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: Todd Oncken, NAESB Deputy Director

RE: Final Minutes from the NAESB Wholesale Electric Quadrant Inadvertent Interchange Payback Task Force Conference Call – July 23, 2003

DATE: July 25, 2003

Wholesale Electric Quadrant
Inadvertent Interchange Payback Task Force
July 23, 2003
(2:00 p.m. – 4:00 p.m. Central)

1. Welcome

Mr. Terelmes called the meeting to order. Mr. Oncken gave the antitrust advice. Participants introduced themselves. Mr. Terlemes reviewed the agenda. The agenda was adopted by consent.

Participants discussed the August 4 NERC-NAESB Coordination Meeting on IIPTF issues. Mr. Terelmes stated the meeting was planned to clarify the roles of NERC and NAESB with respect to inadvertent interchange payback. He said the IIPTF has based its standards development on the assumption that the NAESB business standard would settle inadvertent interchange energy based on data collected and provided by NERC. The August 4 meeting will test that assumption. Information on the August 4 meeting is posted on the NAESB website at http://www.naesb.org/weq/weq_market_operations.asp. Mr. Terelmes noted the result of the August 4 meeting would not affect the agenda for this meeting.

2. Business for Discussion - Pricing

Review of current pricing ideas: Mr. Terelmes reviewed the pricing methods to calculate an equivalent hourly price in bilateral markets when trading does not occur, which were developed during the July 9 meeting, as follows: 1) each party posts the price for inadvertent interchange payback; 2) calculation of the price through a step method based on the available data; 3) calculation of the price according to the energy price for a previous day, same hour – either the previous day or a day with a similar load; 4) the tariff rate for imbalance energy; 5) industry price or cost plus 10% - similar to the historical method for calculating the cost of emergency energy; or 6) the LMP price. It was clarified hourly price means the price in a real-time hour ahead market. Participants reached consensus on proceeding with discussions on the pricing methods noted above.

New pricing ideas: Mr. Illian suggested adding payback in kind as a pricing method to be evaluated.

Discussion of current pricing ideas pros and cons: Participants discussed the advantages and disadvantages of each of the proposed pricing methods. It was decided to continue to evaluate all of the pricing methods. Mr. Illian suggested it would be difficult to find a perfect pricing method, but the IIPTF should look for a method that is better than payback in kind.

Each party posts the price for inadvertent interchange payback. Since Mr. Illian proposed this method, he explained how it would work. He stated that at any point in time, an entity would know the price at which they would buy or sell energy. He said if each party was willing to post that price, it would provide an available price in the absence of hourly pricing. He noted an open issue is whether the party posting the price could benefit from the posted price. Mr.

Fidrych questioned market participants' willingness to post a price if they are not entering into a transaction, noting the difference between posting a price and offering a price to initiate a transaction. Mr. Cox questioned whether the posted price would then become the 'price to beat.' Mr. Terelmes said a disadvantage to this method is the level of detail required and the level of participation required of the market participants. Participants discussed the posting requirement. Mr. Illian stated that posting and making public immediately was not required, but the decision on the price should be made before the inadvertent.

Mr. Terelmes said another disadvantage would be the potential for a market participant to project his inadvertent interchange position for the next hour and set the inadvertent interchange payback price to produce a competitive advantage.

Calculation of the price through a step method based on the available data. It was noted the advantages and disadvantages of this method were similar to those for the posted price method due to the similarity that the market participant would set the price. Mr. Illian agreed this method was similar to the first method when looking to establish the price for a single hour that does not have an hourly price, but the calculation for multiple hours without an hourly price would be different. He stated pricing tends to be stepped instead of straight line. Stepping down on a gap of 10:00 p.m. to 6:00 a.m. would not likely be reflective of the actual price of the energy during those times.

Calculation of the price according to the energy price for a previous day, same hour. Participants discussed whether the applicable price would be the preceding day or a similar day. Mr. Illian stated that using similar day would produce an infinite definition. Mr. Terelmes suggested that previous day should be defined as the price on a similar previous day. Discussion revealed the following characteristics pertinent to the selection of the similar day: day of the week, weather, load pattern, and outages. Additionally, it was noted that two days with the same load pattern may have very different prices. Mr. Illian stated discussion revealed this method's greatest weakness – complexity. Mr. Terelmes suggested if the previous day could be determined, it could be almost a perfect price indicator. Mr. Terelmes stated the day comparison would probably have to be decided after the fact by an unbiased third party. Mr. Blohm cautioned about the dispute resolution implications of this method.

Tariff rate for imbalance energy. Mr. Cox stated a method to validate the price is built into the tariff rate for imbalances. He noted the tariff rate is established through a FERC process. Mr. Illian stated if using the tariff rate, the IIPTF should be careful to not use the FERC penalty as well. Additionally, he said this method should be evaluated to see whether it properly reflects changes in frequency. Mr. Terelmes suggested combining this method with another method. For example, he said the tariff rate could be used for times when the frequency was above 60 Hz. Further, Mr. Terelmes stated he would not oppose developing different pricing methods for different areas.

Mr. Illian noted the imbalance rates are developed with the understanding that an imbalance is an overtake, not an undertake. He suggested the IIPTF investigate how the tariff rate would work in an undertake situation. Additionally, he stated that when a solution is developed that deviates significantly from economic principles, the FERC has traditionally found the measure to not be cost justified.

Mr. Terelmes stated another disadvantage of this method is the possibility for market participants to adjust their inadvertent tariff rate through a FERC filing.

Industry price or cost plus 10% - similar to the historical method for calculating the cost of emergency energy. This method was not discussed due to its similarities with the tariff rate for imbalance energy method.

LMP price. Participants briefly discussed pricing the energy according to the LMP price, where available. Mr. Illian proposed to prepare a technical paper on using the LMP price for future discussion. The paper will not be completed until after the August 6 IIPTF meeting. Mr. Terelmes stated he has been participating in the MISO process addressing inadvertent interchange settlement. He noted there is a MISO Scheduling Working Group scheduled for 8:00 a.m. to 5:00 p.m. EST (dial number 334-240-1633, code 988122). He encouraged IIPTF participants to joint the call, noting it would likely highlight some of the issues on a more granular level than is being discussed in the IIPTF meetings and issues from one market participant operating in LMP.

It was noted MISO is exploring a method to internally value inadvertent interchanges other than LMP price. Mr. Terelmes stated that if MISO does develop a good pricing method, that method could be adopted by the IIPTF for use in external markets. Likewise, Mr. Illian noted that a method developed by the IIPTF, if scaled properly, could be adopted for use within an ISO.

Additionally, Mr. Terelmes stated the decision that the IIPTF would not go within the ISO to determine the price needs to be evaluated.

Payback in kind. Mr. Illian stated that some of the pricing methods noted above move from true market pricing. He suggested that if the energy price was not going to be a market-based price, payback in kind with a frequency control adder might provide the correct market signals. He suggested this would be a solution if the IIPTF was unable to develop an energy price. It was noted that if payback in kind was the method used, the counterparties to the transactions would have to both use that method. It would not appear to be feasible for one counterparty to settle in kind and the other to settle financially.

Other pricing issues: No other issues were discussed.

3. Other Issues for Discussion

No other issues were discussed.

4. Calendar of Meetings

Dates for upcoming WEQ IIPTF meetings were discussed as follows:

August 6 (9:00 a.m. – 3:00 p.m. Eastern) Philadelphia, PA
August 20 (2:00 p.m. – 4:00 p.m. Central) Conference Call
September 15 (1:00 p.m. – 4:00 p.m. Central) Austin, TX
September 16 (9:00 a.m. – noon Central) Austin, TX

5. Adjourn

The meeting adjourned at 4:00 p.m. Central.

6. Attendees

Name	Company	In Person/Phone
Terry Bilke	Midwest ISO	
Robert Blohm	Economist	
Keith Comeaux	Cleco Power	
Phil Cox	AEP	
Ed Davis	Entergy	
Mark Fidrych	WAPA	
Bruce Fleeger	Allegheny Power	
Francis Halpin	Bonneville Power Admin.	
Howard Illian	Energy Mark	
Greg Locke	North Carolina Power Agency	
Carl Monroe	Southwest Power Pool	
Lou Oberski	Dominion	
Todd Oncken	NAESB Deputy Director	Admin
William Smith	Allegheny Power	
Steve Terelmes	Ameren	Co-Chair
Thomas Vandervort	NERC	
Charles Wubbena	Seminole Electric	