

Preemption and Competition Resale/Redirect Issues

Customer Workshop

02/05/2014



Goals

- 1. Review the various issues around Resales and Competition**
- 2. Identify potential options for dealing with these issues**
- 3. Get agreement on Next Steps**

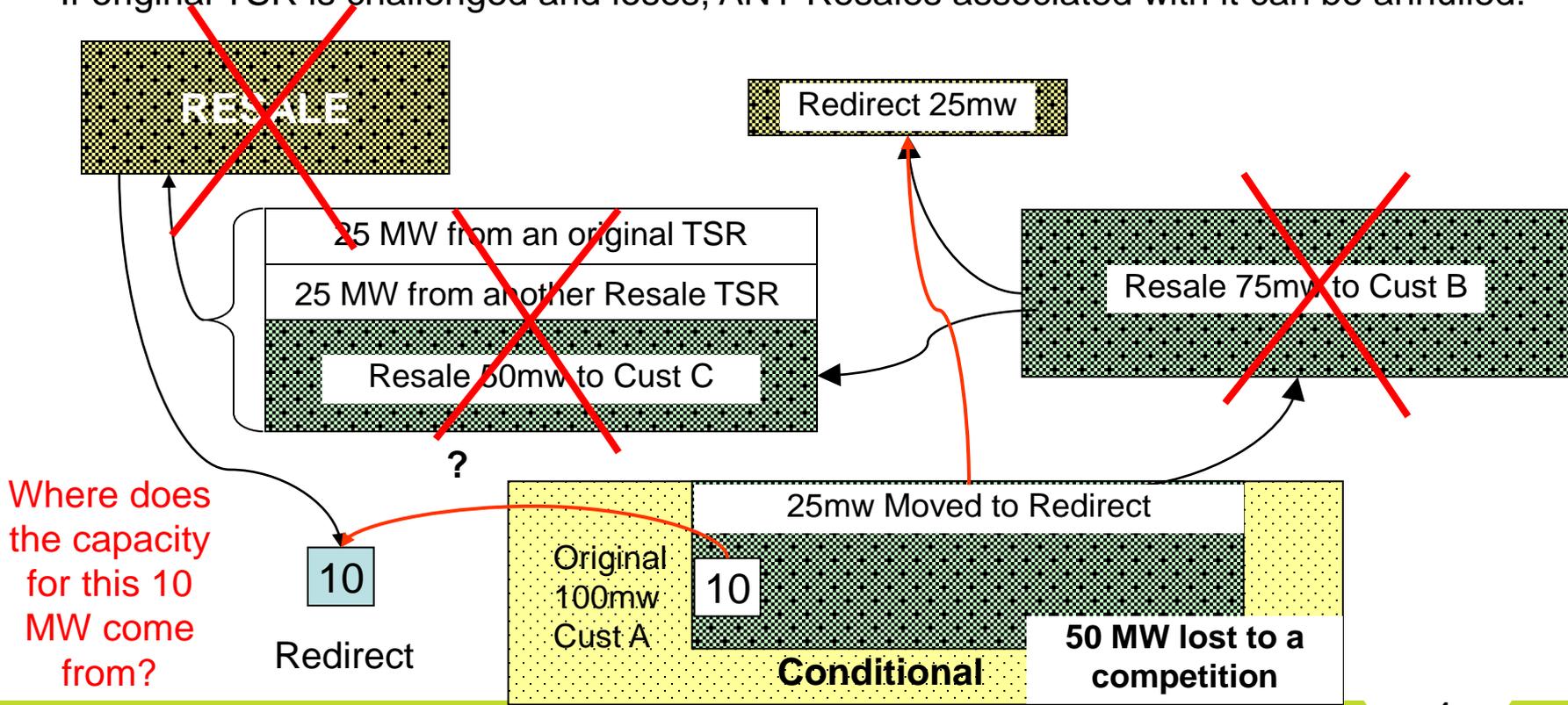
Order 890-A Paragraph 819. – With regard to reassignments of capacity in the secondary market, we clarify that the associated right of first refusal under sections 13.2 and 14.2 of the pro forma OATT to match a competing transmission service request applies to the primary transmission service, not the reassignment of scheduling rights.

NAESB Business Practice Standards

- **WEQ-001-11.1** The confirmation of a Resale shall convey the rights to schedule Point-To-Point Transmission Service from the Reseller to the Assignee, but shall also convey any outstanding conditions that may exist on the Parent Reservation (such as conditional approval pursuant to Section 13.2(ii) of the OATT).
- **WEQ-001-11.1.5** The Assignee shall have the right to resell rights acquired through a Resale in accordance with these standards.
- **WEQ-001-11.1.6** The Assignee shall have the right to Redirect firm rights acquired through a Resale. The redirect of the resale will be queued and evaluated in the same manner as any other Redirect.
- **WEQ-001-11.7** In the event a Transmission Provider's Tariff requires that a higher priority, competing transmission service request must displace all or a portion of a confirmed lower priority reservation, the TP shall have the right to nullify any Resales that reference the displaced reservation as their Parent.

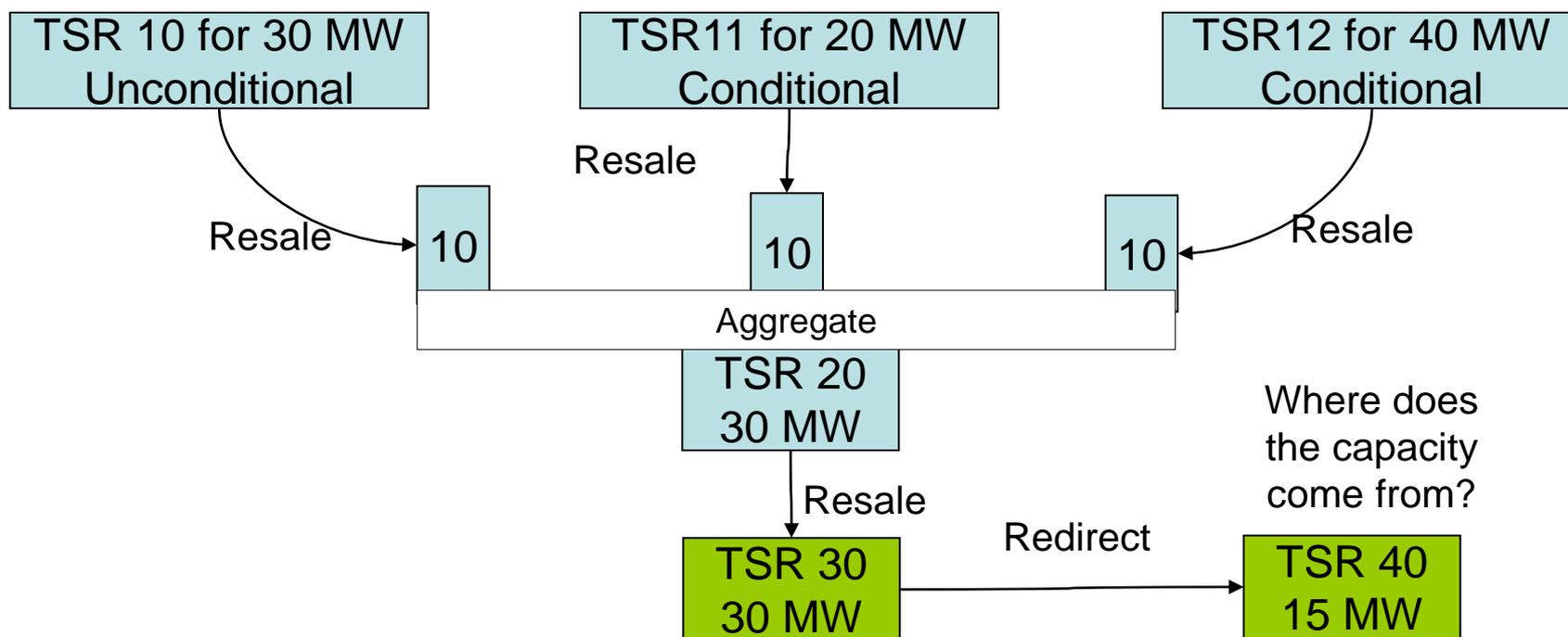
Resales: Required Functionality

- ✓ Must allow Resale while Parent Reservation is still conditional. Capacity stays with the parent
- ✓ Resale TSR itself is “safe” from competition, Parent Reservation is not if still conditional.
- ✓ Resale TSR can be resold or redirected in part or in whole.
- ✓ The Resale of the Resale can be aggregated with other Resales.
- ✓ The capacity for the Redirect from the Resale must come the original TSR.
- ✓ The Resale or Redirect of the redirected or resold Resale can be resold or redirected.
- ✓ If original TSR is challenged and loses, ANY Resales associated with it can be annulled.



Unraveling the chain

- A customer has three TSRs for the same path.
- He resells 10 MW from each to himself.
- He aggregates them into TSR 20 for 30 MW.
- He then resells those scheduling rights to a different customer, TSR30.
- That new customer then redirects 15 MW from TSR 30 to TSR40.
- Where does that capacity come from? 5 MW from each original? Pro-ratta?
- What happens if TSR11 and TSR12 are preempted by an NT Request?



FERC Guidance

It is a major issue for the Northwest since BPA had around 5,000 resales against conditional reservations last year.

Summary of BPA's position in Order 676-C

58. Bonneville also recommends that the Commission adopt a provision at WEQ-001-11.7 preventing transmission customers from initiating any resale during the conditional window because permitting this practice could allow resales initiated prematurely to impose risks on all parties involved in the transaction and could lead to inefficiencies in the resale market.

Summary of FERC's Response

60. Since these standards permit resales of conditional firm transactions and give the transmission provider the right to nullify resales of displaced transactions, we find that the standards address the concerns of Duke and Bonneville about the effective management of conditional firm transactions. If Duke and Bonneville believe that these standards are not workable upon implementation, they may submit a request to NAESB to modify these standards based on their experience with these standards.

Potential Options # 1

Notification Only – Two Options

1. TP will notify Original Assignee and leave it to them to notify any downstream parties (as it is supposed to be now).
2. TP will notify all downstream reservations associated with the lost capacity and let them sort out who keeps what.

Pro

- Leaves responsibility to the customer
- Customers can make decisions based upon their business needs
- Consistent with current NAESB standards

Con

- No guarantee that the customer will follow through
- Creates condition where TP can be over scheduled or allocated
- Risk to customer of UIC
- A lot of uncertainty for both the TP and the customer
- Actions will need to be timely
- No good OASIS tool for customers to straighten this out

Potential Options #2

Kill all

All downstream reservations associated with the lost capacity would be annulled. NAESB would need to expand 11.7 to state clearly about grandkids. 11.7 is discretionary (may).

Pro

- Consistent with Standards WEQ001-11.7
- No risk of over allocating
- No Uncertainty for TP
- Its harness would likely cause the market to adjust business behavior to limit daisy chaining of conditional resales.

Con

- Harsh market impacts
- Nullifies treatment of redirects regarding capacity
- Impact a wide net of reservations because of aggregation.
- OASIS may not track all daisy chain associations

Potential Options #3

Limit Resales to Unconditional Reservations – Two Options

1. Limit all Resales to unconditional reservations.
2. Allow Resales to conditional Original and Redirect Reservations, but limit the reselling and redirecting of Resales to unconditional Resales.

Pro

- Simplifies all of the issues around undoing a daisy chain

Con

- Limits value of transmission
- Contrary to FERC direction, but FERC gave BPA permission to take this to NAESB
- Limits customer flexibility
- Reduces the impact but doesn't eliminate the need to "kill all".

Potential Options #4

Move the capacity to the Resale – Two Options

1. Treat the Resale as an original, much like a redirect, with its own conditionality. It can be a defender. This would be much like a Transfer.
2. Treat the Resale like an original, but with the conditionality of the parent (like a Transfer) Bad market design

Pro

- This is the way the current PCM works.
- Simplifies all of the issues around undoing a daisy chain

Con

- Contrary to FERC intent that a Resale is only for scheduling rights
- Blurs the line between a Resale and a Transfer
- Reduces the impact but doesn't eliminate the need to "kill all".

Potential Options #5

Disallow the redirecting of Resales all together.

Resales are Scheduling Rights only and could not be redirected.

Pro

- Contrasts the owning of scheduling rights with the owning of capacity
- Simplifies the kill option since it is just scheduling rights

Con

- Limits the current business practices
- Contrary to current NAESB standards
- Customers would push for a “consolidation” transaction for aggregations.

Potential Options #6

Limit Redirects of Resales to Unconditional Resales

Pro

- Simplifies the kill option since it is just scheduling rights

Con

- Limits the current business practices
- Contrary to current NAESB standards

Consensus – Not Reached

Potential Options #7

Delink Redirect from Resale

The Assignee would go to the owner of the capacity to get the scheduling rights redirected.

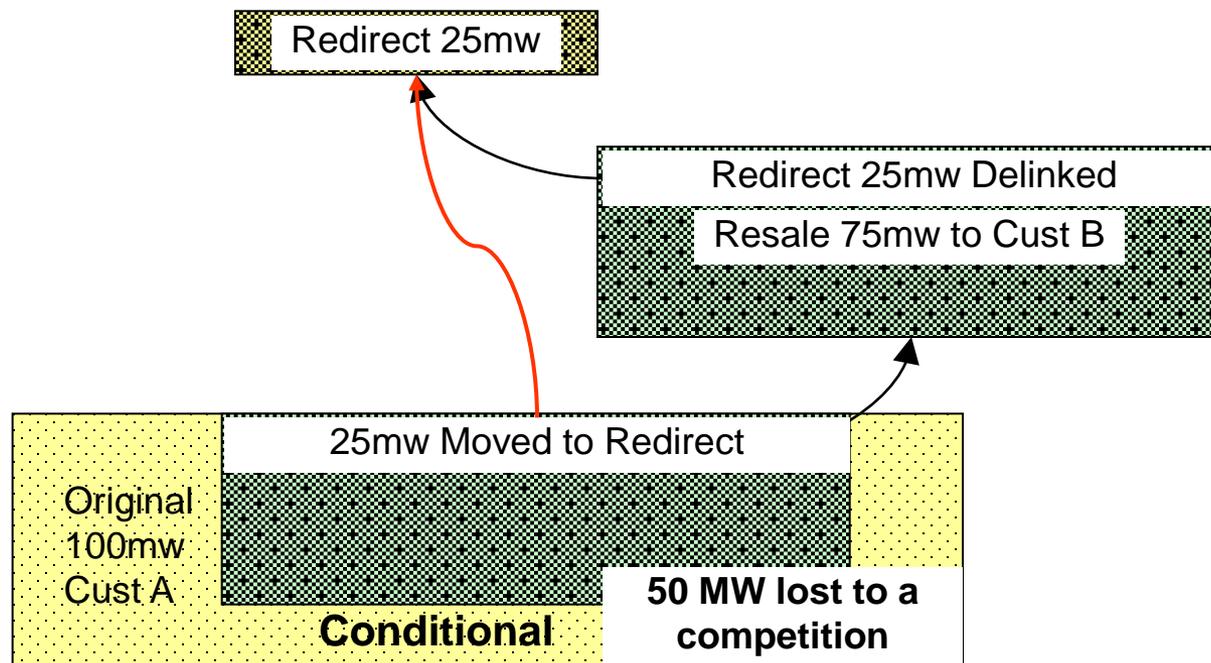
Pro

- x

Con

- x

Leaning



Potential Options #8

Use the Transfer Functionality instead of Resale

Pro

- x

Con

- x

Leaning

Potential Options #9

Long Term – Create a new “Resale to Self” or Consolidation Transaction

Pro

- x

Con

- x

Leaning

What About Secondary Non Firm?

X

Next Steps

1. BPA will provide initial leanings of the Northwest Region at the February OS Face to Face meeting
2. BPA will provide the final recommendation at the March OS Face to Face in Portland.