

Subj: **Default pricing of the energy component of Inadvertent Interchange**  
Date: 8/4/03 2:16:24 PM Central Daylight Time  
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To: WEQ Inadvertent Interchange Payback Task Force  
*Sent from the Internet ([Details](#))*

The Taskforce is considering 4 ways of pricing the energy component of Inadvertent Interchange when an hour-ahead price is absent in a Balancing Authority.

1. Interpolation between the latest and earliest reasonably close hours that had a price
2. Extrapolation from the latest similar prior hour that had a price
3. Imbalance-energy tariff price
4. Next-hour payback scheduled to the Interconnection, which finds the counterparty in existing spot markets or in an Interconnection-operated voluntary pool of generators offering to increment or bidding to decrement.

Methods 1 &/or 2 could be used as a first choice by the Balancing Authority which has an hour-ahead market and which could choose its own particular extrapolation or interpolation provided it is defensible under challenge of just and reasonable.

Method 3 could be used as an alternative to 1. The disadvantage is potential discontinuity in pricing between market and cost-based tariff insensitive to time of day..

Method 4 could be used as an alternative to 1. The disadvantage is having the Interconnection now manage a second pool of funds to be received from (a) generators who decrement and (b) Balancing Authorities who elect not to pay back in kind, and paid (a) to generators who increment, (b) to Balancing Authorities who elect not to be paid back in kind, and (c) for a reserve pool in case of insufficient voluntary bidding. The Interconnection will already be managing a pool of funds to receive and pay the differences in locational energy price between the Balancing Authority and the rest of the Interconnection. But these two pools of funds may be considered one and the same pool of funds insofar as funds are flowing into and out of the one pool precisely when funds are not flowing into or out of the other pool.

**DIFFERENCE BETWEEN INADVERTENT ENERGY PAYBACK AND TIME-ERROR/FREQUENCY CORRECTION.** The energy component of Inadvertent Interchange can be deliberately paid (received) back exactly only by bilaterally scheduling the energy to (from) the Interconnection. A Balancing Authority cannot precisely control the amount of the Inadvertent energy flow between it and the Interconnection and so cannot precisely pay back Inadvertent energy unilaterally through a scheduled imbalance with the Interconnection since some of that imbalance will be offset by the Balancing Authority's frequency response and by other Balancing Authorities' imbalances net of their frequency response. The same applies to unilateral time-error correction or a Balancing Authority's restoration of frequency from that Balancing Authority's own disturbance, and those take the form of a scheduled imbalance intended to have an exact reversing effect on frequency regardless of accounting offset by Balancing Authorities' response. On the other hand, time-error correction or frequency restoration cannot be achieved by bilaterally scheduling energy since that has no effect on frequency. Accordingly, the imbalance scheduled by a Balancing Authority to correct frequency error and maintain its NERC Control Performance Standard score would be regarded as new Inadvertent to be paid back bilaterally, rather than as itself a payback of Inadvertent. Time-error correction can be deliberately done exactly by scheduling the Interconnection's frequency or, equivalently, scheduling an offset to every Balancing Authority's Inadvertent, the offset being set proportional to bias. The unilateral Inadvertent incurred to offset those schedules does not serve to pay back Inadvertent.