Motion:

The IIPTF forward the (John Power) motion (as clarified herein) to the NAESB Executive Committee for review and comment.

The approved (John Power) motion was:
Financial settlement outside a frequency bandwidth would be limited to Inadvertent Interchange and not include a frequency control component.

Clarifications:

These clarifications are not meant to change the motion they are included to communicate the consensus opinion of the IIPTF.

1. This proposal is for financial compensation of Inadvertent Interchange accumulated during each hour, where:
   - **Scheduled Interchange** is based on the concept of *Hourly Contract products,* i.e. contracts that are assumed to start and to end on clock hours (or as pro-rated for sub-hourly contracts)
   - **Actual Interchange** is defined as the sum of the hourly billing meter energy of the inter-Balancing Authority tie lines (when available)

2. **Frequency bandwidth** is the frequency range around 60 Hz between which there will be no financial compensation.
   - This bandwidth shall be plus or minus .02 Hz around 60 Hz.
     a. If the hourly frequency [*defined as the difference between the time error (in seconds) at the end of a clock hour minus the time error (in seconds) at beginning of the clock hour divided by 60*] is less than or equal to 60.02 Hz and greater than or equal to 59.98 Hz then there is no compensation.
     b. The selected bandwidth is based on the Industry accepted bandwidth used today as the basis for Time Error corrections.

3. The Inadvertent Interchange energy accumulated during those hours when there is no financial compensation will be recorded and subject to payback in kind.
    - The accumulations will continue to be summed within the two current commercial constructs of On-Peak and Off-Peak.

4. The value of the Inadvertent Interchange will be based on an approved (i.e. approved by an effective Regulatory authority) hourly price methodology defined by the entity responsible for monitoring Inadvertent Interchange (e.g. Interconnection, Reliability Council, RTO, control area, ….).
    - Each RTO, control area et al will define how it will provide prices
    - Each RTO, control area et al will then have to get that method approved by FERC, the state, local county – whoever makes the decision on its tariffs
    - The compensation will initially be based on the pricing methodology only (i.e. not penalties added).
    - The IIPTF proposes that the standard be reviewed one year after implementation to consider the necessity of including penalty adders to the hourly prices.

FAQ

Why any motion at all?

There are two reasons:

The IIPTF has an objective to fill – i.e. price Inadvertent Interchange. The level of how close to completeness the task force was, was demonstrated when in December the IIPTF announced that it would select from one of three proposals that they had received (all from people not active in actual markets or actual operations) and submit that proposal to NAESB.

Submitting a reasoned proposal that can be accepted by active participants would better serve the Industry.

What is the issue with the December proposals?

The three December proposals went beyond the commercial goal of addressing the equity issues between 'paying' for imbalance energy and 'owing' for Inadvertent Interchange energy. The three proposals were (are) designed to drive reliability decisions through Inadvertent Interchange penalties.

The three proposals attempted to tightly link commercial payment of Inadvertent Interchange to the operational reliability of the power system. These approaches infringe on and overlap NERC's role in ensuring reliability.

The proposals are trying to drive operational decisions and Ancillary Service markets by the pricing of Inadvertent Interchange.

Is there a real concern?

To date the only two issues of substance raised by the Industry concerned:

- Creation of by GENCOs of generation-only control areas for the purpose of avoiding Imbalance charges
  - This phenomena has occurred but to date does not seem to be a systemic problem
- Reaction (two years ago) to the deliberate use of Inadvertent Interchange to avoid contracting for high price resources.
  - The possibility for this type of abuse still exists. Pricing Inadvertent Interchange could address this issue.

What would be the effective impact of the proposed (Power) motion?

The initial impact would be:

- A need to review Pricing Methodologies to address all the possible entities involved. Each entity needs to identify how it does (would) develop its price.
  - A need to review the issue of specifically what entities are willing to pay for. Will they pay on Clock-Hourly Scheduled Interchange (100 MWs for 60 minutes) using one price for all of the energy, OR will they pay for Implemented Schedules (100 MWs ramped in 10 minutes before the hour and ramped out 10 minutes after the hour – using three prices for each Interchange transaction?
- A need to address metering issues. Currently the operational check out of hourly actual flows is not provided by billing quality meters.
  - Today, system operators exchange data that they record each hour. However, the billing meter verification may not be done (in some cases) until the end of the month.
  - If this motion were to go through, be voted on and approved by the Industry, then FERC could (though not necessarily would) mandate billing quality meters and data for hourly accounting.
- A need for new accounting procedures (but not necessarily new Operating procedures).
- A need to review whether or not to pay for all hours.
- A need to define the need for ensuring price transparency (such as a Inadvertent Interchange Price point in the ISN)

What concerns have been raised and why or why aren't they concerns for operations?

Non-compensation zone is an issue. Specifically, what happens to Inadvertent Interchange accumulated during those periods when the frequency is well-behaved? Isn't cheating a little each hour a concern?

- This approach would handle Inadvertent Interchange just like it is handled today. It would be tracked and paid back in-kind.
- For frequency to be well behaved, it means that some entities are over-generating and some are under-generating. Any Balancing Authority / control area that continues to under-generate will be identified by NERC's ACE data which is distributed to all Reliability Authorities. It would be up to the Reliability Authorities to respond.
  - This is not an equity issue because the over-generating Areas are making a market-based as well as an operational based decision to do more than they are required to do. These entities can under-generate just as easily as the other entity. If all BAs started doing that the frequency would then exceed the non-compensation limit and the under-generators would pay.
  - This never becomes a reliability issue because the Reliability Authority's have the responsibility to keep the system within both frequency and flow-based Operating Limits.