

Memorandum

To: ISO Board of Governors
From: Jim Detmers, Vice President, Operations
Date: December 8, 2008
Re: **Decision on 2009-2010 FTR Auction Release Amounts**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management is proposing to hold a firm transmission right (FTR) auction for the period of April 1, 2009 through March 31, 2010.¹ This proposal is intended to address concerns raised by market participants regarding the need for FTRs beyond March 31, 2009 should the ISO need to fall back to the pre-MRTU operations during the 30-day reversion period. The ISO Tariff requires that the ISO Board of Governors (the Board) approve the amount of FTRs to be auctioned. Assuming Board approval, the auction would be held in January 2009.

Motion

Moved, that the ISO Board of Governors approves the proposed quantities of Firm Transmission Rights for the 2009-2010 FTR Auction as detailed in the Memorandum dated December 8, 2008.

BACKGROUND AND ISSUE STATEMENT

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 current day-ahead and hour-ahead markets associated

¹ The ISO Tariff requires that the FTRs be released for an annual period. To perform an FTR auction for a period less than one year would require a tariff amendment. The released FTRs for 2009-2010 that are not needed once MRTU goes live will be unwound and resettled consistent with the congestion revenue rights and *FTR Contingency Plan* approved by the Board last year, as reflected in the memorandum dated January 28, 2008, and accepted by FERC as part of the current ISO Tariff for the 2008-2009 FTRs. The ISO will be requesting FERC approval to renew the contingency plan so that it will apply to the 2009-2010 congestion revenue rights and FTRs in light of the delay of MRTU *go-live*.

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 an inter-zonal interface. As a result of the financial and physical attributes of FTRs, holders of these instruments enjoy a degree of certainty on 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 participating transmission owner's transmission revenue requirement, which then reduces the ISO's transmission access charge. Management is planning to release these FTRs in a series of consecutive blocks spanning the period April 1, 2009 through March 31, 2010, in a manner similar to last year's FTR auction. By releasing the FTRs in blocks, we will provide some bidding flexibility for the FTR auction participants.

Pursuant to *ISO Tariff* section 36.2.2, the Board needs to approve the amount of FTRs that will be auctioned off each year.

Basic methodology for determining FTR quantities to release in the FTR auction

Management is planning to use the same methodology for determining FTR quantities that was used in prior FTR auctions. This methodology is consistent with the approach described in Section 36 of the *ISO Tariff*. This methodology is described below.

- The full operating transmission capability (OTC) in the day-ahead market is determined for each hour during the historical reference period, the most recent prior twelve-month period, consisting of November 1, 2007 through October 31, 2008.
- The existing transmission contract (ETC) values corresponding to the hourly day-ahead OTC values are then determined.
- The ETC values are subtracted from the OTC values, to arrive at the available transmission capability (ATC) values for each branch group.
- The ATC values are arranged in descending order and the ATC value at the 99.5 percent confidence level is determined for each branch group. This value is the ATC available in the day-ahead market, based on the historical reference period data, 99.5 percent of the time.
- The proposed FTR release quantity is computed by subtracting any converted rights – i.e., the converted ETC amounts turned over to the ISO from new participating transmission owners – from the ATC values at the 99.5 percent confidence level for each branch group. This is pursuant to tariff section 36.3.

From time to time, planned maintenance outages and other unique outages occur on transmission paths on which FTRs are sold. As has been done for past FTR auctions, the ISO calculated the FTR release amounts at the 99.5 percent confidence level after these outage hours were removed from the data. The number of outage hours excluded from the calculation will be disclosed to market participants prior to the FTR auction.

The table below lists each branch group (transmission path) on which Management proposes to release FTRs, along with the proposed release amounts for each branch group to be auctioned.² The FTR release amounts will be identical for each of the two terms, April 2008 through September 2008 and October 2008 through March 2009.

Branch Group	Direction	From	To	Proposed 2009 Release Amounts
BLYTHE _BG	To-Export	SP15	LC2	117
BLYTHE _BG	From-Import	LC2	SP15	175
CFE _BG	To-Export	SP15	MX	408
CFE _BG	From-Import	MX	SP15	400
CTNWDRDMT_BG	To-Export	NP15	SMD3	320
CTNWDRDMT_BG	From-Import	SMD3	NP15	320
CTNWDWAPA_BG	To-Export	NP15	SMD2	1,117
CTNWDWAPA_BG	From-Import	SMD2	NP15	1,117
ELDORADO _BG	To-Export	SP15	AZ2	649
ELDORADO _BG	From-Import	AZ2	SP15	649
IID-SCE _BG	From-Import	II1	SP15	600
IID-SDGE _BG	To-Export	SP15	II2	57
IID-SDGE _BG	From-Import	II2	SP15	62
LLNLTESLA_BG	To-Export	NP15	SMD8	164
LLNLTESLA_BG	From-Import	SMD8	NP15	164
MEAD _BG	To-Export	SP15	LC1	774
MEAD _BG	From-Import	LC1	SP15	582
MERCHANT _BG	To-Export	SP15	NV4	645
MERCHANT _BG	From-Import	NV4	SP15	645
NOB _BG	To-Export	SP15	NW3	274
NOB _BG	From-Import	NW3	SP15	282
PACI _BG	To-Export	NP15	NW1	1,129
PACI _BG	From-Import	NW1	NP15	1,154
PALOVRDE_BG	To-Export	SP15	AZ3	2,117
PALOVRDE_BG	From-Import	AZ3	SP15	2,117
PARKER _BG	From-Import	LC3	SP15	160
PATH15 _BG	From-Import	ZP26	NP15	3,110
PATH26 _BG	To-Export	ZP26	SP15	2,600
RNCHLAKE_BG	To-Export	NP15	SMDE	936
RNCHLAKE_BG	From-Import	SMDE	NP15	942
SILVERPK_BG	To-Export	SP15	SR3	10
SILVERPK_BG	From-Import	SR3	SP15	10
SUMMIT _BG	To-Export	NP15	SR2	35
SYLMAR-AC_BG	To-Export	SP15	LA1	729
SYLMAR-AC_BG	From-Import	LA1	SP15	729
TRACYCOTP_BG	To-Export	NP15	SMDH	17

² The Parker Branch Group release amount is expected to be at the 160MW level but might need to be reduced to 130MW based on information that is expected from the Metropolitan Water District late in December 2008.

TRACYCOTP_BG	From-Import	SMDH	NP15	19
TRACYPGAE_BG	To-Export	NP15	SMDL	1,832
TRACYPGAE_BG	From-Import	SMDL	NP15	1,828
VICTVL _BG	To-Export	SP15	LA4	560
VICTVL _BG	From-Import	LA4	SP15	1,355
Total				30,910

MANAGEMENT RECOMMENDATION

Management recommends that the Board approve the proposed FTR release amounts as a backstop, in case the ISO needs to perform a fallback after MRTU has begun, or in the event that MRTU implementation is delayed beyond April 1, 2009.