

# **Strawman proposal for cataloguing and converting existing rights**

## **A. 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.

## **B. Working assumptions**

1. CTRs provide credits against RTO West charges for congestion and/or ancillary services.
2. Some CTRs may also confer rights to change generation schedules without penalties.
3. CTRs can be held by the PTO on behalf of the transmission customer, with the PTO serving as the customer's scheduling coordinator or, at the election of the customer, can be transferred to the customer and scheduled directly with RTO West.
4. Some CTRs are tradable. Open access (888) rights are explicitly tradable. Other rights can effectively be traded through buy-sell deals. RTO West will make this much easier to do by providing a liquid market at every location on the grid.

## **C. Process for cataloguing and converting existing rights to RTO Service**

### **Before RTO West startup—develop catalogue database (one-time process)**

1. Develop relational database for tracking information related to existing rights.
  - Database will include tables for storing information about individual contracts including injection and withdrawal points, real-time flexibility (if applicable) conditions that can affect the value of existing rights, and any unique physical scheduling rights conferred by the contract.
  - Database will also include logic to relate the contract to RTO West settlements.
  - 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”.
  - 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.

**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 with PTOs terms of transfer of CTRs from PTO to customer.
4. 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, this transfer may involve a reduction in physical quantities of rights or the provision of financial redispatch rights (i.e., obligations) from the customer to the PTO.
5. ADR would be available if PTO and customer cannot agree on these terms.

**Annual process for updating catalogue**

6. PTO and contract customer agree on any changes to the contract customer's rights, e.g., load growth, contract expirations, etc. PTO updates CTR catalogue to reflect changes.
7. For direct-schedule CTR holders, PTO and customer negotiate changes to package of rights and obligations to reflect changes in underlying contract rights.

**Periodic process for testing sufficiency of congestion management assets (seasonal initially, moving to annually)**

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. If RTO West deems assets insufficient, it negotiates with PTO to provide additional assets such as redispatch.
10. If assets still insufficient, RTO West proposes package of financial redispatch rights. PTO can either provide equivalent physical redispatch or agree to provide payment under conditions outlined by RTO West.
11. ADR available if PTO and RTO West cannot agree on asset sufficiency.
12. Once RTO West has certified PTO's assets as sufficient, PTO has no further obligation to provide additional assets to honor direct-scheduled CTRs.

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

13. After concluding asset sufficiency tests, RTO West estimates available transmission capacity on potentially constrained paths (more detail to be developed in another strawman).
14. 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.
15. FTO auction conducted by accepting bids for injection withdrawal pairs, running state estimator "backwards" with RTO-specified levels of available capacity on each potentially constrained element. Auction logic maximizes auction revenues based on estimates of congestion value (non-zero injection-withdrawal bids).

16. 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. CTR-holder paid the value for the rights it put into the auction, can either bank the revenue or use it to purchase other injection-withdrawal rights.
17. 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.
18. 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.
19. 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.
20. RTO conducts final FTO auction at pre-day-ahead time frame, as final opportunity to lock down price before day-ahead settlement.