

Strawman proposal for cataloguing and converting existing rights

Background

The Stage 2 proposal envisions the cataloguing process as a way to protect both existing rights-holders and new entrants by defining a method that would neither increase nor decrease the value of existing rights. Because the existing rights fit within the system's capacity, it was hoped that allowing rights-holders to continue to schedule under the existing framework would take advantage of the diversity and netting that exists today to allow surplus transmission capacity to be made available to the market. At the same time, the Stage 2 proposal recognizes the desire to promote liquidity in secondary transmission markets by providing value for entities for early schedule of CTRs and by allowing CTR holders to "convert" to a direct-schedule relationship with RTO West. This strawman proposes a way to accomplish both of these goals. This proposal represents a slight departure from process outlined in the Stage 2 model, but does not fundamentally alter any of the major concepts such as CTRs for capturing existing rights, defining rights as options, or the congestion management asset sufficiency test.

Working assumptions

1. CTRs provide credits against RTO West charges for congestion and/or ancillary services.
2. CTRs are held by the PTO in order to meet the aggregate obligations resulting from all of its non-converted transmission contracts.
3. Customer can initiate process of converting to direct-schedule relationship with RTO West. This process will neither enhance nor shrink the value of the contract customer's existing rights.

Process for cataloguing and converting existing rights to RTO Service

A. Before RTO West startup—develop catalogue database (one-time process)

1. Develop relational database for tracking information related to existing rights.
 - a) Database will include tables for storing information about individual contracts including injection and withdrawal points, real-time flexibility (if applicable), and conditions that can affect the value of existing rights.
 - b) Database will facilitate storing existing rights as combinations of standard, unconditional, financial injection-withdrawal rights and residual non-standard physical or financial rights. Injection-withdrawal rights need not be confined to single pairs of nodes – flexible rights are also considered "standard".

- c) Non-standard pieces will depend on the type and nature of the underlying transmission contract. Some will consist of financial put or call options held by the PTO as part of its congestion management assets.
2. PTO and contract customers stock database with information about all contracts to be catalogued. (NOTE: The role of the customers has not yet been well defined or accepted.)

B. Before or after RTO West startup—convert to direct schedule relationship with RTO West (one-time process)

3. Contract customers that wish to convert to direct scheduling with RTO West negotiate three-way suspension agreement with PTO and RTO West.
4. Agreement defines a set of CTRs to be held by the contract customer and a set of obligations that are kept in the PTO's catalogue for the purpose of the asset sufficiency test. Each of these should be equivalent in value to the customer's existing contractual rights. This agreement lasts until the underlying contract expires.
5. To the extent that the customer's transmission use provides netting and diversity that is counted on as part of the PTO's congestion management assets, the three-way suspension agreement may involve a reduction in MW quantities of rights or the provision of financial redispatch rights (i.e., obligations) from the customer to the PTO.
6. Load growth or any other time-dependent provisions would be locked down during this process.
7. ADR would be available if PTO and customer cannot agree on these terms.

C. Periodic process for making available FTOs (annual, seasonal, monthly, pre-day ahead)

8. RTO West tests sufficiency of PTO's congestion management assets, given level of CTRs claimed by PTO (more detail to be developed in another strawman).
9. After concluding asset sufficiency tests, RTO West estimates available transmission capacity on potentially constrained paths (more detail to be developed in another strawman).
10. RTO West holds a series of FTO auctions to sell available capacity. These auctions take place annually, seasonally, monthly, and at the pre-day-ahead time frame.
 - a) FTO auction conducted by accepting bids for injection withdrawal pairs, running state estimator "backwards" (i.e., state estimator puts in quantities, gets out prices; auction logic puts in prices, gets out quantities). Auction logic maximizes auction revenues based on estimates of congestion value (non-zero injection-withdrawal bids).

- b) Direct-schedule CTR holders can participate by placing all or part of standard portion of CTR (that portion defined by unconditional injection-withdrawal rights) into any FTO auction. The CTR-holder is paid the full value of the rights it put into the auction and could, if desired, use the proceeds as a credit toward the purchase of different injection-withdrawal rights. This process serves as a vehicle for both conversion of standard CTRs into FTOs and the “early release” of CTRs described in Stage 2.
 - c) Creditworthy market participants can also offer to sell financial redispatch options at the time of the auction to create “virtual” transmission capacity. A redispatch option between nodes A and B is an option held by RTO West to receive a payment equal to $P_A - P_B$ if $P_A > P_B$. If the value of the capacity added to the system is greater than the offer price, the offer would be accepted.
 - d) If a financial transmission option in a particular direction is linked one-to-one with a financial redispatch option in the same direction, a PJM-style obligation is created. RTO West would allow, but not require, this linkage to occur.
11. Closer to real time, RTO can release more capacity because it has more information about actual system conditions. CTR-holders and other market participants may also be more interested in participating as they firm up their short-term positions.
12. RTO conducts final FTO auction at pre-day-ahead time frame, as final opportunity to lock down price before day-ahead settlement.

Open Issues

1. Are there physical aspects of existing rights that cannot adequately be captured by credits against RTO West charges?
2. Is there a need to incorporate credits against RTO West ancillary service charges or losses into the CTR catalogue?
3. Can conversion of standard CTRs into FTOs through the mechanism described here be accomplished without enhancing the CTRs’ value and, hence, causing a cost shift?
4. Can the three-way suspension agreement function as envisioned provide certainty to the PTO and the contract customer about their future rights and obligations while still protecting RTO West against any unintended consequences?