

# Long Term Transmission Rights

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**Market Surveillance Committee Meeting**  
**September 18, 2006**

# Topics

- **FERC Final Rule and 2005 Energy Policy Act**
- **CAISO Compliance Timetable**
- **Purpose of Today's Discussion**
- **Some Starting Principles**
- **FERC's Seven (formerly Eight) Guidelines**

# FERC Final Rule and EPAct

**FERC Final Rule was issued 7/20/06 following a public process of more than a year**

- **May 2005 – FERC Staff Paper, public comments**
- **November 2005 Energy Policy Act**
  - Sec. 217. "NATIVE LOAD SERVICE OBLIGATIONS"
  - Directed FERC to exercise its authority in a manner that "... enables load-serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis for long-term power supply arrangements made, or planned, to meet ..." their service obligations.
- **February 2006 FERC NOPR, public comments**

## FERC Final Rule

- **"... require[s] each transmission organization that is a public utility with one or more organized electricity markets to make available long-term firm transmission rights that satisfy each of the guidelines established by the Commission in this Final Rule." (¶ 1)**
- **FERC action is pursuant to Section 217 of the Federal Power Act, per Section 1233 of EPAct 2005.**



# CAISO Compliance Timetable

- **August 10 – Initial Conference Call & Comments**
- **September 18 – Today’s MSC Discussion**
- **September 26 – CAISO White Paper**
- **October 3 – Stakeholder Meeting & Comments**
- **October 18 – Board Seminar**
- **Early November – CAISO Straw Proposal**
- **Mid November – Stakeholder Meeting & Comments**
- **Early December – Board documents including CAISO Final Proposal + MSC Opinion**
- **December 13-14 – Board Decision**
- **Early January – Draft Tariff Language for Comments**
- **January 29 – Compliance Filing Due**

## Today's Discussion

- **Review the key requirements, features and issues to be resolved in designing LT-TR**
- **Consider alternative approaches, pros and cons**
- **Provide initial MSC guidance, considerations, etc.**

**CAISO requests formal MSC opinion on its final proposal for December Board meeting.**

## Some Starting Principles

- **FERC Final Rule applies to MRTU markets, but not to CAISO's current (pre-MRTU) markets.**
- **Requirements of the Final Rule can be achieved by building upon MRTU CRR Proposal.**
- **Final Rule allows considerable flexibility to CAISO and its participants to design LT-TR that best fit regional needs and CAISO market design.**
  - "The guidelines adopted in this Final Rule will give transmission organizations the flexibility to propose designs for long-term firm transmission rights that reflect regional preferences and accommodate their regional market designs ..." (§ 2)

# The Seven Guidelines

- **(1) - Specify Source, Sink and Quantity**
  - The long-term firm transmission right should be a point-to-point right that specifies a source (injection node or nodes) and sink (withdrawal node or nodes), and a quantity (MW). (¶ 108, 116)

Consistent with filed MRTU CRR design.



## Guideline (2)

- **Long-Term Hedge That Cannot Be Modified**
  - The long-term firm transmission right must provide a hedge against locational marginal pricing congestion charges or other direct assignment of congestion costs for the period covered and quantity specified. Once allocated, the financial coverage provided by a financial long-term transmission right should not be modified during its term (the "full funding requirement") except in the case of extraordinary circumstances or through voluntary agreement of both the holder of the right and the transmission organization. (§ 169)
  - Question: How should cost of full funding be allocated?
  - Question: Should full funding apply to all rights, not just long-term?

## Guideline (3)

- **Rights Made Available by Expansions Go to Parties That Pay for the Upgrade**
  - Long-term firm transmission rights made feasible by transmission upgrades or expansions must be available upon request to any party that pays for such upgrades or expansions in accordance with the transmission organization's prevailing cost allocation methods for upgrades or expansions. (§ 210)

Consistent with filed MRTU CRR design.

## Guideline (4)

- **Term of Rights Must be Sufficient to Hedge Long-Term Power Supply Arrangements**
  - Long-term firm transmission rights must be made available with term lengths (and/or rights to renewal) that are sufficient to meet the needs of load serving entities to hedge long-term power supply arrangements made or planned to satisfy a service obligation. The length of term of renewals may be different from the original term. Transmission organizations may propose rules specifying the length of terms and use of renewal rights to provide long-term coverage, but must be able to offer firm coverage for at least a 10-year period. (§ 256)
  - Question: How best to structure initial term length and renewal rights to achieve 10-year coverage?

## Guideline (5)

### ■ **Load Serving Entities Have Priority to the Existing System**

- Load serving entities must have priority over non-load serving entities in the allocation of long-term firm transmission rights that are supported by existing transmission capacity. The transmission organization may propose reasonable limits on the amount of existing transmission capacity used to support long-term firm transmission rights. (§ 325)

Filed MRTU CRR design recognizes load-serving priority by allocating to LSEs prior to opening auction to all parties.

Question: Should quantity limits apply to LT rights? If so how should they be determined?

## Guideline (6)

- **Rights are Re-assignable to Follow Load**
  - A long-term transmission right held by a load serving entity to support a service obligation should be re-assignable to another entity that acquires that service obligation. (§ 331)
  - [We] will provide transmission organizations and their stakeholders with flexibility to determine specific rules for re-assignment of long-term firm transmission rights. (§ 356)

Filed MRTU CRR design does provide for rights to follow load migration between LSEs.

## Guideline (7)

### ■ Auction Not Required

- The initial allocation of the long-term firm transmission rights shall not require recipients to participate in an auction. (§ 361)
- Guideline (7) does not preclude a transmission organization from using an auction to allocate long-term firm transmission rights; it only precludes requiring a long-serving entity to submit a winning bid in an auction in order to acquire long-term firm transmission rights. (§ 385)

Consistent with filed MRTU CRR design.

## Guideline (8)

### ■ Balance Adverse Economic Impacts

- As proposed in the NOPR, guideline (8) stated that the allocation of long-term firm transmission rights should balance any adverse economic impact between participants receiving and not receiving the right. (§ 394)
- The Commission will delete guideline (8) in the final rule. (§ 425)

Comment: FERC will address the intent of this guideline via its J&R review of individual proposals.

# Transmission Planning Provisions

- “... when a transmission customer enters into a long-term power supply arrangement and is willing to pay for any transmission expansion or upgrades which may be necessary in order to make long-term firm transmission rights feasible over the entire term of the contract, that expansion or upgrade must be incorporated into the transmission organization’s planning process.” (§ 456)

Questions: Who is responsible to identify the upgrades needed to meet an LSE request for LT rights? Is the CAISO, as the independent entity responsible for planning the grid and having the needed information, expected to be responsible to identify the necessary upgrades? Should the requesting LSE be responsible for the costs of the needed studies?