

IPTF-Pricing Summary-Draft for Discussion May 15, 2003.

Intro

In our May 8th meeting in Houston we discussed two main topics. 1) Modeling Inadvertent Interchange in relation to Howard Illian's paper. 2) Identifying an unbiased price for each Inadvertent Balancing Agent to be inserted into the model as the energy price. The discussion related to the later topic is what I will here attempt to summarize.

Necessary

Because our market model for inadvertent interchange payback is monetary, there is a need for price input in the model. Prices must be pure and relative to the market price. Furthermore, this price, though potentially different among various model participants, cannot be unfairly biased in favor of any one model participant. Also, price indicators will come directly from the market and, therefore, should be submitted through a method that promotes similar pricing to that market.

Pricing will be used as an indirect tool to reward and penalize market participants for good and bad inadvertent respectively. Therefore, a market participant who is rewarded for good inadvertent should be compensated, at least, for his resulting cost. Furthermore, a market participant who is penalized for bad inadvertent should be charged, at least, a difference sufficient to discourage voluntary inadvertent.

Recommendations/Conclusions

- Prices should be derived from a 24-hour market. Because inadvertent is calculated hourly, it is necessary to have an hourly price signal. All regions currently have a market sufficient to produce an hourly market price indicator.
- Prices must be reported without bias. Unbiased market prices could be attained by requiring participants to provide market prices prior to knowledge of their net inadvertent position. However, if a market participant expects his inadvertent contribution to be significant, he may be persuaded to submit a false energy price in favor with his assumed inadvertent position.
- Price submission from market participants must be confidential.
- Participants may be reluctant to provide pricing information.
- Frequency of price submission remains to be determined.
- A separate, but equally viable, option for receiving price signals was briefly discussed. This option surrounded the concept of an energy price that reflected the frequency component. Such an option would not require market participant input nor would this option risk subjectivity, confidentiality, or refusal to participate. The potential confusion of this option would be a lack of direct correlation to market price.