Subj:	**A philosophical basis for marginal/spot pricing of the energy component of inadvertent interchange**
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[For June 18th Inadvertent Interchange Payback Taskforce conference call.]

I don't adhere to the central dogma of some academic economists that marginal or spot price is more legitimate than temporal-average price or forward price. I consider the reverse to be the case. Since behavior is mainly anticipatory, and not merely reactive, the last-minute transactions priced at spot are a small subset of all transactions, most of which are priced forward.

Only, "inadvertent" interchange is by definition unanticipated. "Forward" prices for inadvertent energy can exist only in the form of the "exercise" price of an option contract for that energy, and such an option contract constitutes reserve capacity--which is the anticipatory hedge against pricing of inadvertent interchange. [The exercise price is a hedge against the energy component of the inadvertent's price, and the option price is a hedge against the frequency-contribution component of the inadvertent's price.] Outside of such option contracts, there can/should be no such thing as a specific "anticipated" inadvertent transaction whose energy is priced at some specific forward price. In that case, and only in the case of inadvertent "energy", does it appear that the marginal/spot price would always be the correct price for energy.