



North American Energy Standards Board

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via email and posting

TO: NAESB WEQ Market Operations Subcommittee Participants and Interested Parties
FROM: Rae McQuade, Executive Director
RE: Wholesale Electric Quadrant Market Operations Subcommittee Kick-Off Meeting Minutes - January 24, 2003
DATE: January 31, 2003

**NORTH AMERICAN ENERGY STANDARDS BOARD
WEQ MARKET OPERATIONS SUBCOMMITTEE KICK-OFF MEETING
January 24, 2003**

1. Administrative

Ms. Paravalos welcomed attendees and thanked EEI for hosting the meeting. Ms. Paravalos announced that she and Mr. Oberski would chair today's meeting. Mr. Oncken gave the antitrust advice. The agenda was adopted without modification.

Ms. Paravalos noted participation in the WEQ Market Operations Subcommittee (MOS) is open to all interested parties, regardless of NAESB membership. Ms. Paravalos discussed voting procedures for NAESB subcommittees. She explained standards related motions require a balanced voting procedure, with the threshold for passage being a simple majority of the balanced vote. Conversely, procedural motions, such as adopting the agenda or assigning work to task forces, do not require a balanced vote, but instead require a simple majority of those voting for passage. Ms. McQuade informed participants that NAESB membership is not required to vote at the subcommittee level.

Ms. Paravalos noted the items of the agenda will not be discussed in order to allow for discussion of the MOS annual plan assignments prior to discussion of selection of MOS leadership. Ms. McQuade clarified at least one co-chair of the MOS should be an EC member, but anyone can lead a task force. Additionally, regarding the proper role of task forces and subcommittees in the NAESB process, Ms. McQuade clarified NAESB as an organization does not advocate and any communication between NAESB and the FERC occurs through status reports provided by the NAESB Managing Committee.

2. Review of Annual Plan Items Assigned to Market Operations Subcommittee (MOS)

Ms. Paravalos stated Annual Plan Item 4, Develop business practices standards to Improve the Current Operation of the Wholesale Electric Market, and Annual Plan Item 6, Develop business practices standards for Inadvertent Interchange Payback Practice, were assigned to the MOS. Ms. Paravalos proposed the group discuss item 6 first, then move on to item 4.

Mr. Corneli generally discussed the NAESB process for requesting a standard through the use of the *Request for Initiation of a NAESB Standard for Electronic Business Transactions* form. Mr. Corneli noted, pursuant to the NERC/NAESB MOU, all WEQ standards requests must go through a Joint Interface Committee (JIC) review process via the NAESB standards request form. Mr. Desselle concurred. Additionally, Mr.



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Desselle said essentially everything on the NAESB WEQ Annual Plan will go through the JIC process.

Annual Plan Item 6:

Mr. Benjamin provided background on inadvertent interchange payback, noting inadvertent interchange payback is included in NERC Policy 1. Mr. Benjamin explained an inadvertent interchange payback is caused by a control area imbalance, since the match between load and transmission is never exactly the same. To keep the system in balance and properly functioning, other companies in the control area contribute energy to make up for the imbalance. To frame the issues, Mr. Benjamin discussed inadvertent interchange payback in terms of both the current rules and the projected future environment of unbundling and the NERC functional model.

According to the current model, Mr. Benjamin said the inadvertent interchange must be paid back through energy in kind, with peak energy being paid back with peak energy and off peak energy being paid back with off peak energy. To pay back the inadvertent interchange, the company could either schedule the interchange with another company (bilateral), thereby posting the transaction to both of their accounts, or just send the energy into the interchange (unilateral) and write it off its inadvertent interchange books. Mr. Benjamin noted, when taking the second approach, the company must be careful not to cause an additional imbalance in the system. Mr. Benjamin identified time errors as an additional effect of inadvertent interchange, because a bilateral payback exchange traps a time error in the interconnection, but theoretically, a unilateral exchange will not create a time error. Mr. Benjamin identified the definitions of peak/off peak as a potential area for NAESB standards work.

Next, Mr. Benjamin discussed inadvertent interchange in the unbundled market. Mr. Benjamin said under the NERC model, control areas are not defined, but a balancing authority is close to a current control area. Under the new model, the balancing authority, which might or might not own or operate generators, would potentially accumulate inadvertent interchange imbalances. Theoretically, a market operator will operate a balanced market, but if the balancing authority fails to balance its area, for whatever reason, there will be an inadvertent interchange between that balancing authority and the rest of the interconnection. Mr. Benjamin said there is still a debate about time error corrections, since generators need to contribute to the time error corrections. So, Mr. Benjamin surmised, in an unbundled environment, the question becomes who pays for an inadvertent interchange. Mr. Benjamin identified this as a key item in the inadvertent interchange payback standards development effort to be undertaken by NAESB on its 2003 WEQ annual plan.

Participants asked questions of Mr. Benjamin to further develop the issues. Ms. Paravalos asked if there were problems accounting for or settling the inadvertent interchanges. Mr. Benjamin responded that the accounting is not a major issue. Mr. Benjamin said one of NERC's jobs is to balance the East and West regions each month. He theorized that potential difficulties could arise when the parties to the balancing do not agree, but noted there is a dispute resolution process. Mr. Benjamin identified dispute resolution process as another potential area for NAESB standards work. Mr. Corneli observed that there might be distinct issues in the vertically integrated control area as compared to the unbundled industry. Mr. Benjamin concurred, adding that since the physics are the same in both cases, it is basically how the money flows. Mr. Corneli said NAESB might be able to develop a simple approach to the integration situation, but the more complex issues of unbundling might involve developing



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standards that would help solve the issue of balancing other things. Mr. Benjamin favored that approach, noting the high likelihood of changing markets in the near future.

Mr. Blohm reviewed his mechanism for pricing inadvertent interchange imbalances. Mr. Blohm explained energy has a price at any given moment. Mr. Blohm noted some companies have capitalized on that fact and mixed the control area with the market area, thus in effect turning inadvertent interchanges into a commodity that could be traded to produce a margin, thus requiring consideration of the economics of pricing.

Mr. Blohm continued, noting that in an emerging market, simple energy payback in kind for inadvertent interchanges might not be sufficient. He favored an inadvertent interchange payback model that contained rewards and penalties, but added that it would be difficult to administer such a system with many key factors unanswered – such as who would receive the proceeds of the ancillary services, who would assess the penalties and how the how the penalties would be determined. He envisioned that the penalties and rewards could become their own market, being traded much like the pollution credits are currently being traded. NERC has developed a probabilistic way of evaluating a party's use of inadvertent interchange that could be used.

Mr. Schwermann commented that monitoring a company's market behavior regarding inadvertent interchanges should be done by the control areas, since it is the function of a control area to balance the interchanges. He questioned the reasoning behind rewards for appropriate market behavior.

Participants agreed to create a task force and assign it the task of scoping the inadvertent interchange issues. *See discussion below for formation details.*

Annual Plan Item 4

Mr. Oberski initiated discussion of Annual Plan Item 4. Mr. Oberski proposed the MOS prioritize subparts a-h to determine which areas require immediate attention. Mr. Oberski suggested establishing task forces based on the prioritization, with the option of combining subparts to be worked on by the same task force.

Parties voiced concerns regarding an apparent overlap of between Annual Plan Items 4 d-h:

- 4d. Develop business standards as necessary to resolve seams issues between ISOs and RTOs.
- 4e. Develop standards for data requirements, data exchange and scheduling of day-ahead and real-time bilateral markets.
- 4f. Examine business practices and definitions currently in use to determine applicability on a North American basis.
- 4g. Catalogue, assess and prioritize existing “standards” that have significant business practice implications.
- 4h. Review activities of NERC CIPAG in light of NERC-NAESB MOU regarding cyber security requirements for their business practice and system communication standards implications.

and Annual Plan Items 2 a-b which were assigned to the Market Standards Subcommittee (MSS):



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- 2a. Develop business practice standards as needed for OASIS and electronic scheduling including determining which, if any, ESC/OSC and other related industry groups' business practices and standards should be developed into NAESB standards.
- 2b. Develop standard communication protocols and cybersecurity requirements as needed for OASIS and electronic scheduling including determining which, if any, ESC/OSC and other related industry standard communication protocols and cybersecurity requirements should be developed into NAESB standards.

The participants agreed that if overlap is discovered, the MOS would request the Executive Committee modify the assignment of annual plan items at the February Executive Committee meeting. Mr. Sorensen said his understanding was that MOS would handle issues of today's market, and MSS would handle issues in the future market. Mr. Davis concurred with Mr. Sorensen's understanding, and noted the MSS is developing a mission statement to differentiate the MSS from the other WEQ subcommittees. Ms. Ogenyi suggested clarifying the annual plan items to develop a schema where the MOS would identify the issues and develop a near term solution, if practicable, or send the action to the MSS for a significant long-term change. Mr. Oberski noted that task force participation was open and MSS members could work with an MOS task force in situations where there was perceived overlap.

The participants initiated discussion of prioritization of items 4a-h. Mr. Oberski noted there are really two issues to be considered when evaluating the priorities: 1) identification of the needs for standards; and 2) development of standards. After extensive discussion, the MOS reached consensus on the following prioritization and task force creation:

- 1) formation of a task force to address items 4 a and c:
 - 4a. Establish a standardized electric trading day.
 - 4c. Establish standard business practices relating to: i) Definition and treatment of firm/nonfirm power; ii) Definition and treatment of firm/nonfirm transmission; iii) Provision of reserves for transactions across multiple control areas.with a high prioritization - a request and scoping document to be developed by March;
- 2) formation of a task force to being work on item 4 d:
 - 4d. Develop business standards as necessary to resolve seams issues between ISOs and RTOswith a longer time frame for completion of work product - a request and scoping document to be prepared after March;
- 3) proposed formation of a task force at or after the March MOS meeting to address items 4 b, e, and h:
 - 4b. Identify and develop business practices on the public dissemination of market information
 - 4e. Develop standards for data requirements, data exchange and scheduling of day-ahead and real-time bilateral markets



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- 4h. Review activities of NERC CIPAG in light of NERC-NAESB MOU regarding cyber security requirements for their business practice and system communication standards implications
- ; and
- 4) each of the task forces will work individually on items 4 f and g in their efforts to determine whether standards are needed and if so, develop them:
 - 4f. Examine business practices and definitions currently in use to determine applicability on a North American basis.
 - 4g. Catalogue, assess and prioritize existing “standards” that have significant business practice implicationsrather than establishing a separate task force.

It was noted the task force working on items 4 a and c will probably interact with the WEQ Contracts subcommittee as standards are developed.

In discussions on item 4 h, “Review activities of NERC CIPAG in light of NERC-NAESB MOU regarding cyber security requirements for their business practice and system communication standards implications”, it was noted that NERC already has an initiative underway with CIPAG and FERC to identify needed standards, including a Public Key Interchange (PKI) initiative. There were some questions on the status and immediate next steps. Mr. Benjamin noted that he would inquire with NERC as to the progress made to date. Ms. McQuade noted that Mr. Buccigross from the NAESB EC was invited to participate as a member of the PKI group and she would inquire from him and provide an update as well. Mr. Brown noted that this effort would also be discussed at the upcoming February 4 FERC technical conference. Though no action other than updates from Mr. Benjamin and Ms. McQuade are needed at this time, several noted their willingness to work on this action item when it becomes active, including Tim Gallagher, Don Benjamin, Larry Brown, Paul Sorenson, Wally Johnson, Barbara Rehman, and Ms. McQuade added that she would ask if Mr. Buccigross would like to participate, as he is the NAESB representative on the PKI group.

3. Identification of work plan steps for the MOS Annual Plan Items

See discussion in agenda item 2.

4. Set Up of Task Forces to address plan items

The MOS established three task forces to begin work on Annual Plan Items 4 and 6.

Inadvertent Interchange Payback Practice Task Force

The following individuals volunteered for the task force: Mr. Weinstein, Mr. Goss, Mr. Bluhm, Mr. Hobbs, Mr. Schwermann, Mr. Monroe, Mr. Hudson, Mr. Benjamin, Mr. Hartwell, Mr. Oberski, Mr. Maenner, and Ms. Ogenyi. Mr. Goss, Mr. Blohm and Mr. Hobbs have volunteered to serve as the point people for the task force.

The Inadvertent Interchange Payback Practices Task Force is charged with scoping the inadvertent interchange issues and if they determine that standards are needed, developing a standards proposal based on the scoping document. Mr. Desselle noted that while NAESB does not decide policy, a task force could frame a policy issue, or even “tee it up” for FERC consideration. Mr. Corneli suggested the task force brainstorm about the different possibilities that could be proposed or possible concepts for standards, including standards that would address the issues of good vs. bad



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interchanges, in-kind payback, integration of the two types of balancing authorities, the metric, and the types of transactions needed to price out inadvertent interchanges.

The Inadvertent Interchange Payback Practices Task Force set March 3 as a target date for the scoping document to allow time for review and approval by the MOS prior to the March 21 JIC meeting. To achieve that target, a task force conference call will be held in early February, followed by a task force meeting during the February Executive Committee meeting being held in New Orleans. Members of the JIC noted that while all NAESB work on inadvertent interchange will go through the JIC process, NERC has preliminarily determined inadvertent interchange was a business practices issue.

Task Force for Annual Plan Item 4 d

The following individuals volunteered to participate in the Item 4 d Task Force: Ms. Perlman, Ms. Voeck, Mr. Thompson, Ms. Horn, Mr. Davis, Ms. Ogenyi, Ms. Carrado, Ms. Paravalos, and Mr. Reed.

Ms. Ogenyi suggested that in its work, the task force look to the work currently being done on seams issues by the RTOs and ISOs. The group reached consensus that work on item 4 d should be exploratory in nature at this point, resulting in a scoping document which would investigate and identify problematic issues. However, this work would provide the MOS with needed background when the FERC issues a policy directive on seams issues. The parties seeing item 4 d as an overlap item concurred with this approach.

Task Force for Annual Plan Items 4 a and c

The following individuals volunteered to participate in the Items 4 a and c Task Force: Mr. Schwermann, Mr. True, Mr. Reed, Mr. Harshbarger, Mr. Maxfield, Mr. Frazier, Mr. Hopf, Mr. Lemmons, Mr. Thompson, Mr. Oberski, and Ms. Barton.

5. Elect Co-chairs

Mr. Oberski and Ms. Paravalos expressed interest in remaining the co-chairs of the MOS. Mr. Oberski opened discussion of the selection process for the MOS leadership, including the option of holding a formal election. Mr. Goss proposed closing nominations and electing Mr. Oberski and Ms. Paravalos by acclamation. Accordingly, on unanimous consent, Mr. Oberski and Ms. Paravalos were named the co-chairs of the MOS.

6. Calendar of Meetings

WEQ Contracts Subcommittee Kick Off meeting: Tuesday, January 28, 2003

WEQ Standards Review Subcommittee Kick Off meeting: Thursday, February 6, 2003

WEQ MOS meeting: Thursday, March 6, 2003.

7. Other Business

No other business was discussed.

8. Adjourn

Mr. Oberski adjourned the meeting at 1:36 p.m. EST.



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9. Meeting Attendees:

Name	Company	Notes
Jeffrey Ackerman	Western Area Power Administration	
Lisa Barton	North East Utilities	
Don Benjamin	NERC	
Robert Blohm	Economist - JIITF (NERC)	
Paul Cox	AEP	
Bill Bourbonnais	Wisconsin Public Service Company	Phone
Bob Burkard	NCMPA1	Phone
Regina Carrado	Exelon Generation Company	
Gerry Cauley	NERC	Phone
Steve Corneli	NGR	Phone
Ed Davis	Entergy	Phone
Michael Desselle	AEP	
Edison Elizeh	PacifiCorp	Phone
Doug Frazier	Chelan County Public Utilities Dist.	
Tim Gallagher	NERC	
Michael Gildea	Duke Energy North America	
Cara Gigliotti	Allegheny Power	Phone
Bob Goss	SEPA	
Barry Green	Ontario Power Generation	Phone
Robert Harshbarger	Puget Sound Energy	Phone
Jim Hartwell	Northeast Power Coordinating Council	
Clarence J. Hopf	Ameren Energy, Inc.	
William Heinrich	New York Public Service Commission	Phone
Chris Hickey	Manitoba Hydro	Phone
Dowell Hudson	Ontario Power Generation	Phone
Kelly Hunter	Manitoba Hydro	Phone
Amr A. Ibrahim	ISO-NE	
Walter A. Johnson	Potomac Electric Power Company	
Gary Jackson	Tennessee Valley Authority	Phone
Nasser Jaleeli	PCE	Phone
Alan Johnson	Mirant	Phone
David Lemmons	Xcel Energy	
Cecilia Liang-Nicol	Allegheny Energy Supply	Phone
Rae McQuade	NAESB, Executive Director	Administrative
Greg Maxfield	PacifiCorp	Phone
Chris Mickey	Manitoba Hydro	Phone
Carl A. Monroe	Southwest Power Pool	
Sherri Monteith	AEP	
Jeff Mueller	PSE&G	
Bill O'Hara	Northeast Utilities	
Lou Oberski	Dominion Energy Marketing	MOS Co-Chair



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Name	Company	Notes
Brent Ohr	Mirant Canada	Phone
Todd Oncken	NAESB	Administrative/Phone
Mary Ellen Paravalos	National Grid USA	MOS Co-Chair
Marjorie Perlman	Rochester Gas & Electric	Phone
Ross Pultz	Ohio Consumers' Counsel	Phone
Tony Reed	Southern Company	
Barbara Rehman	Bonneville Power Administration	Phone
Bob Schwermann	Sacramento Municipal Utility District	
Paul Sorenson	Open Access Technology	
Lisa Szot	California ISO	Phone
Simon Tam	PJM	
Ed Thompson	Consolidated Edison Company of NY	Phone
Ed Tymofichuk	Manitoba Hydro	Phone
Roy True	ACES Power Marketing	
Julie Voeck	American Transmission Company	Phone
Jeremy Weinstein	PacifiCorp	Phone
Tammy Weis	Tenaska Power Services	
Matt Wolf	Entergy	Phone
Charles Yeung	Reliant	Phone