

General Comment and Warning. This draft strawman is evidence of NAESB's resources-poor inability to develop standards based on other than seat-of-pants top-of-the-head talking, with no sustained investigative or expert support. This is a deadly procedure when the challenging detail of pricing and of reliable electric operations is at stake. Since, unlike NERC, NAESB has no prospect of receiving a Congressionally legislated budget or mandate to support in-depth expert debate and development, commercial standards development for NERC-jurisdictional entities should be devolved back to NERC. The draft strawman represents but an hour-&-a-half of work: it shunts and disables a year and a half of expert development within the NAESB process, and 9 months of work in the NERC JIITF process. The draft strawman is in fact a choice to sanction a year and a half of obfuscation to delay implementation of a process to settle inadvertent interchange. The draft strawman, if not designed to be "dead in the water" of NAESB voters and thus delay the settlement process further, does, just in case accepted, not change the current dire economic and reliability situation. This is an outrage in light of well-publicized Enron trading practices that took advantage of the economic opportunity of unpriced Inadvertent Interchange! Moreover, while Nero fiddles, Rome burns: the perverse economic incentives of the current situation, if the trend continues, will drive the Eastern Interconnection **in less than a year from now** to explode into violation of NERC's upper limit on the average of 1-minute frequency errors, and violations on a mass scale of the upper limit on BAs' control performance, a control-operations crisis the likes of which the North American system has never seen (aside from a much smaller-scale one in ERCOT still festering) and that the members of NAESB's IIPTF should be directly held accountable for! My comments to specific sections of the updated draft strawman:

Section 4. **Bandwidth exempts practically all of the MW of inadvertent interchange and has a perverse effect on frequency drift!** By MISO Terry Bilke's graph posted to the last IIPTF meeting (http://www.naesb.org/pdf/weq_iiptf062304w4.doc) the bandwidth will exempt 93 % of all the MW of Inadvertent from treatment any different from today. That's a 93 % violation of the mandate given to the IIPTF to solve the economic, and indirectly the reliability, crisis posed by Inadvertent Interchange. The RMS of 1-hour frequency errors is 11.76 mHz according to Terry's graph, startlingly higher than than the 9.5 mHz recently estimated. Furthermore, the bandwidth has an especially perverse effect on the frequency drift crisis once the RMS of frequency reaches the CPS1 limit. From that point onward, the longer non financial settlement of inadvertent is allowed and causes frequency to continue to drift, MORE of the MW of inadvertent will occur when INSIDE the bandwidth, not outside. This is because the NERC CPS1 Standard causes the statistical distribution of frequency to spike once the RMS of frequency reaches CPS1's 18 mHz bandwidth on the average of 1-minute frequency errors, and continued average frequency drift toward the edge of that bandwidth forces MORE, not less, of the MW of inadvertent interchange to occur when inside the bandwidth, not outside. From that point onward, the worse inadvertent interchange gets and is reflected in frequency drift, the LESS financial settlement there will be (outside the bandwidth) to incent reducing the inadvertent interchange causing the frequency drift.

Section 5. **No enforceable payback mechanism inside bandwidth.** No enforceable payback mechanism inside the bandwidth is proposed. Accumulation/parking of Inadvertent is allowed as usual. Moreover, for the 93 % of the MW of Inadvertent Interchange, the crude classification in section 3 between on-peak and off-peak is obsolete and predates deregulation and hourly market pricing of electricity or fuel, and significant day-to-day or weather-driven price differences and, so, does not begin to capture or rule out the economic gaming opportunities offered by payback-in-kind.

Section 6. **No documented expert support available for single fixed price.** The strawman rejects the very idea of technical expertise. The single fixed price in the strawman is supported by no documented investigation whatsoever, is supportable by no economics or system-operations experts, and is therefore indefensible in any recognized rate-making process. Without such defense on the basis of sound competitive cost-based or market-based economics and sound system-operations engineering, the strawman is sure to be rejected by both the industry and FERC. It was only when the NERC JIITF proposed a frequency contribution price that was to be temporarily administratively determined that NERC Operating Committee members raised major concern. They wanted justification for an administered price. In fact, **unchallenged** documented investigation by experts, who are also NERC Registered Ballot Body members, has been posted throughout the IIPTF process to the effect that any single industry-wide fixed-price for inadvertent interchange (as for any commodity) has no sound basis in economics or in reliable system-operations. Obvious immediate perverse impacts on both congestion and frequency are mentioned in my comment (http://www.naesb.org/pdf/weq_iiptf062304w7.doc) posted to the last IIPTF meeting on the preliminary version of the draft strawman. That expert process has produced an unchallenged alternative simple solution to the problem coincident with the NERC JIITF proposal: (a) native prices for energy, (b) a fixed MWhrhz price for contribution to frequency error, and (c) no deadband.

Section 8. **Missing essential "price discovery" mechanism** The content of this all-important section is still missing. "Price discovery" normally involves recognition of local cost or price differences, determined by markets or in cost-based tariff proceedings. Without the crucial detail of this ambitious mechanism, still to be provided by one individual, AEP's Phil Cox, on the basis of no sustained visible investigation of his own, the strawman is meaningless.

Section 9. **Testing lacks any specific "claim" being tested.** The proposed "testing" is meaningless without detail other than mention of "Real Time" and "Real Data". In particular, the job of testing is to prove that the strawman will have sound economic and operations results that have not even been described in elementary documented investigation that needs to precede testing.