

January 12, 2004

IIPTF Participants,

The submittals provided by Mr. Al DiCaprio for consideration at the next IIPTF meeting deserve a response. That response is contained in two documents. The first of those documents is this letter. The second is a technical paper titled "Recent Inadvertent Interchange Energy Pricing Alternatives", by Howard F. Illian, dated January 12, 2004.

I am fully willing to consider any new suggestions, on the stipulation that they contribute to this difficult process and help the task force move in a positive direction. Unfortunately, this submittal is inferior to many alternatives that we have already considered and evaluated, and is significantly inferior to the two alternatives that we have set aside for in depth investigation. This statement is supported by technical paper referenced above.

In addition, this example is based on an interpretation of the settlement problem that is also suspect. The cover letter states that the WECC rep preferred to use only 16 control areas. As it turns out the 16 control areas are those in the NWPP Region of the WECC. The total Western Interconnection contains 32 control areas. Therefore, any example settlement of only the 16 control areas would not give a valid representation of "interconnection settlement". The seventeenth control area used in the Frequency Control Contribution Settlement Example presented at the December meeting was created as a single equivalent control area to represent the other 16 control areas on the Western Interconnection. This is the only valid way to investigate "interconnection settlement" without having the data from all of the control areas on that interconnection. This simplification is appropriate because when accounted for correctly, the sum of the inadvertent interchanges for an interconnection must add to zero for each hour. The WECC goes to considerable effort to confirm that inadvertent interchange balances on the Western Interconnection. There is no need to allocate the payments to those who helped correct frequency, because on an interconnection, the payments would automatically balance.

The example uses the prices from a single control area on the interconnection. This only allows for an understanding of general level and direction of the suggested settlement. In order to understand the incentives that these prices provide for each control area, all control area prices for the interconnection must be available to perform an honest investigation of how the settlement prices compare to the internal control area production costs or estimated prices. Therefore, the example contained in this part of the analysis is deficient.

I recommend that we be more discriminating with respect to new ideas, but still make our best efforts to maintain an open and inclusive process.

Howard F. Illian