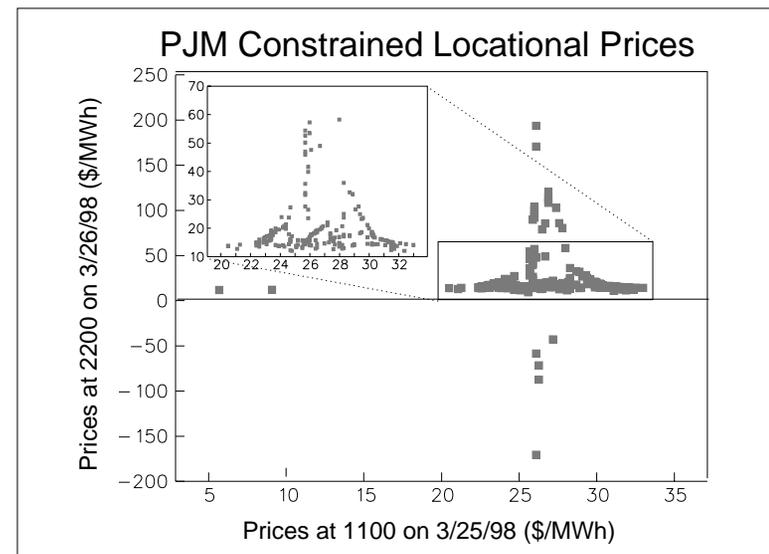
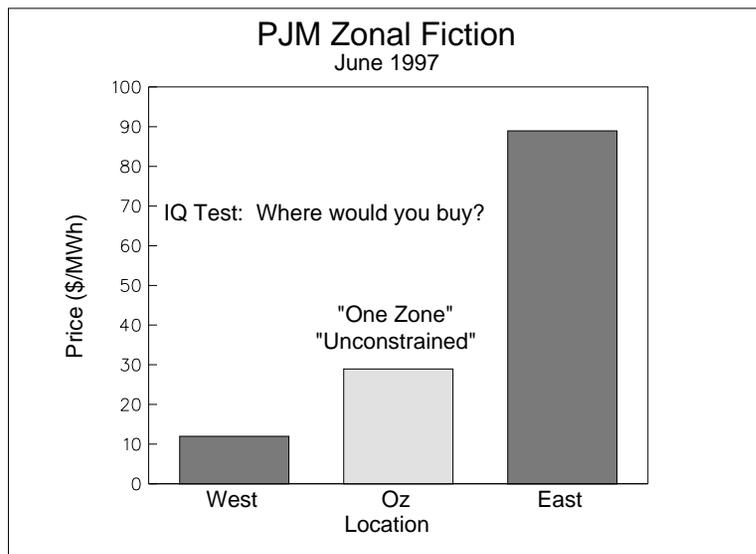


## ELECTRICITY MARKET: "Getting the Prices Right"

Cursory treatment of the connection between prices and operating decisions should be among the major casualties of the electricity restructuring process. If customers have flexibility in the choice of generation, spot purchases, bilateral transactions, and so on--then prices matter and prices should reflect marginal cost impacts. In large part, control of operating decisions is moving from engineers motivated by principles of efficiency, to market participants motivated by profit. This is a major purpose of electricity restructuring--to change the locus of these key decisions. If we want the market to be guided by prices, and we expect and intend for people to take these prices seriously, it becomes important to follow the usual advice of economists to "get the prices right."

**Before: Constraints in PJM produced high costs and market restrictions.**

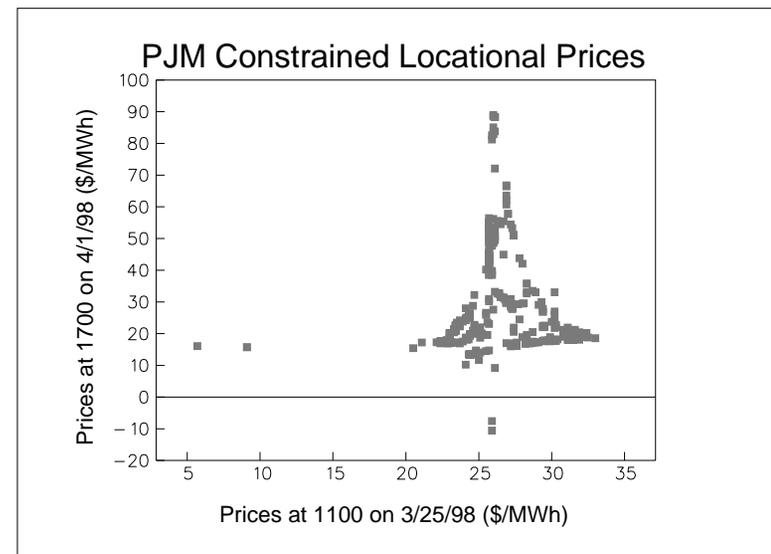
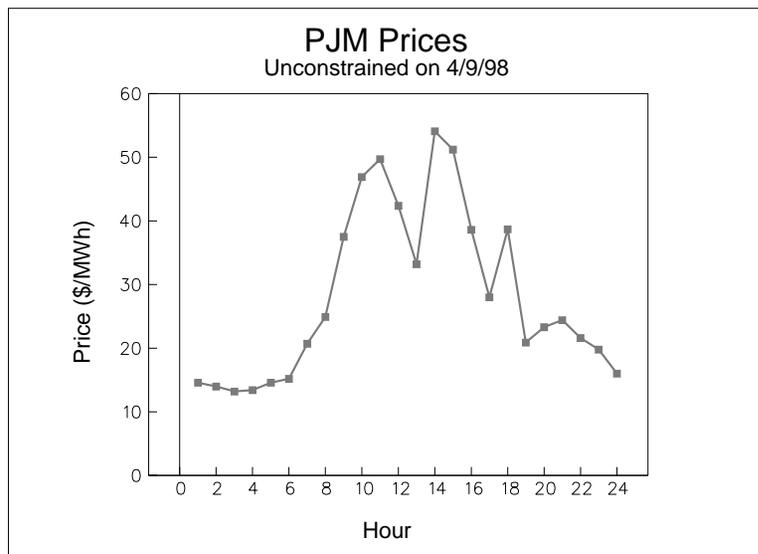


**"There is no free lunch."**

## SEEING THE FUTURE IN PJM

- Open access with non-discriminatory pricing.
- Transmission fixed cost recovered primarily through system-wide (but not necessarily uniform) network service charges.
- The ISO administers both a spot market and bilateral schedules, while maintaining reliability under principles of bid-based, economic, security-constrained dispatch.
- Transmission congestion charges are determined by locational prices from the bid-based spot market.
- Fixed transmission rights (i.e., transmission congestion contracts) are available for congestion costs between locations.
- Future developments to include multi-settlement systems for forward markets, FTR auctions and coordinated FTR trading.

**After: Prices reflect reality and market participants respond.**



**"We have seen the future and it is PJM."** (And New York, New Zealand, Norway, California, ...)