

SINGLE-PRICE MARKETS
INADVERTENT INTERCHANGE PAYBACK TASKFORCE
BUSINESS PRACTICES SUBCOMMITTEE, NORTH AMERICAN ENERGY STANDARDS BOARD

At the last meeting the Taskforce, the discussion of Al DiCaprio's proposal to price Inadvertent energy at the highest price on the Interconnection was based, I believe, on a fundamental misunderstanding of single-price markets. The principle of single-price as the highest price applies only absent transmission congestion, and other anomalies, that cause prices to differ between control areas. In transmission-congested markets, there are multiple prices, not a single price. In particular, transmission congestion breaks the single-price market into several single-price sub-markets, each with a single-price different from the other sub-markets'.

Accordingly, the DiCaprio proposal would override/ignore transmission congestion, in violation of NERC's JIITF's White Paper's decomposition of Inadvertent Interchange. The DiCaprio proposal would, in effect, do something similar to the rejected Lively motion to bilateralize Inadvertent settlement and thereby take revenue away from the Interconnection. The DiCaprio proposal would take all the price-difference revenue (including congestion revenue) away from the Interconnection and hand it all to the generators in excess profit, instead of allowing the Interconnection to redistribute that excess revenue on a load-share/generation-share basis to all the control areas on the Interconnection. If the locational price differences were clearly due to congestion, those excess revenues appropriately go the transmission (rights) owner.

The DiCaprio proposal also runs the risk of incenting low-price control areas to over-provide inadvertent when it's needed by the Interconnection, making it suddenly unneeded by reversing the direction of frequency error and thereby creating instability. Locational prices would remove such extreme-gain, extreme-loss, incentives/disincentives and tend to stabilize the Interconnection rather than destabilize it.