

Principle Considerations Related to a Conversion Convention for an Into ComEd Product

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**PRINCIPLE CONSIDERATIONS RELATED TO A CONVERSION
CONVENTION FOR AN INTO COMED PRODUCT**

The Federal Energy Regulatory Commission (FERC) in Electricity Market Design and Structure; Docket No. RM01-12-000; 97 FERC ¶ 61, 146; issued an “Order Providing Guidance On Continued Processing Of RTO Filings” (Issued November 7, 2001) providing that FERC has “endeavored for several years to create regional transmission organizations (RTOs) to capture the benefits and efficiencies of a competitive power marketplace for the nation's electricity customers.” As part of this transition to an RTO, PJM Interconnection, LLC (“PJM”) an existing RTO and Commonwealth Edison Company (“ComEd”) have agreed to expand PJM to encompass the ComEd control area, such that ComEd will transfer operational control of the ComEd control area to PJM. The precise start-up date for such expanded PJM RTO is uncertain and the resulting governing rules and regulations are uncertain. Nonetheless, the below signatories desire to bring about some common understanding as to guiding principles that will assist in the interpretation of existing Products. Specifically, with the expansion of PJM, many market participants that have transactions for an “Into ComEd, Seller’s Daily Choice” product (“Into Product”) as defined in the EEI/NEMA Power Purchase And Sale Master Agreement, version 2.1 (modified 4/25/00) (“Master Agreement”) and that have transactions under other agreements that reference an “Into ComEd” delivery obligation, have met to discuss the effect of the PJM’s expansion on rights, duties and commercial risks of these transactions following the effective date of such expansion. As a result of these discussions, certain general principles have been conceptually advanced to ensure a smooth transition into PJM and promote continued liquidity of the ComEd trading hub (which will be redefined as “NIHUB”).

In addressing the transition to the regional transmission markets, the following “Guiding Principles” are recommended to assist all market participants:

1. The formation of RTOs does not affect the legality, enforceability or binding nature of the existing Into Product transaction.
2. The formation of RTOs affects the transmission-related obligations of the parties.
3. The rights, responsibilities and risk allocation as between Buyers and Sellers of the Into Product should be maintained to the extent feasible within the RTO structure.
4. The interpretation of the existing product under the RTO should result in the same market function as the existing product in such a manner as to maintain and promote liquidity, fungibility, simplicity and an unambiguous trading location.

ELEMENTS OF A CONVERSION CONVENTION FOR AN INTO COMED PRODUCT

Definitions

The Northern Illinois Hub (“NIHUB”) means the aggregated Locational Marginal Price (“LMP”) nodes defined by PJM Interconnection, LLC, its successors or assigns, (“PJM”) as the Northern Illinois Hub which consist of specific load, interface, and generation nodes as presently set forth at <http://www.pjm.com/documents/downloads/growth/comed-hub-def.csv> and to be permanently set forth, upon Commonwealth Edison Company’s (ComEd’s) integration at <http://www.pjm.com/markets/energy-market/downloads/lmp-aggregate-definitions.xls>.

“Transition Period” shall mean, with respect to all “Into ComEd” Transactions, the period beginning on the date that operational control of the ComEd control area is transferred to the PJM and PJM begins to operate an LMP market (“Transition Effective Date”) and concluding at the end of the respective Delivery Periods of such Transactions.

“PJM Transition Product” means the former “Into ComEd” Product which Seller has agreed to sell and Buyer has agreed to purchase, and which Product shall be reformed as set forth herein during the Transition Period.

“PJM Rules” means the Open Access Transmission Tariff of PJM as maintained on file with the Federal Energy Regulatory Commission as the same may be amended or supplemented from time to time, the Operating Agreement of PJM Interconnection, L.L.C. Third Revised Rate Schedule No. 24, effective August 25, 2003, as it may be amended from time to time (or any document replacing it as to the relevant provisions), and the other PJM rules and regulations in effect from time to time.

“Into ComEd, Seller’s Daily Choice” means for such Transactions under the Master Agreement that, in accordance with the provisions set forth below, as of the Transition Effective Date, the parties to such Transactions shall perform in accordance with the following terms:

- (1) Seller and Buyer agree to modify the Delivery Point for “Into ComEd, Seller’s Daily Choice” Transactions between the Parties from “Into ComEd, Seller’s Daily Choice” to a fixed Delivery Point within the ComEd System (the “Fixed Delivery Point”) agreed to by Buyer and Seller, such as NIHUB .
- (2) Seller and Buyer may agree to a conversion price (the “Conversion Price”) in consideration for the agreement of Seller to deliver and Buyer to receive the Quantity at the Fixed Delivery Point.
- (3) Title to the agreed upon Quantity shall pass from Seller to Buyer at the Fixed Delivery Point.

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- (4) Buyer's obligation to receive and pay for the Contract Quantity is fulfilled by providing to Seller the Contract Price and the Conversion Price payable by Buyer, if any, and taking title at Fixed Delivery Point for the agreed upon Delivery Period. Seller shall bear all costs, congestion, and transmission losses to the Fixed Delivery Point and pay the Conversion Price, if any. Seller's performance is complete and title is transferred to Buyer when this PJM Transition Product is delivered to the Fixed Delivery Point.
- (5) Buyer assumes all risks associated with the transmission away from the Fixed Delivery Point and Seller makes no representation that the energy purchased can be moved from the Fixed Delivery Point and Seller has no liability if Buyer is unable to move the energy from the Fixed Delivery Point for any reason. Buyer shall bear all costs, congestion, and transmission losses from the Fixed Delivery Point to Buyer's ultimate sink, or any subsequent Delivery Point.

**COMPARISON OF FORMER INTO COMED PRODUCT
AND PJM TRANSITION PRODUCT**

The following table contains a comparison of the obligations, rights, and Transaction curtailment risks associated with an existing “Into ComEd” Product before the Transition Effective Date with the corresponding obligations, rights, and Transaction curtailment risks under the consensus Conversion Convention for the PJM Transition Product as of the Transition Effective Date:

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer
Delivery Obligation	To Designated Interface (DI) or from Control Area Generation	Receive at DI or Control Area Generation Bus bar	Deliver to Fixed Delivery Point	Receive at Fixed Delivery Point
Capacity	None – unless Transaction provides otherwise.	None – unless Transaction provides otherwise.	None – unless existing Transaction provides otherwise.	None – unless existing Transaction provides otherwise.
Scheduling	Day ahead by 11 AM CPT	None	PJM requirements	PJM requirements
Generation Source	Seller’s choice from anywhere to or within Commonwealth Edison Control area	No choice as to source of supply	No change, but delivery point is the Fixed Delivery Point	No change, but receipt point is the Fixed Delivery Point

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer
Purchase of Transmission	Seller buys transmission from Source to DI; No transmission if use Commonwealth Edison generation source	Buyer buys transmission from DI to ultimate sink or from Commonwealth Edison generation source to ultimate sink	Seller buys transmission and pays related congestion costs from Generation Source (GS) to the Fixed Delivery Point. . No transmission if Fixed Delivery Point buy.	Buyer buys transmission and pays related congestion costs from the Fixed Delivery Point (a) to ultimate sink if ultimate sink other than the Fixed Delivery Point (i.e., Buyer takes transmission, losses and congestion risks on the away wheel.)
Use of Firm Transmission	Optional to Seller; If Seller's firm transmission curtailed from GS to Commonwealth Edison, Seller re-supplies to Alternative Designated Interface (ADI) & each of Seller and Buyer pays for its transmission	Must be available to Buyer. If Buyer's firm transmission curtailed within Commonwealth Edison, Buyer receives at ADI & each of Buyer and Seller pays for its transmission.	Optional to Seller. Whether or not curtailed Seller must deliver to the Fixed Delivery Point.	Need not be available to Buyer. Buyer pays for its transmission, losses and congestion from the Fixed Delivery Point. Buyer's Transmission out of the Fixed Delivery Point is at Buyer's option and risk.

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer Rationale
Use of Non-firm Transmission	Seller option. If transmission curtailed, Seller re-supplies to ADI and pays its and Buyer's transmission.	Seller can require Buyer to take non-firm @ Seller's risk. Buyer can elect non-firm @ Buyer's risk and in such case Seller has no re-supply obligation if transmission curtailed.	Optional to Seller. Whether or not curtailed, Seller must deliver to the Fixed Delivery Point.	Need not be available to Buyer. Buyer pays for its transmission, losses, and congestion from the Fixed Delivery Point. Buyer's Transmission from the Fixed Delivery Point is at Buyer's option and risk.
Transmission – Hourly Firm or Non Firm to/from Designated Interface or Alternate Designated Interface if day ahead firm transmission schedule sinking in ComEd is curtailed	Seller may require Buyer to buy hourly transmission	If both Seller and Buyer bought firm transmission, then each pays for its own replacement transmission.]	Optional to Seller. Whether or not curtailed, Seller must deliver to the Fixed Delivery Point.	Need not be available to Buyer. Buyer pays for its transmission, losses, and congestion from the Fixed Delivery Point. Buyer's Transmission from the Fixed Delivery Point is at Buyer's option and risk.

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer Rationale
Non-delivery to DI due to loss of Generation Source.	Move to ADI or control area generation. Seller pays for its and Buyer's transmission.	Receive at ADI or control area generation.	Not Applicable – Seller obligated to deliver to the Fixed Delivery Point.	Not applicable, Buyer obligated to receive at the Fixed Delivery Point.
Seller & Buyer Firm Transmission Curtailed To or within Commonwealth Edison	Seller re-supplies to ADI & pays for its transmission	Buyer receives at ADI & pays for its transmission	Not applicable – Seller obligated to deliver to the Fixed Delivery Point.	Not Applicable, Buyer obligated to receive at the Fixed Delivery Point.

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer
Buyer elected non-firm transmission which was curtailed	Seller deemed to have met its delivery obligations and not obligated to re-supply	Buyer assumes risk of transmission curtailment & pays LDs	Not Applicable – Seller obligated to deliver to the Fixed Delivery Point.	Not Applicable, Buyer obligated to receive at the Fixed Delivery Point
Seller elected non-firm transmission to Commonwealth Edison, which is curtailed	Seller re-supplies to ADI & pays for all transmission	Buyer arranges transmission from ADI at Seller's expense	Not applicable – Seller obligated to deliver to the Fixed Delivery Point.	Not applicable, Buyer obligated to receive at the Fixed Delivery Point.
Transmission out of Commonwealth Edison curtailed	Seller deemed to have met its delivery obligation; no obligation to re-supply	Buyer deemed to have failed to receive; liable for LDs	Seller deemed to have met its delivery obligation.	Not applicable - Buyer pays Contract Price.

Comparison of Former Into ComEd Product and PJM Transition Product				
Former Into ComEd Product Obligations, Rights and Transaction Curtailment Risk Allocation			PJM Transition Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer
Force Majeure	Seller excused only if "prevented," i.e., only if no ADI & no control area generation.	Buyer excused only if no transmission from ADI or bus bar in control area.	No physical Force Majeure. A Financial force Majeure (i.e. "market disruption event") as per addenda to Master Agreement, if any.	
Ancillary Services	Seller supplies to ADI or at control area bus bar	Buyer supplies from ADI or from bus bar to ultimate sink	As provided in existing transaction, otherwise as per PJM Rules, if any.	As provided in existing transaction, otherwise as per PJM Rules, if any. .
Supply of Transmission Energy Losses	Seller supplies to ADI or at control area bus bar	Buyer supplies from ADI or from bus bar to ultimate sink	As provided in existing transaction, otherwise as per PJM Market Rules, if any.	As provided in existing transaction, otherwise as per PJM Market Rules, if any.