

From: Steve Leovy [mailto:sleovy@wppienergy.org]
Sent: Friday, December 14, 2012 7:13 PM
To: Dhiman Chatterjee; Bresler, Frederick S. (Stu) III
Subject: WPPI Energy's comments on Improvements to MISO-PJM Interchange

Dhiman & Stu-

This is to provide WPPI Energy's comments in response to your presentation on alignment of intra-hour scheduling rules:

1. Alignment of scheduling rules is a reasonable goal to pursue. WPPI does not take a position on which, if either, of the existing sets of scheduling rules would be the most appropriate model for a common set of rules.
2. We are concerned, however, that the RTOs and stakeholders may see improvements in scheduling rules as a reasonable route towards interchange optimization. We believe this is wrong-headed for the following reasons:
 - a. Interchange transactions are currently priced at the RTOs' interface node prices, but these prices are not calculated on a common basis, and indeed are at least somewhat arbitrary. There is no reason to expect that optimal interchange will result from frictionless market response if the prices are not correct, and they are not correct at present.
 - b. Just as the two RTOs can most efficiently determine dispatch within their respective footprints via centralized solution of the Optimal Dispatch Problem, and can most efficiently relieve transmission constraints via centralized implementation of the Market-to-Market process, and neither RTO would deem Market Participant response to expected future LMPs as a suitable alternative, it is plain that reliance on arbitrage by third parties scheduling interchange transactions is a sub-optimal way to optimize interchange between the two RTOs – even if the interface prices were right.
3. Accordingly, we believe any serious attempt to achieve a long-term interchange-optimization solution must focus on centralized dispatch optimization by the two RTOs in coordination, and must be accompanied by consistent and correct interface pricing on both systems. Scheduling alignment and more frequent pricing and settlement cannot achieve appropriate interchange optimization.

Please let me know should you have questions or want to discuss further.

Best,

Steve Leovy
WPPI Energy
sleovy@wppienergy.org
(303) 442-2871