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Subject: JCM Meeting Comments

In addition to the We Energies presentation made at the JCM meeting, We Energies appreciates the opportunity to provide additional high level comments to the PJM/MISO Joint and Common Market Initiative meeting held on June 16, 2012. Our comments will address the four main issue areas defined by MISO and PJM: Market Operations, Transmission Planning, Resource Adequacy, and Broader Regional Markets.

Market Operations

We Energies supports initiatives to encourage increased economic exchanges of power at the seams. These initiatives could be categorized into three categories: short term, medium term, and long term.

In the short term, MISO and PJM should concentrate on aligning scheduling rules, reducing financial hurdle rates, and maximizing ramping capability between the two RTOs. The RTOs should also concentrate on coordinating the two DA markets. Since the DA markets, have no interplay besides the Firm Flow Entitlements (FFE) calculation, the FFE calculation should be revisited such that it more closely reflects the flows and commitments expected in the RT markets.

In the medium term, MISO and PJM should create instruments and procedures that facilitate the transfer of economic power and result in more optimal commitments between the RTOs (e.g., interchange optimization).

Ultimately, in the long term, MISO and PJM need to have a common commitment and dispatch algorithm. In order to comply with the spirit of the FERC order, the two RTOs must operate the system under a single model. This can be accomplished through incremental steps. The first step should be the common modeling of the DA market. The DA market has a much greater priority than the RT market. Most of the money and hedging capability is in the DA market. Also, the single modeling of the DA market is a much less complex task than the single modeling of the RT market.

Transmission Planning

The main obstacle to transmission planning is cost allocation. This can be addressed in one of two ways. First, there could be a cost sharing algorithm created that assigns cost based on flows not boundaries. The second way is to charge a transmission usage fee for loop flows on a facility. There is also merit for using a combination of these approaches.

Supply Adequacy

With regards to capacity portability, we are supportive of MISO's position that a "Network Service" approach for determination of deliverability to the combined MISO/PJM. We Energies also believes that the methodology should recognize the constraints relative to sub zones inside the RTOs when determining "deliverability" of a resource. We Energies believes that such an approach will more accurately reflect how energy is currently moved between the two RTOs in the Real-Time market during capacity constrained periods.

It is also We Energies' understanding that current NERC reliability rules essentially allow for the transfer of energy from "capacity" resources from one RTO to the other during EEA-3 events. In essence, all available capacity resources (including demand response) from one RTO needs to be made available to the other RTO (to the extent the current transmission topology will allow for such energy transfers) in order to prevent or minimize firm load curtailments. As such, which market the "capacity" is sold into only really impacts firm load curtailment requirements in the event that both RTOs issue EEA-3 (or possibly EEA-2) events concurrently. Recognizing this situation in the design could simplify the "must offer" requirements of the RTOs (e.g. as long as the resource is offered into one of the two RTOs, which RTO claims the "capacity" only matters in very limited circumstances).

We do have a concern that the combined system is dispatched separately and thus may not be able to be operated as a network. Although we believe that the Market-to-Market (M2M) process and emergency operations do assist in simulating a single dispatch, in order to optimally commit and dispatch the two markets to ensure deliverability of capacity, a joint commitment and dispatch of the two RTOs may be necessary.

Broader Regional Markets

PJM and MISO represent a significant portion of the Eastern Interconnect. Transfer and transparency of data is essential to understand the grid impacts of operations of the two RTOs. Also, the use of flow control equipment (PAR, HVDC, etc.) must be carefully monitored to understand their effect on internal and external flows.