Web Site ◆
www.tapsgroup.org

CONTACTS ◆
Roy Thilly, Chairman
Wisconsin Public Power Inc.
1425 Corporate Center Drive
Sun Prairie, WI 53590
608.834.4500
Fax 608.837.0274
rthilly@wppisys.org

◆
Robert McDiarmid
Cindy Bogorad
Spiegel & McDiarmid
1333 New Hampshire Avenue, NW
Washington, DC 20036
202.879.4000
Fax 202.393.2866
robert.mcdiarmid@spiegelmcd.com
cynthia.bogorad@spiegelmcd.com

◆
Deborah Sliz
Morgan Meguire LLC
1225 I Street, NW
Suite 300
Washington, DC 20005
202.661.6192
Fax 202.661.6182
dsliz@morganmeguire.com

◆
Robert Talley
Talley & Associates
2121 K Street, NW
Suite 650
Washington, DC 20037
202.296.4114
Fax 202.296.2409
Tmg1@erols.com

July 22, 2005

WEQ Executive Committee
North American Energy
Standards Board
1301 Fannin, Suite 2350
Houston, TX 77002

Michehl R. Gent
President & CEO
North American Electric Reliability Council
116-390 Village Boulevard
Princeton, NJ 08540

Re: Inadvertent Interchange Payback

Dear Mr. Gent and WEQ Executive Committee Members:

I am writing to NERC and NAESB on behalf of the Transmission Access Policy Study Group (TAPS) to request that in future consideration of the treatment of inadvertent energy, an important comparability issue does not get overlooked —*i.e.*, allowing return-in-kind treatment of inadvertent energy among control areas, while non-control area utilities are burdened with punitive imbalance charges.

The TAPS group is an informal association of transmission-dependent utilities in more than 30 states, promoting open and non-discriminatory transmission access. TAPS members have been following the progress of NAESB's Inadvertent Interchange Payback Task Force (IIPTF). We were pleased to see the establishment of the IIPTF in March of 2003 with the goal of developing standards to define the alternatives that may be used to settle inadvertent interchange, particularly the mitigation of the potential financial gain that misuse of the payback-in-kind methodology does not prevent. However, we are disappointed that, after 27 months and the consideration of numerous proposals to replace the current payment-in-kind methodology of settling inadvertent energy accounts between control areas/balancing authorities, the IIPTF was unable to reach agreement on an improved system and so concluded in its June 1 memo discussing Task Force results, that "…none of the proposed solutions… better than the payback-in-kind methodology (as embodied in the NAESB Version 0 Inadvertent Interchange Payback Standard)." The result would leave a clearly discriminatory practice in place. We understand that the final IIPTF report will be considered by WEQ at its November meeting.

We also understand that NERC has asked that NAESB's Inadvertent Interchange Payback standard (WEQBPS) be transferred to NERC's and included as a reliability standard, and is drafting a Standards Authorization Requests (SAR) for this standard. (For that reason, NERC on June 24 asked FERC to defer action on NAESB's proposed Version 0 standard in FERC Docket No. RM05-5-000.) This proposed transfer will also bring aspects of this issue shortly before both WEQ (for action on the SAR) and NERC.

Thus, the inadvertent energy payback issue may soon be before NERC and/or WEQ. We ask that such consideration resolve, and not avoid, the fundamental comparability issue, rather than simply perpetuate a flawed and discriminatory system. Specifically, the payback-in-kind methodology for inadvertent energy between control areas is clearly not comparable to the treatment of imbalances experienced by non-control area utilities under FERC's open access tariffs. For non-control area utilities, return-in-kind provisions are typically limited to imbalances within a narrow 1.5% deadband, with under-deliveries beyond the deadband charged $100/MWh or 110% of incremental cost for under-deliveries (whichever is higher), with payments of 90% of decremental cost for over-deliveries. Payback in kind of inadvertent energy avoids these penalty aspects of the tariff completely. Neither the NERC nor NAESB standard should be designed to create or perpetuate competitive advantages for control area operators. This is important not only to achieve fundamental fairness, but also to avoid creating an obvious additional impediment to reasonable control area consolidation.

Whether through NAESB or NERC, the current discriminatory system of payback-in-kind should be replaced with a methodology that treats all utilities equally. As FERC, in Order 2000, concluded:[1]

> In the NOPR, we noted that unequal access to balancing options can lead to unequal access in the quality of transmission service, and that this could be a significant problem for RTOs that serve some customers who operate control areas and other customers who do not. We conclude that control area operators should face the same costs and price signals as other transmission customers and, therefore, also should be required to clear system imbalances through a real-time balancing market. We believe that providing options for clearing imbalances that differ among customers would be unduly discriminatory.

Because much of the nation will not have RTO balancing markets any time soon, it is critical that any policies promote a non-discriminatory system to manage inadvertent energy flows. Therefore, we ask the WEQ Executive Committee to reject the recommendation of the IIPTF and direct the IIPTF to develop a methodology that does not perpetuate what FERC has recognized to be a discriminatory treatment of imbalances. To the extent the issue is transferred to NERC, NERC should do the same. If NERC and/or NAESB cannot deal with this fundamental comparability issue (*e.g.*, because sufficient consensus is not possible), they should clearly inform FERC of this problem, identifying the comparability concern as a tariff issue that should be addressed by FERC.

Very truly yours,

Roy Thilly

cc: TAPS Members
Allen Mosher, APPA

---

[1] *Regional Transmission Organizations*, Order 2000, FERC Stat. & Regs. ¶ 31,089, at 31,142 (1999).

North American Energy Standards Board
1301 Fannin, Suite 2350, Houston, Texas 77002
Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@naesb.org
Home Page: www.naesb.org

TO: NAESB WEQ Files

FROM: Rae McQuade

RE: NAESB Response to TAPs Communication on IIP, received July 28, 2005

DATE: July 28, 2005

From: Rae Mcquade

Sent: Thursday, July 28, 2005 4:24 PM

To: Cynthia S. Bogorad; Allen Mosher; Roy Thilly

Cc: Michehl R. Gent; Don Benjamin; David N. Cook; Barry R. Lawson Michael Desselle; Louis Oberski; Phil Cox; Kathy York; Tony A Reed; Mark Fidrych; Veronica Thomason

Subject: TAPs comments to NAESB on inadvertent interchange

Dear Mr. Thilly,

We have received your comments on our efforts in regard to inadvertent interchange, and have posted those comments on our web site at the following address: http://www.naesb.org/pdf2/weq_ec082305w1.zip. We placed the discussion of those comments on the agenda for the upcoming NAESB Executive Committee meeting on August 23, in Colorado Springs, as part of the "Subcommittee Updates" agenda item no. 3. Please feel free to join in those discussions, or have other TAPs members join the meeting. The meeting is accessible via conference call if travel to Colorado Springs is not feasible. Thank you for sending the comments and making our committee aware of TAPs concerns. We look forward to hearing from you and other TAPs members -- Best Regards, Rae

Rae McQuade, President, NAESB
1301 Fannin, Suite 2350, Houston, Texas 77002
713-356-0060 (phone), 713-356-0067 (fax),
281-830-7406 (cell), www.naesb.org (web)

MICHEHL R. GENT
President and CEO

NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

August 9, 2005

Mr. Roy Thilly
Chairman
Transmission Access Policy Study Group
Wisconsin Public Power Inc.
1425 Corporate Center Drive
Sun Prairie, Wisconsin 53590

Dear Roy:

Inadvertent Interchange Payback

This is in response to your July 22, 2005 letter to me and the NAESB Wholesale Electric Quadrant regarding the comparability between inadvertent interchange payback and energy imbalance. I understand that you and Don Benjamin talked about this in San Diego last week.

The inadvertent-energy imbalance comparability issue arose frequently within NERC committees soon after the Commission promulgated its *pro forma* tariff. In fact, this is one of the issues that resulted in NERC developing our reliability functional model.

We have debated the characteristics of inadvertent interchange over many years. Specifically:

1. Inadvertent interchange is between a balancing authority and the Interconnection, not between two individual balancing authorities. In other words, inadvertent interchange is not a bilateral arrangement.

2. Inadvertent interchange has two forms: 1.) Inadvertent caused by imperfect generation control that we call “primary inadvertent,” and 2.) Inadvertent caused by Interconnection frequency error that we call “secondary inadvertent” (the result of other balancing authorities’ primary inadvertent). How should the values of these different forms of inadvertent interchange be determined?

Therefore, while inadvertent interchange appears to have many of the attributes of energy imbalance, they are not the same, and I question whether they can be dealt with on the comparable basis that you are suggesting.

It appears to me that NERC and NAESB have both worked hard on inadvertent settlement methods, with NAESB's Inadvertent Interchange Payback Task Force delving into these concepts further than any group we're aware of. Despite the considerable discussions by industry experts, including economists, the IIPTF realized the practical hurdles of calculating Interconnection market prices and values for frequency response couldn't be crossed. Don explained this at the Stakeholders Committee meeting.

NERC is committed to ensure that our standards do not unduly discriminate among the responsible entities to which those standards apply. Standards that apply to balancing authorities must apply comparably to all balancing authorities. However, NERC cannot ensure that standards that apply to balancing authorities will be economically comparable to tariff rules or other protocols that apply to other transmission customers such as generators or load-serving entities, and that NERC has no influence over.

Roy, I believe NERC and NAESB have thoroughly debated inadvertent payback possibilities over many years. We believe NAESB should continue to set the on- and off-peak periods and develop whatever financial payback provisions that industry may agree upon in the future. Both NERC and NAESB have very open standards development processes that will welcome your thoughtful insight.

Sincerely,

Michehl R Gent

cc: Allen Mosher, APPA
Rae McQuade, NAESB

CONTACTS ◆
Roy Thilly, Chairman
Wisconsin Public Power Inc.
1425 Corporate Center Drive
Sun Prairie, WI 53590
608.834.4500
Fax 608.837.0274
rthilly@wppisys.org

◆
Robert McDiarmid
Cindy Bogorad
Spiegel & McDiarmid
1333 New Hampshire Avenue, NW
Washington, DC 20036
202.879.4000
Fax 202.393.2866
robert.mcdiarmid@spiegelmcd.com
cynthia.bogorad@spiegelmcd.com

◆
Deborah Sliz
Morgan Meguire LLC
1225 I Street, NW
Suite 300
Washington, DC 20005
202.661.6192
Fax 202.661.6182
dsliz@morganmeguire.com

◆
Robert Talley
Talley & Associates
2121 K Street, NW
Suite 650
Washington, DC 20037
202.296.4114
Fax 202.296.2409
Tmg1@erols.com

August 29, 2005

Michehl R. Gent
President & CEO
North American Electric Reliability Council
116-390 Village Boulevard
Princeton, NJ 08540

Re: Inadvertent Interchange Payback

Dear Mike**:**

Thank you for your August 8 response to my July 22 letter, which raised what TAPS members consider to be a fundamental comparability issue.

In our view, inadvertent and imbalance must be treated comparably. In contrast, based on the observation that inadvertent energy is not a bilateral arrangement and takes two forms—primary and secondary—your letter concludes that inadvertent energy is not the same as imbalance and questions whether they can be dealt with on a comparable basis.

In fact, all inadvertent interchange and imbalance energy stem from primary inadvertent. Primary inadvertent is caused by imperfect generation control within a balancing authority. Where a balancing authority is the only entity within its area, its own energy imbalance is its primary inadvertent. Where there is also a TDU within the balancing authority's area, the primary inadvertent is the net of the combined imbalances of the TDU and the balancing authority. While balancing authorities include a calculation for secondary inadvertent based on interconnection frequency, secondary inadvertent simply reflects the impact of primary inadvertent from other balancing authorities.

Providing for in-kind payback for balancing authorities at the same time monetary penalties are imposed for TDU imbalances results in financially non-comparable treatment of the same conduct: imperfect generation control within a control area. Balancing authorities' imbalances are exempt from penalties, while the same imbalances for the TDUs in its area are not, even though the TDUs' imbalances may actually offset the balancing authority's imbalance and so reduce the balancing area's primary inadvertent. The TDU should pay the cost of balancing service, but it should not be penalized when the balancing authority is not penalized for the same conduct. Similarly, the fact that inadvertent energy is not a bilateral arrangement does not justify use of a simple, non-punitive return-in-kind treatment for inadvertent energy while, for tariff customers within a balancing authority, similar imbalances are subject to significant penalties.

Your letter narrowly defines NERC's job as ensuring that NERC standards do not unduly discriminate among the entities to which they apply (i.e., as among all balancing authorities), and concludes that NERC cannot ensure that the standards for balancing authorities are comparable to the treatment of others under tariffs. In contrast, we believe that NERC should not turn a blind eye to fundamental comparability issues when formulating its standards and allow its standards to perpetuate or create obvious discrimination that is not required for technical reliability-based reasons.

We also do not believe NAESB is performing its role if it adopts business standards that discriminate against a minority by reinforcing a clearly non-comparable flow of dollars – market participants subjected to substantially different financial outcomes for substantially identical behavior depending on whether they are balancing authorities. Also, based on discussions with TAPS members who participated in the process, we do not believe it was "practical hurdles … [that] couldn't be crossed" that caused NAESB's IIPTF to recommend no change, but rather a lack of consensus; the IIPTF's July 19 final report concludes (at 5): "With the lack of industry direction for a new 'inadvertent interchange payback' standard the IIPTF has inferred that the industry is satisfied with the requirements within the current NAESB Version 0 Inadvertent Interchange Business Practice Standard." From our perspective, IIPTF's inference that the "industry is satisfied" with the status quo is wrong.

Thus, we reiterate our request that NERC and NAESB address this comparability issue. However, as requested in my July 22 letter, if NERC and NAESB cannot deal with this fundamental comparability issue (because sufficient consensus is not possible), each organization should clearly inform FERC of this problem, identifying the comparability concern that has been raised as a tariff issue that should be addressed by FERC.

Sincerely,

Roy Thilly

Roy Thilly
TAPS Chair

cc: NAESB WEQ Executive Committee
TAPS Members
Allen Mosher, APPA