



Memorandum

To: ISO Operations Committee
From: Deborah Le Vine, Director of Market Services
cc: ISO Board of Governors, ISO Officers
Date: December 16, 2005
Re: **REVISED: Approval of Firm Transmission Right Quantities for the 2006 Annual FTR Auction**

This memorandum requires Board action.

EXECUTIVE SUMMARY

ISO Tariff section 9.9.2 states that, "The ISO Governing Board shall, from time to time, approve the amount of FTRs to be auctioned for each FTR Market and the ISO shall publish this information on the ISO Home Page at least thirty (30) days prior to the auction." As in previous years, Management requests that the ISO Governing Board approve the Firm Transmission Right ("FTR") quantities that ISO Management has determined are appropriate to release in the ISO's 2006 FTR auction. The auction, which is scheduled for late January 2006, will release FTRs with a term starting in the hour beginning at 12:00 a.m. on April 1, 2006 and ending with the hour beginning at 11:00 p.m. on March 31, 2007.

Moved,

That the ISO Board approves the proposed quantities of Firm Transmission Rights for the 2006 FTR Auction as described in the Firm Transmission Rights Quantities for the 2006 Annual FTR Auction Board Memorandum dated December 16, 2005.

BACKGROUND

An FTR is a right that has both financial and physical attributes. FTR holders share in the distribution of Usage Charge revenues received by the ISO in the Day-Ahead and Hour-Ahead Markets associated with Inter-Zonal Congestion during the term of the FTR. FTRs also entitle the holder to scheduling priorities in the Day-Ahead Market for the transmission of energy across a congested Inter-Zonal interface. As a result of the financial and physical attributes of FTRs, holders of these instruments enjoy a degree of certainty with respect to the delivery of energy and costs associated with its delivery. In addition, Participating Transmission Owners are entitled to receive all revenue raised in the annual FTR auction in proportion to their respective ownership interests in the paths on which FTRs are sold. This auction revenue is applied toward each PTOs Transmission Revenue Requirement.

It should be noted that the term of the FTRs overlaps with the proposed implementation of MRTU. Consequently the ISO has included a buyer beware clause in the auction documentation. The clause provides that if the ISO implements MRTU during the term of the FTRs, the FTRs will be terminated and no auction revenue will be refunded.

The basic methodology used to determine the FTR release quantities for the 2006 FTR Auction is described in Attachment A.

The table below lists the transmission paths on which the ISO proposes to release FTRs, along with the proposed sale quantities for each FTR Branch Group to be auctioned.

Proposed 2006 FTR Release Amounts

Path Number	Branch Group	From	To	2006 Proposed Release Amounts
1	BLYTHE_BG	SP15	LC2	145
2	BLYTHE_BG	LC2	SP15	140
3	CFE_BG	MX	SP15	345
4	CTNWDRDMT_BG	NP15	SMD3	320
5	CTNWDRDMT_BG	SMD3	NP15	320
6	CTNWDWAPA_BG	NP15	SMD2	797
7	CTNWDWAPA_BG	SMD2	NP15	797
8	ELDORADO_BG	SP15	AZ2	536
9	ELDORADO_BG	AZ2	SP15	536
10	IID-SCE_BG	II1	SP15	600
11	IID-SDGE_BG	SP15	II2	62
12	IID-SDGE_BG	II2	SP15	62
13	MEAD_BG	SP15	LC1	637
14	MEAD_BG	LC1	SP15	597
15	NOB_BG	SP15	NW3	454
16	NOB_BG	NW3	SP15	472
17	PACI_BG	NP15	NW1	448
18	PACI_BG	NW1	NP15	684
19	PALOVRDE_BG	SP15	AZ3	1248
20	PALOVRDE_BG	AZ3	SP15	1230
21	PARKER_BG	LC3	SP15	160
22	PATH15_BG	ZP26	NP15	1730
23	PATH26_BG	ZP26	SP15	1315
24	RNCHLAKE_BG	NP15	SMDE	473
25	RNCHLAKE_BG	SMDE	NP15	570
26	SILVERPK_BG	SP15	SR3	17
27	SILVERPK_BG	SR3	SP15	17
28	VICTVL_BG	SP15	LA4	560
29	VICTVL_BG	LA4	SP15	1355
Total:				16,627

Comments:

13	FTR release amount reduced by 34 due to new PTOs previously converted ETC rights
14	FTR release amount reduced by 70 due to new PTOs previously converted ETC rights
15	FTR release amount reduced by 178 due to new PTOs previously converted ETC rights
16	FTR release amount reduced by 189 due to new PTOs previously converted ETC rights
19 & 20	There is a planned maintenance toward the end of 2006. See Step docs at http://www.caiso.com/docs/2002/11/04/2002110417450022131.html
19	FTR release amount reduced by 25 due to new PTOs previously converted ETC rights
20	FTR release amount reduced by 25 due to new PTOs previously converted ETC rights

MANAGEMENT RECOMMENDATION

Management recommends that the Board approve the release for auction of the FTR quantities identified above.

ATTACHMENT A

Basic Methodology for Determining FTR Quantities to Release in the FTR Auction

The methodology used by the ISO to determine the quantity of Firm Transmission Rights (FTRs) to release in the FTR auction is consistent with the approach described in Section 9.3.1 of the Tariff. This methodology is described below.

1. The full Operating Transmission Capability (OTC) in the Day Ahead market is determined for each hour during the historical reference period, which is the most recent prior twelve month period, typically November of the previous year through October of the current year.
2. The Existing Transmission Contract (ETC) values corresponding to the hourly Day Ahead OTC values are then determined.
3. The ETC values are subtracted from the OTC values to arrive at the Available Transmission Capability (ATC) values for each Branch Group.
4. The ATC values are ordered in descending order and the ATC value at the 99.5 percent confidence level is determined. This value is the ATC that is available, based on the historical reference period data, in the Day Ahead Market 99.5 percent of the time.
5. The proposed FTR release quantity is computed by subtracting the converted ETC amounts turned over to the CAISO from New Participating Transmission Owners, if any, from the ATC values at the 99.5 percent confidence level. This is done pursuant to Tariff section 9.4.3.

Other Considerations

From time to time planned maintenance outages and other outages of a unique nature occur on transmission paths in which FTRs are sold. For past Auctions, the ISO calculated the FTR release quantities at the 99.5 percent confidence level after these outage hours were removed from the data. The number of outage hours excluded from the calculations was then disclosed to Market Participants prior to the Auction.