North American Energy Standards Board
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TO: NAESB Wholesale Electric Quadrant Inadvertent Interchange Payback Task Force, Posting for Interested Industry Participants

FROM: Meghan McMillan, NAESB Staff

RE: Final Minutes from the NAESB Wholesale Electric Quadrant Inadvertent Interchange Payback Task Force Meeting – May 8, 2003

DATE: June 4, 2003

Wholesale Electric Quadrant
Inadvertent Interchange Payback Task Force
May 8, 2003 (9:00 am – 4:00 pm Central)
Final Minutes

1. Welcome

Mr. Goss opened the meeting and introductions were made. Mr. Oncken gave the antitrust advice. Mr. Cox moved, seconded by Mr. Terelmes to adopt the draft minutes from April 29, 2003. Changes were recorded for the draft minutes and upon a procedural vote the minutes were adopted as amended.

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

Mr. Goss referred participants to the paper by Mr. Illian entitled *Inadvertent Interchange Energy Price*, which is posted on the NAESB web site as a work paper for this meeting. Mr. Illian made some minor corrections to his paper during the meeting. He reviewed the two sets of examples he developed which illustrate both bi-lateral and uni-lateral pricing methods for addressing inadvertent pricing. Mr. Illian concluded the bi-lateral pricing methods work, but do not eliminate gaming opportunity. However, he found the unilateral pricing method worked under the assumption that there was no energy price for the interconnection. Mr. Illian suggested the task force examine the effect on prices of exchanging inadvertent interchange through contractual agreements in order to find inadvertent pricing methodologies that are consistent with the task force's goals.

Participants discussed Mr. Illian's paper. During discussion it was noted the examples contained in Mr. Illian's paper operate under the assumption that energy received is always paid for, but the possibility of negative energy prices is not excluded. Mr. Terelmes stated Mr. Illian's model is a very good start but the task force still needs to examine how to define the energy price. He added that the energy pricing system in the model may be too specific, and it should include the cost involved for the party compensating for the inadvertent interchange when frequency is positive. Mr. Illian agreed with Mr. Terelmes' assessment, but added the task force should examine the causes of price differences between balancing authorities in order to develop an understanding of how to proceed. Mr. Illian suggested looking at examples where the conditional circumstance includes a different price for every balancing authority.

To move forward, Mr. Goss suggested the task force focus on the unilateral model. It was agreed the task force would defer discussion on the bi-lateral model, with the possibility that the IIPTF could work on a simplification of the bi-lateral model in the future. There was not initial consensus that a simplified bi-lateral model would be a viable option.

There was a brief discussion about the stability of the data provided by NERC concerning imbalance levels. Mr. Blohm noted the task force should be aware of the usability of the data. Mr. Goss stated the usability/stability of data is not a top priority for the IIPTF because entities simply use the data that is available at any given time. Mr. Ulch stated this is not the proper forum to discuss data integrity and he encouraged participants to bring these issues up with NERC.

Low Frequency

Mr. Terelmes suggested the task force examine Mr. Illian's example 2-1 on page four of his report. As an alternative to Mr. Illian's approach, Mr. Terelmes suggested accepting the highest price of all entities involved when frequency is low, as opposed to the average price used in Mr. Illian's example. Mr. Illian offered to provide another example using this scenario. Mr. Terelmes noted when dealing with a market there is both over- and under-collection. Mr. Blohm clarified that over-collection in this scenario would be relative to price differences. Mr. Blohm stated the issue here is where that collected money goes, and suggested the group explore the possibility of a redispatch fund, but cautioned any fund established should be large enough to cover the under-collection. It was noted that, while interesting, discussion of recovery allocation was premature at this time. Participants used Mr. Illian's example 2-1 as a vehicle to discuss over- and under-collection.

Mr. Illian volunteered to write another paper to investigate some of the scenarios discussed at this meeting and present it at the next meeting. It was left for Mr. Illian to adjust the suggested models appropriately for minimum load pricing examples. The following pricing methodologies were suggested to Mr. Illian to include as examples in his next paper:

- First pricing methodology

  The weighted average plus an adder related to the highest energy price of the balancing authority that contributed negatively

- Second methodology

  The highest energy price of the balancing authority that contributed negatively plus an adder that would be sufficient to meet C and D's (noted in example 2-1 of Mr. Illian's paper) energy price

- Third methodology

  The inadvertent would be charged at the next highest price per megawatt hour of the participants involved

- Fourth strategy

  Every balancing authority uses its own price. This example would be tied to the current market with the requirement that the prices must be operant prices in the hour ahead market.

Mr. Ulch suggested the task force list alternatives for developing the price for inadvertent. Mr. Illian stated the options should not be limited to a cost-based price but should consider market-based pricing which would include negotiations, contracts and other situations involved in dealing with energy.

It was noted a matrix prepared by Mr. Blohm, posted as a work paper, presents the above scenarios in a visual form. Mr. Blohm used the bi-lateral model as the basis for his matrix, but stated the scenarios illustrated are still valid for this discussion. Mr. Blohm asserted the matrix visually compares the good and bad impact of different pricing arrangements. On Mr. Terelmes' suggestion, Mr. Blohm agreed to coordinate his matrix with Mr. Illian's new paper and cross-reference the two documents.

High Frequency

Mr. Terelmes referred participants to example 2-4 in Mr. Illian's paper. He asked if there were any other issues the group would like to discuss with respect to this model. No additional issues were discussed.

It was agreed to review the matrix after the discussion of Mr. Illian's high frequency examples to determine if it can provide any additional information.

Participants agreed the IIPTF should consider how different regions deal with inadvertent interchange payback. In that review, Mr. Illian stated the task force should concentrate on the relationship between the balancing authority and the interconnection. Mr. Ulch stated if control areas are allowed to choose their own settlement proposals for inadvertent, those proposals should allow for any inadvertent business practices that come out of NAESB. Additionally, he added the task force needs to suggest to the industry that it would be helpful to internalize inadvertent on a regional basis.

Mr. Goss noted Mr. Ulch's concern about the use of the term balancing authority. Mr. Ulch suggested the task force use the term 'inadvertent balancing agent,' rather than balancing authority. Mr. Ulch volunteered to draft a definition to present to the task force at the next meeting. The task force will then review the definition for possible inclusion in the standard.

Mr. Terelmes suggested moving on to discuss energy price. Mr. Green noted the task force's objective is not to develop a system that cannot be gamed but to create a system that gives fair compensation for energy provided as a result of being on an interconnection. Mr. Illian stated the IIPTF should not address the frequency component right now, but instead concentrate on energy price. As a possible energy price solution, he suggested the standard might ask entities to pick their marginal energy price before their inadvertent status is known. Further, he theorized a foundation for the solution might be found in the existing hourly markets, if those markets are willing to present a price before prior to operation. Mr. Goss cautioned a standard that required market participants to put their prices out on the market in advance might face significant industry opposition. Mr. Illian suggested the pricing data might be held in confidence until the settlement occurs to the industry concerns with the approach. Mr. Terelmes volunteered to draft a proposal for this method to be discussed at the next meeting. Participants were encouraged to research the availability of pricing data in the different regions in light of today's discussions.

3. Other Business

The next IIPTF meeting is scheduled for June 4, 2003 (8:00am – 2:00pm Central).

4. Adjourn

The meeting was adjourned on May 8, 2003 at 2:17 p.m. Central.

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5. Attendees

Name	Company	In Person/Phone
Barton, Lisa	Northeast Utilities	Phone
Bissonnette, Victor	Hydro-Quebec Transenergie	In Person
Blohm, Robert	Economist	In Person
Brown, Ken	Public Service Electric & Gas	Phone
Cox, Phil	AEP	In Person
Goss, Bob	SEPA	In Person
Goins, Larry	Tennessee Valley Authority	Phone
Green, Barry	Ontario Power Generation	Phone
Halpin, Francis	Bonneville Power	Phone
Illian, Howard	Energy Mark	Phone
Maenner, Jim	Wisconsin Public Service	Phone
McMillan, Meghan	NAESB	In Person
Monroe, Carl	Southwest Power Pool	Phone
Oberski, Lou	Dominion Energy	In Person
Oncken, Todd	NAESB	In Person
Robertson, Barbara	Ontario Power Generation	In Person
Schwermann, Bob	SMUD	In Person
Smith, William	Alleghany Power	Phone
Terelmes, Steve	Ameren Energy	In Person
Ulch, Dean	Southern Company	In Person