

Payment for Inadvertent Interchange Pursuant to the Findings of
NERC Joint Inadvertent Interchange Task Force (JIITF) Which Specified

1. An Energy Value;
2. A Transmission (Location Value); and
3. A Frequency Value

- Mark Lively's WOLF (Wide Open Load Following) provides a unified solution to all three values specified by the NERC JIITF.
- Robert Blohm's method addresses only the frequency component of the NERC JIITF findings and does so in a convoluted process that results in a linear approximation of Mark Lively's WOLF. Mr. Blohm's method is thus inadequate for rewarding parties that provide support to the network when system frequency is very low.

Mark Lively's WOLF begins with a mechanism to determine the value of energy. An initial seed price is adjusted to reflect longer term measurements of the inadequacy of that seed price. The longer term measurements are system time error and cumulative time error. To the extent that there is a valid energy price for the entire network, Mark Lively's WOLF can use that valid energy price in place of the initial seed and the adjustment mechanism. Mr. Blohm's method does not have a way to determine the energy value specified by NERC JIITF, even though he was a member of the task force that made that specification.

Mr. Lively's WOLF provides a way to differentiate the price for inadvertent interchange geographically, including setting a price for reactive power, the portion of inadvertent interchange that is most related to geography. Mr. Blohm's method can not geographically differentiate prices even though he was a member of the NERC JIITF that determined that inadvertent interchange has a location value. Nor does Mr. Blohm's method provide a price for reactive power.

Mr. Lively's WOLF provides an adjustment for frequency that varies exponentially with frequency excursion. Thus, small frequency excursions result in settlement prices under Mr. Lively's WOLF that are primarily driven by the value of energy and by the value of location. Large frequency excursions result in prices that significantly reward parties that provide aid to the system.

Mr. Blohm's method results in a linear¹ approximation of Mr. Lively's WOLF. The linearity of Mr. Blohm's method results in an inadequate reward for parties that provide aid to the system when the frequency is very low. For instance, when frequency declines to 59.98 Hertz, Mr. Blohm's method results in a frequency based price of about \$20/MWH while Mr. Lively's WOLF results in a frequency based price of about \$300/MWH. At 59.96 Hertz, Mr. Blohm's method results in a frequency based price of about \$40/MWH while Mr. Lively's WOLF results in a frequency based price of about \$3,000/MWH.²

The inability of Mr. Blohm's method to handle extreme frequency excursions adequately, its inability to geographically differentiate the value of inadvertent interchange, and its inability to determine an energy price when none is available for the network make Mr. Blohm's method inadequate for cashing out inadvertent interchange.

Therefore consideration of Mr. Blohm's method should be rejected.

¹ See Table 1, Data from Howard Illian Presentation of December 10, 2003, in "An Overview of Approaches" by Mark Lively, Utility Economic Engineers, 2004 January 22. Each price in Column D is 1,096.4 times the value in Column B. The prices in Column D are expressed in \$/MWH. The values in Column B are expressed in Hertz. The multiplier is thus \$1,096.4/MWH-Hertz, significantly greater than the \$0.10/MWH-Hertz identified by Mr. Illian but never substantiated by anyone.

² See Table 2 in "An Overview of Approaches" by Mark Lively, Utility Economic Engineers, 2004 January 22.