

Comments on  
March 23, 2007 Merchant CRR Whitepaper

FPL Energy  
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Introduction:

FPLE appreciates the opportunity to submit comments on the Merchant Transmission (MT) CRR whitepaper. FPLE's position on this issue, as reflected in its comments of 8/24/04 – nearly three years ago -- is unchanged. Unfortunately, the CAISO's depth of detail, clarity and issue-resolution is also unchanged over the last three years. As such, we append to these comments, the very relevant responses to the unresolved issues that we submitted in 2004.

FPLE is the owner and operator of the only (to our knowledge) merchant transmission upgrade in the CAISO. We are unaware of any other merchant facility in operation or proposed to come into operation in the CAISO under the conditions of this policy.

Key Issue – “Awakened Capacity”:

The central issue that has arisen recently is the question of whether Merchant Transmission investments that “awaken” system capacity should be allowed to claim the CRR rights associated with<sup>1</sup> that capacity. This question is most directly posed in Question 25<sup>2</sup> of the whitepaper. FPLE supports the previous CAISO position that all incremental CRRs created by MT investment should be available to be allocated to the MT sponsor.

There is no dispute that targeted, strategic investments can unlock or awaken latent transfer capacity on the system. A strategic investment can create incremental capacity at the location of the physical upgrades, on radial paths surrounding that investment, and by eliminating a contingency or constraint, can increase the transfer capability of parallel paths, potentially ones quite distant from the physical change<sup>3</sup>.

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<sup>1</sup> Or as the tariff states, “reflect the contribution of the upgrade to grid transfer capacity”)

<sup>2</sup> FPLE takes offense to the title of the section therein. Indeed if there is “low hanging fruit” on the PTO's systems, it has likely existed for decades without action on the part of the PTO. If so, it is indisputable that that “low hanging fruit” is neither used nor useful in its current configuration and may bring into question issues of the initial investment prudence.

<sup>3</sup> In PJM, merchant transmission upgrades qualify for not only congestion hedge value, but if they increase import capability to a constrained load pocket, can qualify for capacity value in RPM/ICAP markets – see PJM Manual 14E.

FPLE believes that a strategic MT investor that unlocks latent capacity on the system should be allowed to acquire all of the incremental CRRs associated with that investment. Indeed, FPLE believes that the approved MRTU tariff, tariffs in PJM<sup>4</sup> and the FERC order on Long Term FTRs support this position. Additionally, as indicated in the 2004 comments, FPLE also believes that if the MT investment increases the export capability of the CAISO system that the sponsor of the MT upgrade should participate in the allocation of export fees<sup>5</sup>.

Other parties have indicated that ratepayers have a “right” to the capacity locked-up and unavailable in the existing system since they pay the costs of service for that unusable capacity. They claim that even-if a private investment unlocks this capacity that ratepayers should be allocated all of the rights to that capacity. FPLE, in part disagrees.

Any incremental physical capacity that is created or unlocked by MT investment is available for any and all uses. Indeed, the CAISO OATT and MRTU tariff require that all physical capacity on the system is allocated by bid<sup>6</sup>. Therefore, the physical capacity is, indeed available for the benefit of ratepayers.

The financial call on congestion differences (hedge value, or CRR) is a product distinct from the physical capacity however, and as stated above, FPLE believes that the party that unlocks the capability of the existing system is entitled, by reason, tariff and precedent to the incremental financial products (CRRs).

#### Comments by Question Number:

- Q2 As stated in 2004, FPLE agrees with the conceptual in/out approach, but would like to see a specific example of the methodology in practice before unconditional endorsement.
- Q3 As in our 2004 comments, FPLE believes that the CAISO possesses the data, expertise and knowledge to assist the MT sponsor in the selection of the full range of benefits created by MT investment.
- Q4 The term of CRRs is pursuant to the tariff, 30 years or the life of the facilities, whichever is less. This question and answer seems to indicate that MT CRRs would be assessed annually, seasonally, or even on a hourly (TOU) basis. FPLE believes that the MT CRRs are determined at the point of operation of the facility and fixed for the life of the facility. The

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<sup>4</sup> We note that the PJM tariff – upon which the CAISO claims to have based their proposals -- allows MT sponsors to capture all awakened capacity.

<sup>5</sup> FPLE reserves the right to propose, when such a market exists, that like in PJM model, any incremental transfer capability into a constrained load pocket resulting from an MT investment qualifies for capacity credit.

<sup>6</sup> This simplification ignores ETCs, TORs, etc.

ISO must clarify this point. The specification of these variables should merely be an option for the MT sponsor.

- Q9. FPLE does not believe that its historic MT investment should be exposed to any “counterflow CRRs” since CRRs did not, and will not exist when FPLE’s allocation is determined.
- Q11. We disagree. FPLE’s investment was made in 2002/2003. The form of rights and compensation under today’s zonal market are different than that in the MRTU market and we believe that the historical investment should be treated with these differences in mind.
- Q16. FPLE disagrees. See 2004 comments. CRRS associated with any capacity awakened by a MT upgrade should be available to the MT sponsor. While these increases might be related to the generator injection node, they could also be elsewhere on the system.
- Q18. See response to Q9 and 2004 comments. FPLE believes that if the CAISO proposes a requirement for counterflow CRRs that it should last ONLY for the duration of the pre-allocated or pre-auctioned, but now infeasible CRRs. In addition, the MT sponsor should be given the option of ratcheting back their nominations temporarily in a manner which eliminates the infeasibility.
- Q20. See response to Q18
- Q24. See discussion above on the key issue of “awakened capacity.” FPLE does not understand the following sentence:

“Thus, the allocation rules could allocate Merchant CRRs that appropriate (sic) fallow (sic) transmission capacity that may be needed to serve future load growth.”

However, we cannot resist commenting on the interesting but maybe unintentional, description of hanging, but unusable transmission capacity as being “fallow”. Indeed, transmission that cannot be accessed because of pre-existing constraints is fallow, or barren. It cannot, until unlocked through investment bear the fruits associated with competition or provide ratepayer benefit.

- Q25. See discussion above on the key issue of “awakened capacity.”

FPLE would support the creation of a minimum investment threshold to qualify for the allocation of MT CRRs (for instance \$0.5 million). We believe that this threshold would eliminate abuses envisioned by trivial network changes that awaken capacity. For instance, MT CRRs may not

be available for the replacement of CTs (current transformers) that create an existing constraint on flows.

Thank You

See Appendix for 2004 comments.

# **APPENDIX – Comments Submitted in 2004**

CAISO Staff,

Re: Draft proposal for the Allocation of Congestion Revenue Rights to Merchant Transmission

Thanks for the opportunity to comment on the draft white paper identified above. Our apologies, for FPLE was unable to participate in the call on the 17<sup>th</sup> or meet the initial comment deadline.

FPLE agrees with much of the policy and most of the principles contained in the white paper. Our response highlights those areas of agreement and points out several areas where further discussion is warranted, or policy changes should be considered.

In particular, FPLE supports

- CRRs good for the life of the facility
- Allocation of CRR Options rather than Obligations
- Reasonable assignment of CRR Obligations to resolve only short-term infeasibility of previously awarded Obligation CRRs
- Ability to capture the bi-direction benefits to transmission enhancements.
- The allocation of Merchant transmission CRRs before annual or monthly LSE allocations or auctions.

FPLE also generally supports the approach to the identification and quantification of the incremental benefits of the transmission upgrades. Specifically, the sequential runs of the SFT/ optimization without, then with the transmission upgrade should conceptually yield a reasonable estimate of the incremental value of the upgrade.

However FPLE does have several concerns.

- (1) FPLE believes that market participants would benefit by an additional workshop describing the nature and sensitivities of the SFT in/out calculation. This discussion should highlight modeling choices such as that of objective function and how those choices may relate to the subsequent SFT calculations that will determine the quantity of CRRs to offer for allocation.
- (2) FPLE does not understand the evaluation criteria that would be applied to approval of an economically-driven transmission upgrade funded entirely by a Project Sponsor (Section 2.2) We believe that as long as the project is required to meet ISO grid reliability standards, as driven

by necessary conditions of interconnection, that no further approval is necessary.

- (3) The hedge value of a MT upgrade is a significant component of the economic value of a transmission upgrade. FPLE believes that the CAISO should establish procedures to estimate that CRR value long before operation of the facility. The procedure could include a reimbursable study cost that would be forfeited if it should the project not move forward.
- (4) FPLE does not understand the consequences of the SFT in/out calculation as it applies to intertie transactions when the ISO uses an open network model. We ask that you confirm that the SFT solution devolves to the path or thermal limits of the intertie.
- (5) The draft suggests that the MT owner specify the point-to-point pairs that it believes to be impacted by the transmission addition. Rather, FPLE believes that the CAISO has both the data and the capability to identify the incremental benefits of the transmission upgrade. While trivial impacts can be ignored, the CAISO should report the universe of lines that are impacted by the transmission enhancements. The MT owner would then be allowed to select and submit for purposes of allocation, the non-trivial point-to-point pairs that are impacted.
- (6) FPLE does not understand the need to restrict the source and sink of MT upgrade CRR requests as proposed in 4.3

While not directly related to the allocation of CRRs, FPLE continues to believe that MT owners should also receive a proportional share of any wheeling revenues if the MT upgrade positively impacts the ability of the CAISO to export energy. Finally, FPLE also believes that congestion revenues that accrue above and beyond the capacity of awarded, feasible CRRs, should be proportionally split between the MT owner and TO.

Thanks again. Please direct any questions to Mark J Smith