



NORTH AMERICAN ENERGY STANDARDS BOARD

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November 17, 2003

Via email and Post

RE: NAESB Inadvertent Interchange Payback Upcoming Activities and Decisions

Dear NAESB WEQ members and interested parties:

The current settlement of Inadvertent Interchange has long been an outstanding issue in the power industry. The NAESB Inadvertent Interchange Task Force (IIPTF) has taken up the charge from the NERC Inadvertent Interchange Working Group to establish a better standard for the settlement of inadvertent.

Much work has been done over the past year toward this effort. The time has come to decide among a handful of methods being discussed which, if any, will allow the industry to move toward the goal of a fair and equitable financial settlement of inadvertent energy.

In our next meeting (Houston, December 10, 11), the NAESB IIPTF will analyze three methodologies for the financial settlement of inadvertent including historic examples of actual control area data regarding inadvertent energy and frequency deviation. The discussions during this two day meeting will result in several motions in favor or against one or more of these methodologies to be included in the standard recommended by the IIPTF. Once developed, these motions will be brought to a vote in a subsequent conference call expected to take place before the end of 2003.

We strongly urge industry participants to attend the meetings in December as well as voice their support or disapproval in the following conference call vote. Although attendance is available by phone, it is highly recommended that meeting participants attend in person due to the technical matter that will be visually presented.

Below is a brief summary of the three presentations:

- 1) Howard Illian – President, Energy Mark, Inc.
 - Howard Illian will be making a presentation that provides an analysis of the WECC Time Error and Inadvertent Payback Methodology. This part of the presentation will demonstrate what the WECC Method does and does not do. This will include analysis of Time Error Correction and Inadvertent Payback as independent processes. From this analysis Mr. Illian will extend the discussion into the issue of how the Frequency Control Contribution (FCC) assures equity. Mr. Illian will also address how to perform Time Error Correction with minimal reliability effects, how to separate Inadvertent Payback from Time Error, and finally how to minimize the financial effect of Inadvertent Energy including an introduction to the dead-band problem. Mr. Illian will also analyze the actual data from the WECC(NWPP) demonstrating how FCC works with real data. I will also use this data to demonstrate the problems that dead-bands introduce into the settlement process.



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2) Robert Blohm – Economist

- Robert Blohm will present real data for each of 264 hours from the Western Interconnection in a graphic depiction of:
 - each control area's frequency/inadvertent scatter points for each of the 264 hours and the diagonal line that "averages" those points;
 - how the frequency component always clears, in other words, how the slopes (beta) of the lines of all the control areas always sum to a horizontal line (zero slope).
- Mr Blohm will also give specific numerical pricing examples showing how the energy component and frequency-control component of Inadvertent sum to any of 4 specific net financial results:
 - receive less money when providing inadvertent energy that hurts frequency, or even pay money in the case of significantly large frequency error;
 - receive extra money when providing energy that helps frequency;
 - pay extra money when receiving energy that hurts frequency;
 - pay less money when receiving energy that helps frequency, or even receive money in the case of significantly large frequency error.

3) Mark B. Lively – Utility Economic Engineer

- Mark Lively will make a presentation of his WOLF model for pricing unscheduled flows of electricity. Mr. Lively will use data from NERC AIE reports for August 14, 2003, to demonstrate the potential cash flow and economic incentives associated with using WOLF to cash out real values of inadvertent interchange. Mr. Lively will expand this demonstration to include geographically differentiated pricing of inadvertent interchange pursuant to NERC's Joint Inadvertent Interchange Task Force. He will use a variety of assumptions about electrical losses and transmission constraints, again using data from AIE reports. Geographic differentiation of prices indirectly compensates for loop flow and parallel path flows. Mr. Lively will also talk about using WOLF to cash out reactive power during voltage irregularities, a major issue in the August 14 blackout.

The meeting agenda will include the following:

- Day 1 – Each presenter will be allowed 1.5 hours to give their presentation followed by ½ hour to allow for clarifying questions from meeting participants.
- Day 2 – For 3 hours the presentations will be exposed to discussion and opinion by meeting participants, including comparisons and similarities of each presentation. The following 3 hours will be dedicated to developing motions relating to the validity of the presentations. These motions will be brought to a vote in a subsequent conference call.



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Further details of this meeting will be forthcoming on the NAESB web site (http://www.naesb.org/weq/weq_iiptf.asp) under the WEQ Business Practices Subcommittee, Inadvertent Interchange Task Force. Minutes of previous IIPTF meetings, as well as other discussion documents, may also be found on the NAESB web site.

Regards,

Steve Terelmes
Co-chair IIPTF

cc. Rae McQuade, NAESB Executive Director
Bob Goss, Southeastern Power Administration and IIPTF Co-chair