



## 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 – August 20, 2003  
**DATE:** September 11, 2003

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**Wholesale Electric Quadrant  
Inadvertent Interchange Payback Task Force  
August 20, 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. Terelmes reviewed the agenda. The agenda was adopted by consent.

**2. Business for Discussion – Pricing**

Review of various control area Schedule 4 tariffs for pricing inadvertent: Mr. Terelmes introduced the topic and noted Schedule 4 tariffs address energy imbalances. Mr. Terelmes reviewed Ameren's Schedule 4, noting it is keyed to an over/under determination, where the transmission provider would purchase an oversupply at the rate of 90% of out of pocket cost and would charge for an undersupply at the rate of the greater of \$100 or 110% of hourly out of pocket cost. He stated the exception to that calculation would be when an oversupply causes increased out of pocket cost, where the rate would be 110% of the increased cost.

Mr. Terelmes noted Ameren's provisions did not appear to be significantly different from the Schedule 4 tariffs of other organizations. He suggested using the Schedule 4 tariff rate would remove the uncertainty of areas operating in the bilateral market that do not trade in the hour. Mr. Cox agreed and suggested using the Schedule 4 tariff would be a reasonable proxy instead of a complex formula. Further, he suggested if the providers of imbalance energy are willing to accept payment defined in Schedule 4 tariffs for imbalances, they would likely accept the same pricing methodology for inadvertent energy. Mr. Blohm did not agree.

Mr. Terelmes stated several of the Schedule 4 tariffs contain a deadband where no penalty is assessed. It was noted the task force has discussed the issue of deadbands before. Mr. Goss stated using a deadband could be a practical compromise position. He suggested, for example, that inadvertent within the deadband could be paid back in kind and inadvertent outside the deadband could be settled on a monetary basis. Mr. Cox agreed that could be a reasonable solution. Mr. Illian opposed the use of a deadband, stating it could be an opportunity for market participants to game the system or not respond appropriately to reliability requests.

Mr. Illian noted there was not clarity on whether the Schedule 4 tariff rate should be accepted in totality or whether parts of the Schedule 4 tariff rate were usable. Mr. Illian stated the key component of all Schedule 4 tariffs is the calculation of out of pocket cost required by the tariff. Mr. Illian agreed that rate could serve as a proxy for a market rate. Mr. Illian expressed concern that most Schedule 4 rates contain an 'arbitrary' penalty in excess of the energy cost. He stated the inclusion of a penalty in the rate would not allow a frequency adder to send the appropriate market signals. Mr. Terelmes expressed concern about using out of pocket cost derived via the Schedule 4 tariff. He noted there are times the market price is significantly different than system lambda. Mr. Reed agreed the markets would likely not transact at



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system lambda. Further, Mr. Terelmes said using the extracted out-of pocket cost means the NAESB standard could not simply refer to the Schedule 4 rate, thus eliminating the efficiencies of its use. However, he did agree using the extracted out of pocket cost would be preferable given the effect of the inclusion of a penalty factor in the Schedule 4 tariff rate on the frequency adder.

Mr. Illian suggested the task force do a survey of the Schedule 4 tariffs for all the Control Areas (CAs) on the interconnection to see if they contain provisions for out of pocket cost. Mr. Terelmes disagreed and said that process would be overly burdensome. He stated the standard could just say 'out of pocket cost'. Mr. Illian expressed concern that some areas would not be able to calculate out of pocket cost. It was also suggested that some CAs are not FERC jurisdictional or would not choose to make that information public.

Participants discussed how to define out of pocket cost. A suggested definition was 100% of the value of out of pocket cost as defined within the Schedule 4 tariff. Mr. Terelmes stated that definition would alleviate the need for the IIPTF to define the elements of out of pocket cost. Mr. Illian stated that definition was plausible since the FERC examines each Schedule 4 tariff and while all of the calculations tend to try and define something close to system lambda, the specific calculations are probably unique to each utility. The parties generally agreed that reliance on a FERC-approved rate that represents an estimate of cost was advantageous. It was noted that since some organizations do not have filed tariffs, reliance on tariff language requires caution.

Participants briefly discussed the scope of the task force's work and the progress thus far. Mr. Terelmes stated that while the several pricing models and methodologies have been researched and discussed, the final methodology has not been selected. However, he stated the task force is leaning towards locational pricing (Illian Model 5). Mr. Ulch asked what alternatives are being considered for areas where there are parties with and without tariffs to allow them to payback in kind. He expressed concern that by not making a provision for that situation, the task force had overstepped. He stated the real goal of inadvertent interchange payback was to encourage market participants to act responsibly. Mr. Schwermann agreed with Mr. Ulch's concerns and underscored the fact that the procedures being discussed might not be applicable to several market participants. Mr. Schwermann wanted to maintain the ability to payback in kind.

Mr. Terelmes stated the task force has been charged with establishing a pricing mechanism for inadvertent interchange payback, so the question of whether it is appropriate is irrelevant. He said once a method is determined, or the task force decides it is not possible, a report will be made to the NAESB Executive Committee and the draft standards will ultimately be subject to an EC vote and member ratification. Notwithstanding the sentiment for a standard that allows for payback in kind, Mr. Terelmes stated with the current technology and data the task force should be able to develop a pricing mechanism to settle inadvertent interchange. Mr. Goss disagreed with Mr. Terelmes statements on scope. He reviewed the charge of the task force, as per the NAESB Standards Request, noting the task of the group was to provide alternatives to the current payback in kind methodology. Further, he said there was not an expectation that the work of the IIPTF would result in a perfect solution. He suggested it would be acceptable to present a blended solution.

Mr. Terelmes stated that although final determinations have not been made on pricing methodology or elements, the task force has completed enough work to begin drafting a strawman standard which can ultimately be tested for sufficiency. He suggested the task draft a strawman at the next meeting – pulling together financial price (be it LMP or 100% of out of pocket cost, or something else), Illian Model 5, the frequency settlement model, and the data



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being provided by NERC. Mr. Schewermann requested that the strawman include language that the IIPTF has not determined how to address the needs of non-jurisdictional entities.

### 3. Other Issues for Discussion

No other issues were discussed.

### 4. Calendar of Meetings

Dates for upcoming WEQ IIPTF meetings were discussed as follows:

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	Comments
Robert Blohm	Economist	
Roman Carter	Southern Company	
Phil Cox	AEP	
Ed Davis	Entergy	
Mark Fidrych	WAPA	
Bob Goss	Southeastern Power Administration	Co-chair
Barry Green	OPG	
Francis Halpin	Bonneville Power Administration	
Howard Illian	EnergyMark	
Mark Lively	Utility Economic Engineers	
Carl Monroe	Southwest Power Pool	
Todd Oncken	NAESB Deputy Director	Admin
Tony Reed	Southern Company	
Bob Schewermann	SMUD	
William Smith	Allegheny Power	
Steve Terelmes	Ameren	Co-chair
Dean Ulch	Southern Company	
Raymond Vice	Southern Company	