



North American Energy Standards Board

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via email and posting

TO: NAESB WEQ Inadvertent Interchange Payback Practice Task Force (IIPTF) Conference Call Participants and Posting for Interested Parties
FROM: Rae McQuade, Executive Director
RE: NAESB WEQ IIPTF Conference Call Minutes – February 13, 2003
DATE: February 15, 2003

NORTH AMERICAN ENERGY STANDARDS BOARD
WEQ Inadvertent Interchange Payback Practice Task Force (IIPTF) Conference Call
February 13, 2003, 1:00 p.m. to 4:00 p.m. CST

1. Welcome

Mr. Blohm welcomed guests and introduced call participants. It was noted that Mr. Hopf, Mr. Goss and Mr. Blohm are the Co-chairs of the IIPTF. Mr. Oncken gave the antitrust advice.

2. Review of charge of the task force

Mr. Hopf informed participants the scope of the IIPTF was established during the January 24, 2003 Market Operations Subcommittee (MOS) meeting, as follows:

"Inadvertent Interchange Payback Practice Task Force The Inadvertent Interchange Payback Practices Task Force is charged with scoping the inadvertent interchange issues and if they determine that standards are needed, developing a standards proposal based on the scoping document. Mr. Desselle noted that while NAESB does not decide policy, a task force could frame a policy issue, or even "tee it up" for FERC consideration. Mr. Corneli suggested the task force brainstorm about the different possibilities that could be proposed or possible concepts for standards, including standards that would address the issues of good vs. bad interchanges, in-kind payback, integration of the two types of balancing authorities, the metric, and the types of transactions needed to price out inadvertent interchanges.

The Inadvertent Interchange Payback Practices Task Force set March 3 as a target date for the scoping document to allow time for review and approval by the MOS prior to the March 21 JIC meeting."

Mr. Blohm noted the issue of inadvertent interchange payback has been researched by NERC's Joint Inadvertent Interchange Taskforce (JIITF), which resulted in the JIITF Whitepaper. It was suggested the JIITF Whitepaper could serve as a starting point for IIPTF work. Mr. Blohm noted the importance of understanding of the NERC CPS1 Control Performance Standard. Mr. Blohm summarized CPS1 is the basic metric for controlling frequency of transmission, and inadvertent interchange is a component of that metric.

Mr. Blohm referenced the JIITF Whitepaper, which was posted as a work paper for this meeting. It was noted the JIITF Whitepaper gives the conclusions of the JIITF, but it does not disclose the documents or findings the conclusions were based on. Mr. Illian, a co-developer of NERC's CPS1 Control Performance Standard, suggested the following



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documents, which helped guide the development of the JIITF Whitepaper, be posted as work papers for the February 19 meeting: 1) Mr. Illian's paper on Good and Bad Inadvertent, which oriented the JIITF at the outset; and 2) Mr. Blohm's report which worked out the mathematical and policy consequences of Mr. Illian's recommendation and detailed mechanics, and established the mathematical consistency/connection with NERC's CPS1.

Mr. Blohm provided background on the issue of inadvertent interchange payback. He said the issue arose in 1999 when a company bought 23 generators in the southeast, decided to become a control area, and decided to use some control area benefits to produce market benefits. Mr. Blohm said this organization and functionality created some equity issues CPS1 was not designed to address. Mr. Illian explained CPS1 was developed to allow a range of acceptable frequency within which to operate and maintain system reliability. Mr. Illian said in the short term CPS1 would allow control areas to take advantage of a price swing.

Discussion revealed inadvertent interchange payback is a complicated issue with several components. Immediate questions include the timing of payback, the price of payback, and which elements to price.

One way of addressing the issue of equity is to require payback within some short period of time, which is outside the scope of CPS1. However, the argument is there should be pricing for the energy component as well as the frequency (control) component. It was reasoned that pricing only the energy component does not address the control value of the energy, which depends on the system frequency at the time of the inadvertent interchange. Mr. Blohm noted a key component of the JIITF method was to separate the energy and frequency components, allocating the energy component to the market and development of the frequency price mechanism to NERC and/or NAESB.

Mr. Schwerman asked if sanctions for CPS1 criteria violations would be sufficient to address the issue of inadvertent interchange payback. Mr. Blohm stated in theory sanctions would be necessary/sufficient, but NERC does not currently have enough sanctioning power. Additionally, Mr. Blohm said a corresponding reward for the sanctions would be optimal. He said a price would be ideal.

Mr. Goss noted that while this discussion was important, it was premature. Mr. Goss stated concern that a company could be within the tolerance of CPS1 and still accrue an inadvertent interchange. He said the real question is how do you measure and settle the inadvertent, noting he does not understand how a company would split its energy for those purposes.

Mr. Illian explained the basic discussion is what happens if you settle inadvertent interchange hourly, including what are the consequences to frequency control. Mr. Illian noted that while the traditional method of payback in kind might work in a regulated environment, it would not be as effective in a competitive market due to fluctuations in power prices through out the day. He stated that price fluctuation could have a significant impact on the bottom line of the balancing authorities or control areas.

If it is determined the inadvertent interchange should be paid out, Mr. Blohm asserted the value of the energy should be reflected. Mr. Illian said energy could be valued at spot market or wholesale market prices, where available. There should be some price index developed for each market. Mr. Corneli suggested looking to the hourly, or less,



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pricing of PJM and NYISO as an example of a spot market, noting PJM does not separate the frequency component from the energy price component. Mr. Blohm stated the PJM hourly price does not include the frequency component. Participants agreed the benefits and disadvantages of spot market pricing for the energy component of inadvertent interchanges should be examined.

Mr. Illian stated the first order of business was to decide if there is a reasonable way to handle the energy price. Once that is decided, he said pricing of frequency and transportation could be examined. Additionally, Mr. Illian noted the importance of considering the ramifications of proposed standards and methodologies on the markets, including the markets that cannot support the developed methodology. It was noted there has been no decision made regarding the need for separate pricing for energy and frequency. Mr. Blohm stated the JIITF metric was developed so that companies were not forced to price the energy component, and could continue to barter energy if appropriate.

3. Discussion and review of work papers provided by NERC as support for the effort (Don Benjamin)

Mr. Benjamin was unable to participate in the call. Please see the general discussion of the JIITF Whitepaper in agenda item 2.

4. Plan for and Identification of IIPTF Issues

Mr. Illian suggested the JIITF Whitepaper should provide the IIPTF with an outline to discuss the inadvertent interchange issue. Mr. Illian said the JIITF reached the conclusions that there were possibly three components to inadvertent. Assuming those conclusions were correct, Mr. Illian noted there are still issues to be developed, including data integrity and availability, seams in markets, and how standardization is possible when different geographical areas are in different phases of market design.

Mr. Illian asserted these issues should drive the standards development process. Mr. Illian envisions the end result could be standards that will address data, frequency, seams, management control, market development, and pricing. Mr. Illian cautioned against separating the issues, because they need to be developed with knowledge that the solutions are compatible.

To prepare for future discussion, participants agreed to provide the following research prior to the February 19 meeting:

- 1) The current state of the regional markets, including the functionality of wholesale markets and spot prices. Mr. Ulch ~~and Mr. Davis~~ will provide the research for the Southeast. Mr. Weinstein will provide the research for the West. For the East, it was noted there are some well defined hourly markets.
- 2) The current state of energy prices at seams between two well defined markets, such as NYISO and PJM. Mr. Hopf will provide the report.
- 3) The commercial usability of existing data. Mr. Illian will provide the report.
- 4) The need to include a congestion management component in pricing out inadvertent interchange. There was no assignment made for this report.

It was requested these reports be prepared on a high level so as to be useful for the generalist.

5. Review of Request Form for completion prior to March 6 meeting



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Ms. McQuade noted the end of the scoping phase of the IIPTF would be a completed standards request form, or multiple forms, prior to the March MOS meeting. Once approved by the MOS, that request form would be forwarded to the NERC/NAESB JIC for consideration during its March meeting. She stated the request form is a high level, non-binding document. For example, she said the completed form for the IIPTF could state NAESB should develop standards to support inadvertent interchange payback practice. Mr. Oberski encouraged participants to keep sight of the goal of creating a scoping document, and not diverge into standards development.

Mr. Blohm asked if developing the scoping document was the only charge of the IIPTF. Ms. McQuade noted that was the immediate goal; but, if it is determined standards are required as a result of the standards request, it will likely be a future task of the IIPTF to develop those standards.

Review of the request form will continue during the February 19 meeting

6. Other Business

No other business was discussed.

7. Adjourn

The call adjourned at 3:05 p.m. CST.

8. Meeting Attendees:

Name	Company	Notes
Mark Avery	Salt River Project	
Robert Blohm	Economist	Co-chair
Randy Corbin	Ohio Consumers' Counsel	
Steve Corneli	NRG Energy	
Phil Cox	American Electric Power	
Phil Creech	Progress Energy	
Edward Davis	Entergy	
Bob Goss	Southeastern Power Administration	Co-chair
Barry Green	Ontario Power Generation	
Francis Halpin	Bonneville Power Administration	
Robert Harshbarger	Puget Sound Energy	
Joe Hopf	Ameren Energy	Co-chair
Dowell Hudson	Ontario Power Generation	
Howard Illian	Energy Mark, Inc.	
Cecilia Liang-Nicol	Allegheny Energy Supply	
Rae McQuade	NAESB Executive Director	Administrative
Jim Maenner	Wisconsin Public Service Corporation	
Lou Oberski	Dominion	
Todd Oncken	NAESB	Administrative
Robert Schwerman	Sacramento Municipal Utility District	
William Smith	Allegheny	
Dean Ulch	Southern Company	
Jeremy Weinstein	Pacifi Corp	
Matt Wolf	Entergy	



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