

Subj: **Schedule 4 tariffs address energy-price cashout, not frequency contribution cash-out. A "default", not a replacement, for market prices.**
Date: 8/7/03 2:57:09 PM Central Daylight Time
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To: WEQ Inadvertent Interchange Payback Task Force

Mark Lively claims that Schedule 4 tariffs and LMP exclusively will serve to "cash out" Inadvertent in lieu of his WOLF pricing mechanism. There are 3 big problems with this claim:

1. They will serve to cash out the energy portion of Inadvertent, but not the Frequency Contribution portion which his WOLF pricing mechanism does include. Curiously, Mark Lively seems to reject any Frequency Contribution Component that is not the one rolled into his WOLF energy-plus-frequency-component algorithm!

2. Furthermore, any hour-ahead market will also serve to cash out the energy portion of Inadvertent, not just the ISO/LMP markets.

----If we exclude other hour-ahead markets we are practicing market/price discrimination by favoring one set of hour-ahead markets but not another.

----Indeed, the IIPTF has been considering the use of Schedule 4 tariffs as a "default" price for the energy component of Inadvertent only in the "absence" of a valid market price, not as a "replacement" for hour-ahead market prices other than the ISO LMPs.

3. Finally, the Schedule 4 tariffs can serve to cash out the "energy" portion of the Inadvertent, but only if three amendments are made.

----First, the tariffs need to be shorn of the 10 % across-the-board penalty to buyers or sellers, regardless of frequency impact, that sends a perverse counter-incentive to those incurring Inadvertent that helps frequency, and that therefore hurts reliability.

----Second, the Schedule 3 tariff needs to be ignored, which assess all Inadvertent for the cost of frequency support and so sends another perverse price incentive to those Inadvertents that supported frequency and actually reduced the need for frequency support, and so hurts reliability. The Schedule 3 tariff and the 10 % across-the-board penalty in the Schedule 4 tariff need to be replaced by a Frequency Contribution Component. NERC's JIITF considered the Schedule 4 and the Schedule 3 tariffs and rejected them as a basis for determining the Frequency Contribution Component of Inadvertent.

----Third, the deadband needs to be ignored for the simple reason that it

-----allows uneconomic untimely unilateral payback that increases the risk/likelihood of frequency error, and

-----unnecessarily avoids "balanced" compensation/payment-clearing from buyers to sellers when pricing is available and thereby increases the financial risk to the Interconnection. If a large inadvertent exceeding the deadband is provided by one Balancing Authority, and several Balancing Authorities each take a portion of the Inadvertent in quantities below the deadband, the takers do not provide the funds needed to pay the provider when pricing is available. This is why deadbands don't work in a market: financial risk and credit are unnecessarily increased and socialized to pay for the "comfort" of them.