



# North American Energy Standards Board

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**via email and posting**

**TO:** NAESB WEQ Inadvertent Interchange Payback Practice Task Force Meeting  
Participants and Posting for Interested Parties

**FROM:** Todd Oncken, Deputy Director

**RE:** NAESB WEQ IIPTF Meeting Final Minutes - February 26, 27 2004

**DATE:** March 9, 2004

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**NAESB Wholesale Electric Quadrant  
Inadvertent Interchange Payback Task Force Meeting  
February 26-27, 2004  
Houston, TX  
Final Minutes**

**Day One**

**1. Welcome**

Mr. Terelmes called the meeting to order. Mr. Oncken gave the antitrust advice. Participants introduced themselves. The agenda was adopted by consent without modification.

The IIPTF minutes from December 10-11, 2003 were reviewed. Mr. Blohm offered extensive modifications to the minutes. The amended minutes were adopted absent objection. The IIPTF minutes from January 22-23, 2004 were reviewed. The minutes were adopted without modification absent objection.

Mr. Terelmes reviewed the IIPTF procedures regarding meeting participation. Highlights included: discussion on a pending motion will be addressed to the chair; abusive or disrespectful language will not be tolerated; participants out of order will be warned; after the third warning, the chair will entertain a motion for removal which requires a 2/3 vote.

Mr. Blohm moved, seconded by Mr. Oberski, to receive the reports posted to the IIPTF page of the NAESB website for this meeting. During discussion, Mr. Blohm explained this motion would define the ability to present those reports at this meeting. Mr. Oberski expressed concern that this motion could give participants the ability to control the agenda by submitting documents to be posted on the IIPTF web site. Further, he stated it was the role of the chair to set the agenda for the meeting. After limited discussion, the motion failed unanimously.

**2. Reading of previous adopted and tabled motions**

Mr. Terelmes reviewed the IIPTF Substantive & Tabled Motions document. The document was reformatted so that in future meetings the motions could be referred to according to number.

**3. J. Power's Motion**

Mr. Terelmes reviewed the tabled motion, 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.* He noted the motion was tabled at the January meeting due to antitrust concerns, but the motion has since been reviewed by NAESB's General Counsel and it was determined that the motion did not violate antitrust principles.



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Participants discussed the motion. Mr. Illian commented that the motion was not clear because any dependency on frequency would be considered a frequency control component. Mr. Power stated that according to the motion, frequency would not be used as a control component, but would instead be used as an indicator of the nature of the inadvertent. Mr. DiCaprio clarified that bandwidth in the context of the motion related specifically to inadvertent interchange and pricing within a space. Mr. Blohm stated this motion would cause underfrequency because overgeneration is hugely penalized when frequency is high, but there is no effect when frequency is low. Conversely, he said undergeneration and overconsumption are hugely rewarded when frequency is high, but there is no effect when frequency is low. Participants discussed whether this motion violated the first motion passed on October 6, 2003 which says there shall be four components of inadvertent interchange payback. Mr. Terelmes stated the motion did not run counter to the October 6 motion, because it only applied to settlement outside a bandwidth – settlement inside the bandwidth could still contain the 4 components.

The motion passed on a balanced vote.

Segment	Votes Cast			Balanced Vote		
	YES	NO	TOTAL	YES	NO	TOTAL
Transmission	5	0	5	2	0	2
Generation	3	1	4	1.5	0.5	2
Marketers/Brokers	1	1	2	1	1	2
Distribution/LSE	0	0	0	0	0	0
End Users	0	3	3	0	2	2
Total				4.5	3.5	8

#### 4. Vote on equating motions with standards

During the January IIPTF meeting, the concept of considering successful motions as draft standards was discussed. Participants discussed this concept at length. The format of an eventual IIPTF standard was discussed – whether it would be an integrated multi-section standard like a NERC standard, or a collection on smaller standards like the historical GISB standards. Mr. Terelmes noted that the Executive Committee expressed a preference for latter so that they could better understand the progress of the task force. In fact, Mr. Terelmes said the Executive Committee had requested that the IIPTF submit a collection of standards for their consideration at the May Executive Committee meeting.

Mr. Goins moved, seconded by Mr. Yeung, that in the future when a motion is brought forth it is stated whether or not it should be included as a stand alone proposed standard, and as such is voted on as the motion and as a proposed standard separately. During discussion on the motion, it was noted that a procedure should be established for the existing motions. Mr. DiCaprio expressed concern with the motion because it would not allow participants adequate time to reflect on the motions and determine if they would be appropriate standards. To address that concern, it was noted that the vote on the proposed standard did not have to be taken simultaneously. Rather, the vote could be taken at a subsequent meeting after limited, or no, discussion.

Mr. Illian questioned the effect of adopting this procedure on the creation of documentation to support any eventual IIPTF standard. Mr. Terelmes stated the documentation would likely consist of meeting minutes and any documentation to support the motion, such as an associated presentation. Mr. Yeung and Mr. Oberski, Executive Committee members,



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commented that the documentation should be sufficient to justify the proposed standard, but at a level of detail to allow the Executive Committee to moved expeditiously.

During extended discussion it was noted that adopting the motions as individual standards and submitting them to the Executive Committee separately as they were completed would trigger NAESB timelines and processes. For example, at the point that the proposed standards are recommended out of the task force to the Executive Committee, a 30-day industry comment period would begin. However, Mr. Oberksi noted that the Executive Committee could decide to suspend the ratification process for any recommended standards until a comprehensive package is complete. At the conclusion of discussion, the IIPTF was not comfortable with submitting the piecemeal standards as recommendations to the Executive Committee and instead decided a more detailed report of their process to the Executive Committee would be more appropriate. Accordingly, Mr. Goins withdrew the motion.

### 5. M. Lively Motions

Mr. Lively submitted ten motions as a work paper for the January IIPTF meeting. At the conclusion of that meeting, action was taken on motions 1 and 5. The remaining motions were discussed. Mr. Lively presented motion 2, *all inadvertent interchange shall be settled at least hourly*. Participants discussed the motion. Several participants commented that this issue had been determined previously, so the motion did not move the group forward. Accordingly, Mr. Lively withdrew the motion.

Mr. Lively reviewed motion 3, *parties may agree bilaterally to settle inadvertent interchange more often than hourly*. Mr. Vandervort seconded the motion. During discussion it was noted that this motion relies on bilateral settlement, a concept the IIPTF has not previously endorsed. Mr. Power noted that under current technology there was not a mechanism to settle more often than hourly. The motion failed with Mr. Lively voting in favor of the motion, and all others voting opposed.

Mr. Lively withdrew his remaining motions, noting that they were all interrelated.

### 6. Tabled motions

Each of the tabled motions were reviewed and discussed to determine whether it was appropriate to take action on them, or they should remain tabled.

Mr. Goins' motion from November 3 was the first discussed. The original motion read as follows: *the point at which inadvertent interchange ceases to be return-in-kind and becomes a financial settlement be no more stringent than the reliability guidelines established by NERC*. Mr. Goins explained his intention was that the IIPTF not develop a standard that gives incentives to take action contrary to a reliability obligation. Mr. DiCaprio stated that the reliability and commercial roles should remain clear – the NAESB standard would be to settle for inadvertent interchanges after the fact, not to control frequency deviation. Mr. Illian opposed the motion because it would not allow the IIPTF to propose a standard that would mitigate any behavior or financial gain outside of NERC guidelines. Mr. Reed suggested action on this motion was premature, since the point where payback would be financial (frequency bandwidth) has not been determined. Participants agreed the motion would be tabled until such time that the specifics of the frequency bandwidth have been determined.

Mr. Blohm's second motion from October 6 was then discussed. Mr. Blohm reviewed the original text of his motion. Mr. Terelmes commented that this motion appeared to address both the pricing of the energy and the settlement process. Mr. Blohm replied that the issues



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were interlinked and his preference would be that they be discussed together. After limited discussion, Mr. Blohm modified his original motion to read as follows:

Whereas the energy price charged for electricity (a) differs between Balancing Authorities and (b) may or may not reflect congestion but (c) does not reflect the Inadvertent Interchange's contribution to frequency control, the IIPTF resolves that the parties to an Inadvertent Interchange of energy be charged or paid for that energy component of their Inadvertent Interchange at their own prevailing energy price (as determined in a separate motion, such as Motion 10), with any excess or deficit of funds "exchanged" accruing to the Interconnection/clearinghouse (as managed determined to another motion).

Mr. Vandervort seconded the modified motion. Mr. DiCaprio and Mr. Power expressed concern about the proposed price calculation – noting that payment at the parties' own prevailing energy price would not reward or penalize participants. Mr. Terelmes stated that the motion only addresses the energy price and the IIPTF had previously discussed having an energy price and an adder that would provide the market incentives. Additionally, Mr. Power stated concern with the concept of a central clearinghouse that would have responsibilities beyond billing for inadvertent interchanges, including responsibilities for the exchange of funds. Several other participants had difficulties with the clearinghouse concept as well. Mr. Blohm withdrew the motion. In light of the discussion on the tabled motion, Mr. Terelmes stated the IIPTF would address pricing issues soon, with a report given by Mr. Illian at the July meeting, *Locational Pricing for Inadvertent Interchange*, serving as background for those discussions. Mr. Illian will present this report on day two of this meeting.

Mr. Blohm's third motion from October 6 was then discussed. Mr. Blohm reviewed the original text of his motion. Mr. Blohm stated this motion was an attempt to define how a locational price would be determined. He noted this motion related to the previous motion, which has since been withdrawn. After limited discussion, Mr. Blohm modified the original motion to read as follows:

Whereas not all Balancing Authorities on an Interconnection have hourly spot markets available to them, a locational price would be defined as: (i) "the" hourly spot market price where accessible, or "average" locational price in case of different locational prices within the hourly spot market, otherwise: (ii) the out-of-pocket cost exactly as determined in the FERC Schedule-4 "Balancing Energy" tariff in force inside the Balancing Authority during that hour, but without the 10% penalties in the tariff (that all accrue to the tariff administrator).

Concern was expressed that this motion would determine how an interconnection would determine its price. Mr. Terelmes explained that this motion would not determine prices – the prices already exist – but instead would go to which of the pricing alternatives to use. Mr. Henery noted there are instances where non-jurisdictional entities operate where there is neither a spot market nor Schedule 4 tariff. He explained that it is possible for some non-jurisdictional entities to be Order 888/889 compliant and not have a Schedule 4 tariff. Mr. Illian suggested that could be addressed by looking at the markets the non-jurisdictional entity operates in outside its boundaries, but conceded a problem could still exist for entities that do not operate outside their borders. Mr. Henery stated this motion was too narrow and could result in implementation problems for various entities. Mr. Reed concurred. Mr. Blohm stated this motion was the result of previous IIPTF discussions, but noted it was still an open issue



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and the best solution would be for a survey to be completed to see what information is available across the country. Mr. Blohm withdrew the motion.

Discussion on the issue continued. Mr. Terelmes suggested participants propose alternative motions on this issue for the next meeting. Mr. DiCaprio did not support the concept of average prices. Other options stated during discussion included: 1) capture the pricing mechanisms that currently exist and establish an order of preference; 2) use regional or nodal pricing; 3) defer the decision to the regional level; 4) incorporate regional differences into any standard to recognize the maturity of the markets on each interchange; and 5) use either an average price or highest price method.

Mr. Lively's motion from December 11 was then discussed. Mr. Lively reviewed the original text of his motion. Mr. Livley explained the motion would define the basics of how the commodity would be priced. It was noted that the calculation does not specify whether an adder would be included. Mr. Terelmes stated the motion includes a definition for inadvertent interchange that is consistent with NERC's definition of inadvertent interchange. Participants discussed the relevancy of the motions. After brief discussion, Mr. Lively modified the motion to read as follows: The IIPTF supports the definition that Inadvertent Interchange is the difference between actual interchange minus scheduled interchange. Mr. Power seconded the modification.

Participants discussed the amended motion. Mr. Henery questioned the implications of time error corrections on the motion, noting that such corrections are system required and do produce inadvertent interchange. Mr. Henery stated those instances of inadvertent interchange should not be settled. Mr. Blohm stated this is the difference between primary and secondary inadvertent interchange – a distinction recognized by the JIITF whitepaper – and that Mr. Henery is talking about secondary inadvertent. On further discussion, Mr. Terelmes suggested the motion to define inadvertent interchange was out of order since a decision has already been made that NERC will provide the inadvertent interchange data that will be used in any IIPTF settlement calculation. The motion was found out of order with Mr. Lively and Mr. DiCaprio opposing.

The second part of Mr. Lively's tabled motion was discussed. For clarity, Mr. Lively modified the motion to read as follows: the cash out of inadvertent shall be the quantity of inadvertent interchange times a pricing mechanism yet to be determined applicable to that time interval. The motion passed with four votes in favor and two opposed.

### **7. Bandwidth discussion**

Discussion was deferred until day two.

### **8. Recess**

The meeting recessed at 4:24 pm Central.



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### Day Two

#### 1. Welcome

Mr. Terelmes called the meeting to order. Mr. Oncken reminded participants that antitrust guidelines remain in effect and reviewed the antitrust guidelines.

#### 2. Bandwidth Discussion

During the January IIPTF meeting, a motion passed stating that inadvertent interchange outside a frequency bandwidth would be settled financially. Mr. Terelmes stated the IIPTF will have to define that bandwidth. The following suggestions were made to define the bandwidth: 1) select an arbitrary number and have the industry define the actual number through the comment period; 2) use a number that is consistent with traditional practices; 3) setting different bandwidths at different interconnections; 4) setting the bandwidth based on level of megawatt deviation; 5) a graduated proposal consistent with the January 2004 Lively presentation; or 6) a dollar value bandwidth. Mr. Terelmes stated the IIPTF should be clear that any number selected is selected for commercial, not reliability reasons. Mr. Illian suggested a challenge to any bandwidth not based on frequency was lack of settlement counterparty.

Mr. Power challenged the underlying assumption that gaming of the system was the overriding concern for inadvertent interchange. Instead, he said generally, inadvertent interchanges are accidental occurrences and a potential standard should recognize that. Mr. Illian differed, noting that the original charge of the task force calls for the IIPTF to investigate the mitigation of the ability of control areas to use Inadvertent Interchange to financial advantage. Mr. Illian said that means the IIPTF should assume any opportunity for financial advantage will be taken.

Participants discussed inadvertent interchange payback in the context of a large frequency deviation caused by force majeure events when a large plant goes off-line. Mr. Henery stated that in those instances generation control is taken away from the market and made reliability. Mr. Terelmes suggested an exception to the standards for force majeure situations could be appropriate. Mr. Reed opposed an exception because there are costs associated with a force majeure situation that other market participants must bear to serve the load. It was noted that individual operating agreements typically address emergency situations, but inadvertent interchange could be accumulated prior to dispatch of the service.

Discussion of bandwidth was suspended until the next meeting. It was suggested that participants bring forth proposals on the issue at that time.

#### 3. Illian Report on Pricing

Mr. Illian gave a presentation titled, *Locational Pricing for Inadvertent Interchange*. It was noted that this presentation was given at the July 2003 IIPTF meeting and would provide current participants a good background on those discussions. Mr. Illian reviewed the previous discussion on pricing methodologies and came to the conclusion that locational pricing was the best alternative. Mr. Illian listed several benefits of locational pricing. Additionally, he stated that a single market design, when applied to inadvertent interchanges, produces an arbitrary profit and loss due to differences in locational prices. Mr. Illian noted that the presentation's inclusion of a Frequency Control Component (FCC) adder was because the presentation was



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prepared prior to the acceptance of the Power motion. Mr. Illian referred participants to the previous work papers on pricing models for additional background.

During discussion, it was noted that regional or zonal pricing was not considered previously, but the concept should work if the regions are determined appropriately. Additionally, Mr. Illian clarified that his presentation related to locational pricing, not locational marginal pricing (LMP). It was suggested that Mr. Illian's approach might be better received if it used different terminology that was distinct from LMP. Mr. Reed identified balancing the revenue as a difficulty with both locational and regional pricing. That issue was identified as needing more thought. Mr. Terelmes noted that several of the previously considered methods do not include congestion. Mr. DiCaprio noted that it is NERC's role to control congestion.

The following issues were identified for future pricing discussion: 1) regional versus zonal; 2) high, low or average; 3) if regional is used should NAESB identify the regions; 4) would pricing inadvertent interchange energy at the producer's price provide appropriate market signals?

#### 4. Future Meetings

The next IIPTF meeting is scheduled for April 1-2, 2004 in Houston, TX.

#### 5. Adjourn

The meeting adjourned at 11:10 a.m. Central.

#### 6. Attendance

Name	Organization	Day One	Day Two
Bill Bateman	Georgia System Operations	In Person	In Person
Terry Bilke	Midwest ISO	Phone	Phone
Robert Blohm	Consulting Economist	In Person	In Person
Kyler Cornish	Entergy Services	In Person	In Person
Phil Cox	American Electric Power	Phone	
Ed Davis	Entergy	Phone	
Al DiCaprio	PJM	In Person	In Person
Larry Goins	Tennessee Valley Authority	Phone	Phone
Nick Henery	SMUD	In Person	In Person
Howard Illian	Energy Mark	Phone	Phone
David Lemmons	Xcel Energy	In Person	In Person
Mark Lively	Util. Econ. Eng.	In Person	In Person
Lou Oberski	Dominion	In Person	
Todd Oncken	NAESB	In Person	In Person
John Power	Midwest ISO	In Person	In Person
Tony Reed	Southern Company	In Person	In Person
William Simpson	Tenaska Power Services	In Person	In Person
Steve Terelmes	Ameren	In Person	In Person
Tom Vandervort	NERC	In Person	
Charles Yeung	Reliant Energy	In Person	