



North American Energy Standards Board

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TO: NAESB Wholesale Electric Quadrant, Posting for Interested Industry Participants
FROM: Todd Oncken, NAESB Staff
RE: NAESB Wholesale Electric Quadrant Inadvertent Interchange Payback Task Force Meeting Minutes – April 29, 2003
DATE: May 4, 2003

**Wholesale Electric Quadrant
Inadvertent Interchange Payback Task Force
April 29, 2003, 9:00 a.m. to 4:00 p.m. Central
Final Minutes**

1. Welcome

Mr. Goss welcomed meeting participants. Mr. Oncken gave the antitrust advice. Participants introduced themselves. Participants discussed the minutes of the April 9, 2003 meeting. Mr. Goss proposed to strike language on page two to make it clear the task force is discussing inadvertent between a control area and an interconnection. Mr. Goss's modification was discussed. It was clarified inadvertent, on a cause and effect basis, is between a control area and an interconnection. Mr. Green moved, seconded by Mr. Goins, to adopt the minutes as modified. The motion passed unanimously.

2. Discussion of IIPTF Issues Listed during the April 9, 2003 Meeting

Mr. Goss reviewed the process used during the April 9 IIPTF meeting to identify the issues related to inadvertent interchange payback within the scope of the task force. He proposed the IIPTF address the issues in the order listed in the minutes of the April 9 meeting.

Pricing: Mr. Illian commented the IIPTF has previously decided inadvertent payback in kind could be used to manipulate the economics of the marketplace. Moving forward, he suggested the task force determine if settlement of energy based on the market price of energy alone will resolve the market manipulation issue.

Participants discussed the East Central Area Reliability Council (ECAR) tariff, approved by the FERC in May 2000. It was noted that ECAR decided pricing the energy alone was not sufficient. It was suggested this was evidenced by the fact that when frequency fell below a certain point, the charge for inadvertent interchange would be the market price with the payer not being forgiven the energy within their payback account. To decide on the price point, it was suggested that additional costs or risks of providing the energy to compensate for the inadvertent interchange should be reviewed and discussed.

Mr. Goss suggested a pricing matrix that preserved the practice of payback in-kind, but also allowed for a monetary payment. Additionally, he pointed out the ECAR tariff uses the concept of a dead band where inadvertent accounting is not triggered unless the frequency of the system falls below 59.97 Hz for two successive hours. He favored that approach and noted it could address the concerns parties have raised about the necessity to payback inadvertent interchanges that benefit the system from a reliability stand point.

Mr. Goins stated if the goal is to eliminate gaming on the system, the dead band does not accomplish that goal. He said organizations could still game the system beneath the threshold. Mr. Terelmes agreed with Mr. Goins's assessment. Mr. Goss suggested a standard without a dead band would be very complicated. Mr. Goins stated that is the only standard that would prevent gaming.



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Mr. Illian stated imposing a dead band creates an artificial boundary, which could produce perverse incentives in the marketplace. He explained a system without a dead band did not have to result in enormous penalties, as commonly understood. Instead, he reasoned a graduated penalty structure could be created which would result in a similar situation as the dead band without the artificial nature of a sharp boundary.

Mr. Reed asked about the experiences of those organizations operating under the ECAR tariff. Ms. Grabiak commented results under the ECAR tariff appear to be positive. She noted the tariff was established because parties were leaning on the system. Mr. Cox concurred that the ECAR tariff seems to have discouraging the system violations, and noted he can only recall one instance where the tariff provisions were used. Mr. Reed suggested the task force use the ECAR as a base for IIPTF efforts.

Mr. Blohm opposed using the ECAR as a base since the NERC JIITF evaluated the document in its process. Mr. Blohm suggested starting with the ECAR tariff would be repeating the JIITF work. Further, Mr. Blohm asserted any standard NAESB develops should be compatible with reliability and if the IIPTF does not use the JIITF report, it should complete the same procedures the JIITF employed in reaching its result. Participants discussed Mr. Blohm's position. To better understand the issue, Mr. Terelmes asked what other tariffs the JIITF reviewed. Mr. Blohm stated the JIITF looked at all the methods used by the different areas. Mr. Goss noted the objective of the NERC task force was not to develop an inadvertent payback system.

Mr. Reed suggested that looking to the ECAR proposal might be prudent, since it has apparently solved the problem of gaming the system, according to ECAR participants. He questioned the additional benefits that could be achieved by implementing the JIITF proposals. Similarly, Mr. Ulch favored the ECAR proposal, noting that any solution should be as simple as possible. He cautioned the IIPTF not to adopt a procedure simply because it was developed by the JIITF.

Mr. Green stated development of a pricing mechanism is important regardless of the development method chosen. He noted the application of the ECAR tariff seems to be fairly complicated. He requested an example of how the tariff was applied. Mr. Green stated application should be a concern, particularly if the IIPTF decides on a method without a dead band, because the methodology would presumably be applied more frequently.

It was noted the systems are interconnected to share reserves, with the intent being an equitable solution for all participants. Mr. Illian suggested it is reasonable to have some kind of financially based rules to encourage responsible behavior within the pool for both the energy used and the reserves. Mr. Goss stated the real implication is that if participants use the interconnected reserves, they should pay for what they use. Mr. Green stated this goes beyond gaming to include any economic benefit that can be derived from the interconnection. He stated in the transaction, there is a cost to the entity providing the energy and they should be compensated for providing the energy. Further, he said paying back the energy in kind the next day is not necessarily compensation. Instead, it was suggested the goal should be to equate taking today and paying back tomorrow, recognizing there are economic differences, and get the economics of the transaction correct.

To that end, Mr. Terelmes proposed the following statement to capture the understanding: Our purpose is to develop a monetary method to compensate for all dependency on or benevolence to the system for economic reasons. Participants agreed with Mr. Terelmes's statement. Mr. Green highlighted a disadvantage to using the ECAR tariff for the purposes of the IIPTF, with its goal of assigning price to inadvertent interchanges without determining motive for the transaction. Mr.



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Green asserted that since the ECAR was established to stop gaming, the prices are intentionally high.

Participants discussed a pricing mechanism to determine which party receives the payment. Mr. Blohm proposed adoption of the FERC approach of prevailing price on the receiving end, or the energy imbalance tariff price. It was noted some areas do not have an hourly market price and instead work on a cost basis for the energy. Mr. Terelmes said it will be difficult to monitor a price mechanism if it is not objective, but instead is based on subjective cost.

Mr. Terelmes suggested the Megawatt Daily be used as a base line for the pricing mechanism. He noted the Megawatt Daily lists day-ahead market prices for 20 areas in the Eastern interconnection, and 7 or 8 in the West. Mr. Goss stated the task force reviewed the availability of pricing data as a preliminary matter and determined there were some areas without index pricing. Additionally, Mr. Goins noted the price indices do not address the transmission component inherent in inadvertent interchange.

Mr. Blohm suggested the control area have the ability to determine the basis for the price mechanism. Mr. Blohm stated if an hourly market is available, the control area should use the hourly spot market. However, if not available, he suggested the control area have the discretion to develop a reasonable proxy.

Mr. Cox proposed the development of a greater or less of standard to ensure the party paying would not receive an economic benefit from the inadvertent it created. Mr. Terelmes supported that that position. Mr. Illian noted that was an important point – the party causing the inadvertent interchange should not have control over the price. He said if the counter party always controls the price for settlement, there will never be a situation where inadvertent is caused because the settlement price is advantageous to the party causing the inadvertent. Additionally, he contended this would be the more equitable result since they would be the party required to do something they did not intend to do. Mr. Illian proposed to identify the offending party as the party that contributes to the frequency error. Mr. Blohm noted this solution would resolve bilateral inadvertent, but it still would not address an interconnection-wide inadvertent issue. Mr. Illian agreed to draft a proposal, including examples, for discussion at the next meeting. Mr. Terelmes requested Mr. Illian include an example where the inadvertent interchange occurs across three zones.

Participants agreed to review Mr. Illian's white paper at the next meeting. It was suggested that if the solution for the pricing of the energy component addressed a significant portion of the problem, the task force should evaluate the benefit of looking to price the frequency component.

Data Integrity: Mr. Goss initiated discussion on data integrity. He stated NERC has the process for determining the inadvertent interchange number. Mr. Goss asserted the IIPTF should accept those numbers and apply it to the price matrix developed. Mr. Terelmes concurred with that approach. Mr. Goss suggested the IIPTF revisit whether data integrity is within the scope of the task force.

Mr. Green commented that the IIPTF should document the data available to know where it comes from, where it goes, and note if parties subject to the standard have access to the data. Mr. Green asserted industry participants would raise any data quality and reliability issues. Mr. Blohm commented that the IIPTF needs to be assured the data is sufficient before the standard is proposed. Mr. Illian suggested the group defer a decision on whether data integrity was within the scope of the task force. Mr. Illian noted a decision has not been made on which data elements will be required to support the pricing matrix, when developed.



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Consistency of Standards: Mr. Goss noted the IIPTF previously agreed the task of monitoring for consistency of standards between NAESB and NERC was shared between the IIPTF and the NAESB Standards Review Subcommittee. Mr. Blohm noted there is currently a NERC standards drafting team for frequency control. It was suggested this drafting effort be monitored.

Agency: Mr. Goss stated the task force found agency, defined as who manages the infrastructure, to be outside of the task force, or at least low priority. Mr. Terelmes asked if there will be agency requirements in the standard. It was noted that although not specified, the issues of implementation will certainly arise. Mr. Goss did not disagree, but stated the task of the IIPTF was to develop the standard, and implementation of the standard would be developed separately. Further, he asserted the IIPTF would be more efficient and effective if it focused on the charge of standards development, rather than implementation issues for a standard that has yet to be developed.

Frequency: Mr. Goss stated the task force found frequency within its scope. Participants discussed the meaning of frequency. Mr. Blohm suggested frequency contribution is the other possible component of the price for inadvertent payback. Mr. Green noted the IIPTF has agreed to first review whether pricing the energy was sufficient prior to examining the frequency component. As a benchmark, Mr. Terelmes asked if frequency was accurately monitored to a point NAESB could develop a standard. Mr. Illian noted NERC is working on a measure of the frequency component, so the data would be available for use by NAESB.

Inadvertent not a problem within an ISO or RTO: Mr. Goss stated during the April 9 meeting participants generally agreed inadvertent was not an issue within an ISO or RTO. Mr. Green noted for the most part, an ISO is a single control area. He noted an outstanding issue can be seen through MISO, where there will be a large number of control areas. Mr. Terelmes stated MISO is moving away from a control area to control zones, and PJM has indicated it might make a similar move. Mr. Goins noted that TVA deals with MISO on scheduling, but the control areas for actual deliveries. Mr. Illian suggested the scheduling agent would be the participant for inadvertent interchange payback. Further, Mr. Illian stated the work of the task force is not affected by whether there are 10 or 100 control areas on the Eastern interconnection.

3. Other Business

Participants discussed additional items for the list of items for discussion developed during the April 9, 2003 IIPTF meeting. Mr. Goins stated the group should take into account constraints of individual organizations. For example, Mr. Goins stated TVA is only allowed to sell to a restricted number of customers. What would be the impact of settling with an organization outside of that list? He noted provisions should be made to take into account those constraints. Mr. Green stated that issue might not be isolated to TVA since all companies could be faced with credit challenges. Participants agreed to add discussion of this topic to the list, under the heading of Settlements.

Participants discussed the work product of the IIPTF. It was clarified the task force would develop a standard that would be submitted to the Market Operations Subcommittee (MOS), not a white paper or a report. Further, it was clarified nothing additional will be submitted to the NERC/NAESB Joint Interface Committee. For supplemental documentation on the process employed during development of the standard, Mr. Goss stated the minutes are the official record of the task force. It was noted that all meeting participants have the opportunity to review the minutes prior to adoption as final to assure are a complete record of the process.

The next IIPTF meeting will be held at the NAESB Offices in Houston, TX on May 8, 2003 from 9:00 a.m. to 4:00 p.m. Central.



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4. Adjourn

Mr. Goss adjourned the meeting at 2:43 p.m. Central.

5. Meeting Attendees

Name	Company	Notes
Terry Bilke	Midwest ISO	Phone
Robert Blohm	Economist	In Person
Keith Comeaux	Cleco Power	Phone
Phil Cox	AEP	Phone
Ed Davis	Entergy	Phone
Larry Goins	Tennessee Valley Authority	In Person
Bob Goss	SEPA	In Person/Chair
Terry Grabiak	Allegheny Power	Phone
Barry Green	Ontario Power Generation	In Person
Dowell Hudson	Ontario Power Generation	Phone
Howard Illian	Energymark	Phone
Lou Oberski	Dominion	Phone
Todd Oncken	NAESB	In Person/Admin
Tony Reed	Southern Co.	Phone
William Smith	Allegheny Power	Phone
Steve Terelmes	Ameren Energy	In Person
Dean Ulch	Southern Co.	Phone
Jeremy Weinstein	PacifiCorp	Phone