

**PRE-EXISTING CONTRACTS AND OBLIGATIONS:
RULES FOR OVER ALLOCATION OF FLOW PATHS**

Background

The RTO Congestion Management Workgroup has agreed that there is a real possibility that Firm Transmission Rights (FTRs) allocation process will result an over allocation of FTRs on some flow paths. Thus rules must be established to address this over allocation.

Four alternatives have been proposed and debated. Two alternatives (alternatives 1 and 3) reduce the FTRs to meet the capabilities of the flow paths prior to the assignment of FTRs. The other two alternatives require the RTO resolve any residual congestion, where load diversity is expected to simplify the task.

The four alternatives are as follows:

- 1) Before rights are assigned, FTR rights will be reduced pro rata based on feasible as described in the rules for conversion of Pre-Existing Contracts (PECs) and Load Serving Obligations (LSOs).
- 2) RTO will buy back FTR rights at day-ahead scheduling or real-time.
- 3) FTR rights will be allocated based on PEC terms and conditions
- 4) The RTO should use both alternative 1 and alternative 2 as tools to manage the over subscription of flow paths.

Ren Orens and Gerald Miller provided the supporting statement for alternative 1, which is the present strawman position. They compare this alternative to performing the pro rata at day-ahead and to post day-ahead use of CM tools by the RTO. Linc Wolverton provided the pro's and con's for alternative 2. Alternative 3 has been proposed and supported by Chris Reese. Chris' position is that certain contracts define explicit priorities and that these priorities must be fulfilled prior to the pro rata distribution of the remaining FTRs. Brian Gedrich provided the supporting statement for alternative 4, proposing that the RTO is best able to address the situation.

ATTACHMENTS

Alternative 1

FTR rights will be reduced prorata based on feasible dispatch as described in Rules for conversion of PECs and LSOs.

We believe Alternative 1 is both fair to existing rights holders and provides the most efficient solution.

Why is it fair to existing right holders?

If we assume that the existing rights holders (converted and non-converted) get allocated the amount of rights that they have today, alternative 1 treats customers in the same way that they would be treated today. Its easiest to think of this problem in the case of a line or generator out of service. This causes over-subscription of firm service and all customers are curtailed on a pro-rata basis.

If we increase all existing contract holders rights to exceed the existing levels of ATC, giving them rights exceed their existing rights, then it is only fair that this all contract rights holders bear an equal “pro-rata” responsibility for the cost of this increase.

Is it more equitable to wait until the end of the pre-schedule period to impose the pro rata reductions?

If the existing rights holders want more rights than they have today, they should have to buy those rights under the same conditions as all other transmission users. In both the pre and post Order 888 paradigms, acceptable levels of ATC were developed and sold to customers. If customers wanted more ATC than was available in the forward market, they would either have to either buy it from other customers or wait until the end of the pre-schedule period to purchase short term non-firm service from the transmission owner.

As a variation (to be referred to as option 1), at the end of the preschedule period, after the day-ahead commitments to schedule energy have been submitted, the rights could be reduced on a prorata basis, thus providing additional rights to existing rights holders by allocating recallable rights to them at no additional cost. Alternate 2 below, as we understand it, would socialize the cost of increasing their existing rights.

Alternate 1 is also the most efficient solution

Efficiency is improved when more of the transmission capacity is allocated to those willing to pay higher prices for its use. We have stated above that in most cases, over-subscription will only occur if the existing rights holders are given incremental capacity above what they are using today. Alternative 1 ensures that all incremental uses of the system, from existing rights holders and new users, will be allocated to customers based on their willingness to pay for that use. Option 1 inefficiently allocates additional capacity to existing rights holders at no cost. Alternative 2 inefficiently allocates additional capacity to existing rights holders at an average socialized cost.

Alternative 2

RTO will buy back FTR rights at day-ahead scheduling or real time.

Pro's:

- 1) Less valuable rights get bumped (rather than pro rata)
- 2) If there is not much over allocation, this avoids contention
- 3) Because of diversity, there may be no cost to RTO whatsoever
- 4) RTO may be able to use RTRs or NTRs

Con's:

- 1) Inappropriate socialization
- 2) PTO that oversold not held accountable
- 3) Larger scope RTO needed to manage such rights

Alternative 3

The proposed new language would read:

FTR rights will be allocated based on PEC terms and conditions.

Pros: Many existing contracts have proscribed curtailment procedures that are not pro rata. This maintains the rights on existing contracts. Oversold capacity would not be entitled to FTRs. Alternatively the transmission provider makes the rights holder whole by paying any redispatch costs.

Some transmission paths have been oversold, even though the capacity was not available.

This alternative does not reward the overselling of paths.

Many paths have not been correctly managed. Example: North of John Day. Awarding FTR rights based on the existing priority stack maintains equity.

Minimizes cost shifts.

Alternative 4

The RTO should use both Alternative 1 and Alternative 2 as tools to manage the over-subscription of flowpaths.

Discussion:

The RTO should take a proactive part in assuring that the transmission rights brought into the RTO are honored. Considering that the extent of the over-subscription problem has not been quantified it is premature for the Work Group to limit the RTO's potential remedial actions.

Pros:

By giving the RTO flexibility in its actions, the RTO will be better able to access and react to the diversified use of the flowpaths that are inherent in today's operation. The RTO will be the only entity that has a complete dynamic picture of the transmission grid, and therefore would be the perfect choice to assess and react to keep the vested transmission users whole. Prorata reductions and FTR buy-backs should be used together, as needed.