

**TWO KINDS OF BILATERAL FINANCIAL SETTLEMENT OF INADVERTENT INTERCHANGE
INADVERTENT INTERCHANGE PAYBACK TASKFORCE
BUSINESS PRACTICES SUBCOMMITTEE, NORTH AMERICAN ENERGY STANDARDS BOARD**

At the last meeting the Taskforce voted down a motion by Mark Lively to allow bilateral settlement of Inadvertent Interchange, in other words direct settlement between two control areas rather than with the Interconnection. I believe the motion applies to only one kind of financial settlement but not to another. I believe the intent of the vote was to rule out capture by two control areas of revenue that otherwise would go to the Interconnection (perhaps for pro-rata redistribution to all the Control Areas on the Interconnection). That capture would be analogous to two parties transacting for energy across a congested interface and, instead of paying funds for a right to use the congested interface, dividing those funds among themselves and paying nothing for using the congested interface.

I believe another kind of financial settlement, or contract, would still be allowed between control areas while they remain obligated to settle with the Interconnection and not between themselves. I am referring to a "contract" in which one control area (A), in exchange for some fixed contractual compensation by another control area (B), undertakes to pay that control area's (B's) settlements with the Interconnection for (B's) Inadvertent Interchange. The advantages of such a financial contract are fixed price certainty for the contracting control area (B), and the possibility of profit to the contractor control area (A) if it (A) winds up having to pay out to the Interconnection on B's behalf less than it (B) paid (to A) for the fixed contract. If B, in turn, signs a contract undertaking to pay A's inadvertent settlement with the Interconnection, the two contracts constitute a "contract for differences" in which A and B will each settle with the Interconnection, and A & B will merely exchange the "difference" between their net payments.

I believe the intent of the vote on Mark's motion should be clarified as not applying to this second kind of "bilateral" contract. In fact, Mark's wording needs to have been more explicit. So, I believe it is for Mark to propose a new motion specifying this second kind of "bi-lateral" contract. Otherwise, technically this second kind of innocent bi-lateral contract is ruled out as it stands, a situation worse than before Mark proposed the vague motion. Prior to that time, the taskforce had passed a motion stipulating only that all physical inadvertent was deemed to be between a control area and the Interconnection and not between two individual control areas unless the Interconnection consists of just those two control areas..