Subj: **Default pricing of the energy component of Inadvertent Interchange**
Date: 7/29/2003 2:02:32 AM Central Daylight Time
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Sent from the Internet (Details)

The Taskforce is considering 4 ways of pricing the energy component of Inadvertent Interchange when an hour-ahead price is absent in a Balancing Authority.

1. Interpolation between the latest and earliest reasonably close hours that had a price
2. Extrapolation from the latest similar prior hour that had a price
3. Imbalance-energy tariff price
4. Next-hour payback scheduled to the Interconnection, which finds the counterparty in existing spot markets or in an Interconnection-operated voluntary pool of generators offering to increment or bidding to decrement.

Methods 1 &/or 2 could be used as a first choice by the Balancing Authority which has an hour-ahead market and which could choose its own particular extrapolation or interpolation provided it is defensible under challenge of just and reasonable.

Method 3 could be used as an alternative to 1. The disadvantage is potential discontinuity in pricing between market and cost-based tariff insensitive to time of day..

Method 4 could be used as an alternative to 1. The disadvantage is having the Interconnection now manage a second pool of funds to be received for scheduled decrements by generators, paid for scheduled increments by generators, and also paid for a reserve pool in case of insufficient voluntary bidding. The Interconnection will already be managing a pool of funds to receive and pay the differences in locational energy price between the Balancing Authority and the rest of the Interconnection. But these two pools of funds may be considered one and the same pool of funds insofar as funds are flowing into and out of the one pool precisely when funds are not flowing into or out of the other pool.

DIFFERENCE BETWEEN INADVERTENT ENERGY PAYBACK AND TIME-ERROR CORRECTION. The energy component of Inadvertent Interchange can be deliberately paid (received) back only by bilaterally scheduling the energy to (from) the Interconnection. A Balancing Authority cannot precisely control the amount of the Inadvertent energy flow between it and the Interconnection and so cannot precisely pay back Inadvertent energy unilaterally through a scheduled imbalance with the Interconnection since some of that imbalance will be offset by the Balancing Authority's own frequency response. Unlike Inadvertent energy payback, unilateral time-error correction can take the form of a scheduled imbalance which has the intended reverse effect on frequency regardless of accounting offset by the Balancing Authority's response. By the same token, time-error correction cannot be achieved by bilaterally scheduling energy since that has no effect on frequency. Time-error correction can also be done by scheduling the Interconnection's frequency or, equivalently, scheduling an offset to every Balancing Authority's Inadvertent, the offset being set proportional to bias.