



North American Energy Standards Board

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Home Page: www.naesb.org

TO: NAESB Wholesale Electric Quadrant, Posting for Interested Industry Participants

FROM: Todd Oncken, Deputy Director

RE: NAESB WEQ Inadvertent Interchange Payback Task Force Final Minutes – January 22-23, 2004

DATE: January 29, 2004

**Wholesale Electric Quadrant
Inadvertent Interchange Payback Task Force
January 22-23, 2004; Dallas, TX
Final Minutes**

1. Welcome

Mr. Terelmes opened the meeting. Mr. Oncken gave the antitrust advice. Participants introduced themselves. Mr. Terelmes reviewed the agenda and the agenda was adopted by consent. Mr. Terelmes reviewed the motions previously adopted by the IIPTF, as well as the motions that were currently tabled.

Mr. Terelmes reviewed his notes on high level issues contained in the NERC JIITF whitepaper. Mr. Terelmes recognized that the JIITF whitepaper should be viewed as a resource that could be useful for direction and reference. Mr. Terelmes suggested the proposal to link the energy and frequency components of Inadvertent Interchange runs counter to the whitepaper. Mr. Terelmes referenced several sections of the document that support this assertion. Mr. Illian noted that a limiting factor of separating all of the components of Inadvertent Interchange was that in some markets the transmission and energy prices are bundled.

Mr. Terelmes reviewed a discussion held with Raymond Vice, chair of NERC's Balance Resource and Demand standards drafting team, at a recent NAESB Standards Review Subcommittee (SRS) meeting. Mr. Terelmes said Mr. Vice explained that the BRD drafting team is looking at a frequency standard composed of three (currently undetermined) frequency bandwidths – trigger, frequency abnormal, and relay – that correlate to the system's instability. Mr. Terelmes recounted that Mr. Vice was very clear that the NERC BRD drafting team did not want a violation of their frequency standard to result in a business practice or economic issue, because frequency should remain a reliability issue. Mr. Blohm commented that the bandwidth benchmarks listed above were for Reliability Authority (RA) intervention in extreme cases.

2. Al DiCaprio presentation

Mr. DiCaprio's presentation was a followup to his comments during the December IIPTF meeting. Mr. DiCaprio stated his presentation was based on the available data from the WECC, but encouraged participants to focus on the concept – not the data. Mr. DiCaprio stated that the data demonstrates the concept of paying for Inadvertent Interchange at the highest available price with some bandwidth where financial or physical settlement would not occur. Mr. DiCaprio asserted this proposal adequately maintains the separation of business and reliability (frequency) issues. Additionally, Mr. DiCaprio suggested this method was much less complicated than other options considered and would create a natural bias regardless of congestion. Under Mr. DiCaprio's proposal, settlement would equal (schedule – actual) * price. Mr. DiCaprio encouraged the IIPTF to work with the Coordinate Interchange Business Practices



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task force to better understand the meaning and parameters of a schedule, noting the obvious impacts of that understanding on the definition of Inadvertent Interchange.

Mr. DiCaprio noted that there were data integrity issues, even though it has already been established that the settlement mechanism would value the data provided by NERC, because the numbers never settle to zero. He stated that reducing variations to financial settlement will only enhance the need for reconciled data. He went on to identify a critical issue that the task force has been struggling with for some time – should all Inadvertent Interchange be settled, or should only flows outside of an acceptable range be settled.

Participants offered comments on Mr. DiCaprio's proposal. Mr. Terelmes said a deadband where a frequency adder is not charged would result in a price that is equal to the market cost and will not provide incentives. Mr. Blohm suggested that selecting the highest price on the interconnection would override the transmission component as reflected in the price differences and congestion. Mr. Blohm expressed concern about instances of extreme pricing. Mr. Illian stated this method would be a single-price market alternative and questioned whether the proposal helped move the group forward. Further, Mr. Illian said participants think a deadband could simplify the problem, but simpler is not defined. He noted that under this scenario there would be two settlements – one inside and one outside the deadband and asserted two settlements was more complex than one settlement. Mr. Power commented that a mechanism that would allow for a small variance without penalty was essential, in part because of the time required for an operator to react. Mr. Power suggested that a deadband could help alleviate data integrity concerns and the potential need for metering standards. Mr. Goins noted that settling everything, without a deadband, would produce a situation where every hour, every day would have to be settled, and that would be a huge burden. Mr. Henry expressed concern that a deadband for market optimization was being considered. Further, he cautioned that rules that would encourage people to crowd the system or jeopardize reliability would be unacceptable. He went on to state that deadbands have worked and provided a simpler solution in many instances.

Mr. DiCaprio responded to the discussion of his presentation. He clarified the bandwidth contained within his presentation was a no-payment (physical or financial) zone. Additionally, he suggested inside the bandwidth would be a non-accumulation zone. Mr. DiCaprio said cost disclosure should not be an issue, because there is only one highest number, and that would be something determined after the fact. Additionally, he noted the price would be disclosed to the Control Areas (since they are the parties with Inadvertent Interchange) and they are covered by confidentiality agreements anyway. It was suggested that excessive over generation would be kept in check by lack of knowledge of frequency.

Mr. Terelmes suggested that clearly defined terms would help to move the task force forward. It was noted that deadband is a common term in the industry, but there were different interpretations of its meaning. To reach commonality, it was agreed to discuss bandwidths where different kinds of settlement could occur. It was noted that a bandwidth was not necessarily balanced or equal around center. After extensive debate, the following definition was offered: Mr. DiCaprio moved, seconded by Mr. Power, to define 'Frequency Bandwidth' as follows – a range of deviation around the interconnection scheduled frequency. Mr. Cox provided the following friendly amendment to the motion, which was adopted by Mr. DiCaprio and Mr. Power: define 'Frequency Bandwidth' as follows – a range of deviation around **60 Hz or** the interconnection scheduled frequency. During discussion of the motion, Mr. Terelmes clarified that this definition did not conflict with NERC definitions, but would serve as a



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method for the task force to move forward from an economic perspective. The amended motion passed with Mr. Henry opposed.

3. Tony Reed Presentation

Mr. Reed stated that his proposal includes a bandwidth and a single price model. He cautioned that the exact amounts of the adder and bandwidth were not a proposal, but instead were offered for discussion purposes only. Mr. Reed noted that several issues remain unresolved. Mr. Reed stated that all Inadvertent Interchange costs someone money to provide, therefore some compensation for all Inadvertent Interchange is needed. Mr. Reed explained that under his proposal, a premium or discount would be included in the settlement against the highest or lowest price for the inappropriate actor for actions outside the bandwidth. The settlement would be done for MW based on Hz. It was noted the issue of regional pricing is not addressed in this presentation, but his thought was that regional pricing might be more appropriate. Mr. Reed noted that he does not support settling every deviation financially.

Participants commented on Mr. Reed's proposal. Mr. Terelmes stated the following concerns with this approach. First, he said breaking down the prices could create a seam and lack of balance. Second, he said that if the band was too wide there could be a situation where people could game the system. It was also noted that there should be better definition of the proposed adder. Mr. Blohm stated that the issue of accumulation was very important. Mr. Illian commented that a single price model tends to bypass the transmission congestion issue. However, he did support further investigation of the regional location price idea. Additionally, Mr. Illian suggested that the task force investigate: 1) whether energy price is the correct component to use against the adder; and 2) the correlation between the price and frequency.

Mr. DiCaprio noted the parallels between this method and his proposal. Mr. DiCaprio said this was a pragmatic approach that focuses on Inadvertent Interchange, not frequency. Further, he favored the regional approach for determining the highest price, noting that it would likely be more accepted by the industry.

Participants discussed the bandwidth concepts further. Mr. Terelmes noted it was becoming evident that bandwidth and Inadvertent accumulation are linked, since a bandwidth would result in some accumulation. Participants did not feel accumulation was within the scope of the task force. Since there will likely be accumulation, Mr. Illian questioned whether the settlement method should have a rule associated with timing of payback. Mr. DiCaprio noted that settling Inadvertent does not address time error accumulations, even though they are related to Inadvertent.

Mr. Illian moved, seconded by Mr. DiCaprio that the task force commit to having a bandwidth that requires financial settlement outside and no settlement, physical settlement or financial settlement within the bandwidth and work towards a resolution of the internal settlement. Mr. Illian suggested this motion would lay the foundation for future discussions. Mr. Terelmes noted the effect of this motion was that settlement outside the bandwidth was financial and not payback in kind. Mr. Illian and Mr. DiCaprio amended the motion to read as follows: Settlement outside a frequency bandwidth would be financial.

Participants discussed whether the financial settlement would be for energy and/or frequency. It was noted that the motion leaves that issue not determined. After discussion on the motion, the motion passed with 5 in favor, 2 opposed (Mr. DiCaprio and Mr. Henry) and the rest abstaining.



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Mr. Power moved, seconded by Mr. Henry, that the financial settlement outside a bandwidth would be limited to inadvertent energy and not include a frequency control component. During discussion, Mr. Blohm asked whether the motion would mean that settlement would not address frequency, or it would rule out frequency. Mr. Power replied the motion would mean that settlement would not include a frequency control component. Mr. Cox noted the motion implied that frequency could be settled for inside the bandwidth. Mr. Reed noted the adder in his proposal would not be affected by the motion because it was not dependent on the magnitude of the error. The motion was tabled.

Day one adjourned at 3:40 p.m. Central.

4. Welcome - Day Two

Mr. Terelmes opened the meeting. Mr. Oncken gave the antitrust advice. Participants were introduced.

Mr. Terelmes read the following motion submitted by Mr. DiCaprio: Strike Mr. Illian's response to the requested methodology on the basis that Mr. Illian's response was unprofessional. Mr. Terelmes reviewed the document that was the subject of the motion. Mr. Vandervort seconded the motion. Mr. Illian responded that he would be willing to modify some conclusions stated in the document. Due to Mr. DiCaprio's absence, it was agreed that the document would be removed from the NAESB website and Mr. Illian would be free to resubmit a replacement document that was more appropriate. There was no further action taken on the motion.

Mr. Terelmes noted that it is the general desire of NAESB that the task forces operate in a causal manner. However, he stated concerns have been raised within the task force regarding the ability of all participants to be heard with the full attention of the task force. Accordingly, he outlined the following procedures for moving forward: 1) participants should address their comments to the chair and limit their comments to a reasonable time (2 to 5 minutes); 2) participants will be recognized by the chair before they speak; 3) interruptions and inappropriate comments will not be tolerated; 4) implementation will occur through a warning system such that after the second warning the offending party will be removed from the room for the duration of discussion, after the third warning the offending party will be removed from the room for the duration of the meeting; and 5) points of order will be recognized. The above procedures are consistent with Roberts Rules of Order.

5. M. Lively Motions

Mr. Lively submitted 10 motions prior to the meeting, each of which will be addressed separately. Mr. Lively explained that his motions track the format of historical NAESB standards. Mr. Lively reviewed the workpaper. Mr. Lively asserted this is a conversion of the concepts the task force has discussed into a format typically used in NAESB. This sparked an extended discussion about the nature of NAESB standards, and the expectations of the WEQ Executive Committee. During the discussion concerns of coherence were raised with the multiple independent standards model since removing one piece of a package could have an extreme effect on the whole. Mr. Oncken clarified the role of the Executive Committee in standards development. Mr. Terelmes noted that using the historical NAESB paradigm would create an opportunity to produce results for the Executive Committee's consideration, even if all issues could not be solved. Mr. Vandervort commented that his assumption was that the standards would be formatted like NERC standards. While there was no formal resolution, it was agreed to consider Mr. Lively's motions and evaluate whether the previous motions could be converted into a similar format should the need arise.



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Mr. Lively moved, seconded by Mr. Vandervort, that parties may handle inadvertent interchange on a bilateral basis. (Lively motion 1) Mr. Lively asserted that parties should be able to interact with their neighbors as they see fit. Mr. Illian asserted that this motion was out of order in light of the previously passed motion stating that Inadvertent Interchange is between a party and the grid. Mr. Lively clarified that under the motion parties could establish agreements to settle between themselves, which was different than their interaction with the grid as a whole. There was not agreement that was an appropriate result. Participants voted on Mr. Illian's objection. The vote carried and the motion was found in conflict. Mr. Vandervort amended the motion to read as follows: Parties may handle inadvertent interchange **settlement** on a bilateral basis. Mr. Lively accepted the amendment. Parties did not find the amended motion in conflict with the previous motions. The amended motion failed with 2 in favor (Mr. Lively and Mr. Davis) and 6 opposed.

Mr. Lively substituted Mr. Power's tabled motion for his motion 5, as follows: the financial settlement outside a bandwidth would be limited to inadvertent energy and not include a frequency control component. Mr. Goins seconded the motion. Mr. Power opened discussion noting that the only thing he was trying to limit was a frequency control component being used as a price adder. There was extended discussion on the motion. Mr. Illian stated that an adder that was reactive to high frequency would in fact be a frequency control component. He went further to say if an adder does not react negatively, then it sends the wrong price signal. Mr. Goins reiterated that the frequency control component would only be used to determine the bandwidth. Mr. Blohm suggested that this motion would be in conflict with Mr. Lively's proposed motion 7. Mr. Blohm was excused from discussion pursuant to the procedures outlined above.

Mr. Illian asserted that an adder not related to frequency would result in something price perverse, and if the adder is removed the result is a situation where there is nothing different between scheduled and unscheduled energy. Mr. Illian objected to both alternatives. Mr. Illian stated the task force has a basic misunderstanding of frequency control

On Mr. Terelmes's request, the motion was amended to read as follows: The financial settlement outside a bandwidth would be limited to inadvertent energy and not include a frequency control component, except that direction of frequency could be used to indicate the good or bad nature of the Inadvertent.

Mr. Illian asserted this motion is a blatant attempt to bypass a previously adopted motion – a result he does not find acceptable. On further consideration, Mr. Lively said his current understanding of the motion was that the price shall not in any way reflect the frequency that exists on the system at the time of the occurrence, except as a test for the nature of the Inadvertent Interchange. Mr. Lively disagreed with that concept and moved, seconded by Mr. Vandervort to table the motion. The motion to table failed.

After discussion of the motion was completed, Mr. Blohm was invited back to vote on the motion. Prior to the vote, Mr. Blohm stated that the motion violated the antitrust rules because the intent and content of antitrust is against price fixing. Mr. Blohm defined price fixing as a non-economic basis for a price. Mr. Oncken interrupted discussion of the motion and the motion was tabled in light of the antitrust violation assertion by Mr. Blohm.

6. Continued Discussion and motions regarding Inadvertent energy and frequency deviation

See discussion above.



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7. Adjourn

The meeting adjourned at noon Central.

8. Meeting Attendees

Name	Company	Day One	Day Two
Bill Bateman	Georgia System Operations	In Person	In Person
Terry Bilke	MISO	Phone	Phone
Robert Blohm	Consulting Economist	In Person	In Person
Keith Comeaux	Cleco Power	Phone	
Phil Cox	AEP	In Person	In Person
Ed Davis	Entergy	Phone	Phone
Al DiCaprio	PJM	In Person	In Person
Mark Fidrych	WAPA	Phone	
Larry Goins	Tennessee Valley Authority	In Person	In Person
Nick Henry	SMUD	Phone	Phone
Howard Illian	Energy Mark	In Person	In Person
Mark Lively	Util. Econ. Eng.	In Person	In Person
Lou Oberski	Dominion	Phone	Phone
Todd Oncken	NAESB	In Person	In Person
John Power	MISO	In Person	In Person
Tony Reed	Southern Company	In Person	In Person
Steve Terelmes	Ameren	In Person	In Person
Dean Ulch	Southern Company	Phone	Phone
Tom Vandervort	NERC		In Person