California ISO
Your Link to Power

California Independent
System Operator Corporation

Long-Term Transmission Rights

Frank A. Wolak

Chairman

Market Surveillance Committee (MSC)

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Outline

- **Long-term FTR goals**
  - FERC requirements
  - Stakeholder preferences
  - ISO concerns
- **Minimize potential harm to energy market efficiency**
  - Build on existing CRR allocation process
  - Issue obligation LT-FTRs
  - Full funding of all CRRs issued by ISO
  - Increasing liquidity of secondary market

Goals of LT-FTR Process

- **FERC requirements on LT-FTR process**
  - Firm MW of LT-FTR capacity
  - Fully fund LT-FTR
  - Rapid implementation—By MTRU Release 1
- **Stakeholders have expressed a preference for a “go slow” approach to LMP implementation**
  - Small initial release of FTRs
  - Allocation of FTRs to entities that paid for transmission network
- **ISO concerns**
  - Merchandising surplus (difference between amount buyers pay and sellers receive) is sufficient to pay its FTR obligations
  - Ownership of FTRs does not degrade market efficiency and system reliability

Balancing Competing Goals

- **Build on existing CRR allocation process to reduce cost all market participants must pay to comply with FERC order**
- **Limited initial release to address "go slow" desires of stakeholders**
- **Allocate to load-serving entities (LSEs) to address market efficiency and reliability concerns of ISO**
- **Given limited release and desire for simple allocation rule, demonstrated long-term uses of transmission network should be given priority**
  - Load-serving entities (LSEs) that currently own distant generation should be given highest priority
  - LSEs that currently have long-term supply contracts
    - Longer duration contracts should be given a higher priority
- **To address market efficiency and system reliability concerns**
  - Preference within the above priorities for point-to-point FTRs along major transmission interfaces

Balancing Competing Goals

- **Issue a single type of LT-FTR to simplify allocation process**
  - Seasonal FTR needs of market participants can be met through annual allocation and auction process
- **Issue N-year obligation LT-FTRs at start of process**
  - Eliminate annual option to renew LT-FTR each year
    - Most like Option B in ISO white paper
  - 1 MW LT-FTR from source A to sink B is obligation to receive or pay each hour [p(B) – P(A)] over ten year period
    - Market participant can only get rid of this obligation by finding a willing buyer to purchase it
  - N-year obligation emphasizes need to focus LT-FTR allocation process on major transmission interfaces and pre-existing long-term relationship between generation unit owners and LSEs

Balancing Competing Goals

- **If the ISO is going to promise full funding of LT-FTRs**
  - Backstop mechanism to ensure full funding should be in proposal
  - Full funding should also apply to FTRs issued in annual allocation process
    - Reduces cost to market participants of buying and selling one-year FTRs and unbundling LT-FTRs
- **Similar logic applies to firmness of MWs of FTR**
  - Both LT-FTR and annual FTRs should have firm MWs
- **Small initial release of LT-FTRs and annual allocation process should limit risk of revenue shortfall**
  - ISO should face some cost if there is a revenue shortfall

Balancing Competing Goals

- **When should entities nominate LT-FTRs?**
- **Nomination with initial allocation**
  - Benefit-Limits opportunities to use LT-FTRs to reduce market efficiency
  - Cost-Limits ability to estimate congestion payments associated with LT-FTR
- **Nomination at end of one year of experience**
  - Benefits-Increases ability to estimate congestion payments associated with LT-FTR
  - Cost-Increases opportunities to use LT-FTRs to reduce market efficiency
- **Using pre-existing generation ownership and long-term supply contracts to limit costs**

Balancing Competing Goals

- **How many LT-FTRs to release?**
  - Small initial long-term release implies more can be released in annual allocation
  - Entities receiving more in long-term release will receive proportionately less in annual allocation
- **LT-FTRs are long-term obligations**
  - Balances costs and benefits of initial priority given to LT-FTRs in allocation process
  - LT-FTRs can become more or less valuable or even costly to own
    - Must sell FTR to get rid of obligation
  - Annual FTRs are subject to renewal provision
    - Can decide not to renew annual FTRs that have option on
- **Market participants can obtain more FTRs in annual allocation process**

Private Issue of Transmission Rights

- **Any market participate could offer to sell short-term or long-term TRs**
  - Guarantee payment stream P(sink) – P(source) for duration desired by buyer of transmission right
- **Privately issued FTRs and sales of portions of existing LT-FTRs and annual FTRs can be used to meet specific hedging needs**
  - ISO cannot give all market participants the exact hedge they want
- **Secondary market transactions can allow market participants to purchase FTRs or portions of FTRs from other market participants**
  - Can obtain desired hedge by paying a market price

Outstanding Questions on ISO Proposals

- **Rationale for renewal provisions in Option A**
  - Simultaneous Feasibility of some LT-FTRs may not be possible if some rights not renewed
- **Rationale for additional complication of seasonal LT-FTRs**
- **Rationale for full funding priority**
  - Auction revenues into balancing account
    - What guarantees positive auction revenues?
  - Carry-over balancing account across years
- **Allocating LT-FTRs to entities that upgrade transmission network**
  - Why should non-merchant builder have any priority to LT-FTR on new transmission facility?
- **Should implementation of LT-FTRs be delayed to implement a more sophisticated allocation mechanism?**