

Conditional Resales NAESB Assignment Update

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Discussion Goals

- Provide background on the BPA proposed options to NAESB for the treatment of Conditional Resale C&P
- Provide the rationale for creating a third alternative or option
- Describe the new option
- Test Customer Support

Background

- BPA was given the assignment to develop recommendation(s) for C&P treatment of secondary market transactions (Resales, Redirect of Resales)
- BPA has presented two options to the NAESB OS with input from the region.
- NAESB OS expressed concern that Option 2 would not be acceptable to FERC
- The NAESB OS requested that BPA provide:
 - More data to determine whether Option 1 is viable
 - Analysis of FERC Policy to assess if Option 2 is viable
 - A new option which includes BP development for 'Reservation Merge' (e.g., Resale to Self)

Resales in C&P – Currently Identified Options

- Option 1- treat Resales as Scheduling Rights
 - ROFR remains on the conditional parent
 - Resales lose scheduling rights if the parent loses capacity
 - Implementation Guide (WEQ-013) mirrors the Business Practices (WEQ-001)
- Option 2 - treat Resales as Scheduling and Capacity Rights
 - ROFR moves to the Resale
 - the Assignee controls their own destiny
 - Business Practices (WEQ-001) mirror the Implementation Guide (WEQ-013)
- Option 3 – Possible Mitigation Plan **NEW**
 - Addresses the gap between WEQ-001 and WEQ-013
 - Stops Resales of Conditional TSRs
 - Includes the Tx Reservation Merge project near term

Potential Need for Mitigation Plans

- A mitigation plan (Option 3) may be needed if:
 - Option 1 is deemed unworkable, or
 - Option 1 will take a significantly long time to implement (e.g., system changes)
- The mitigation plan will provide a temporary or permanent path forward if Option 1 is deemed unworkable.

Option 3, 5-Point Strategy

1. Investigate and report the implementation complexities of the C&P recall of Parent Reservation capacity that supported Resale Scheduling Rights including the estimated timeframe needed to bring the industry 'on-line negotiations' consistent with WEQ-001 (Option 1 complexities)
2. If Option 1 is deemed 'unworkable' i.e., implementation is not complete at the time the C&P BPs are ratified and 'Resales to Self' are included when they shouldn't be (FERC Order 676C ¶ 60) then a third Option is needed
3. Retain the current definition of Resales as scheduling rights as adopted by FERC in Order 676C
4. Develop a temporary bridge or a permanent solution that will limit Resales to unconditional parents:
 - a) until WEQ-013 is consistent with WEQ-001 or
 - b) permanently disallow C&P for conditional Resales (FERC policy change)
5. Recommend to the NAESB OS that the 'TC Tx Reservation Merge' Request to develop BPs is addressed within the C&P project timeline by establishing a NAESB OS Task Force.

Option 3: Strategy Point 1

(Option 1 Complexities)

1. Current Implementation Guides and Templates (WEQ-013) do not support C&P of **Conditional Resales (WEQ-001)**.
 - Resales are Scheduling Rights Only
 - ROFR (and thus encumbering capacity) remains with the parent of the Resale
 - Resales are permissible from conditional parents
 - The Resale inherits the conditionality of the parent
 - Resales can be resold or redirected
 - Resales are a temporary tool for consolidation of reservations for ease of scheduling
 - If the conditional parent loses capacity to a P&C, then the TP has the right to annul any Resales associated with that lost capacity to guard against over scheduling.

Option 3: Strategy Point 1 (cont'd)

(Option 1 Complexities)

2. Industry-wide commercial systems were built based upon the implementation guides where the capacity moves from the original reservation to the resale. These systems are foundational for the commercial viability of the market. The impact of changing these foundational systems to accommodate the Preemption and Competition of conditional reservation is significant.
 - OASIS
 - ATC/AFC Calculation and Evaluation
 - Transmission Scheduling
 - Data Warehouses
 - Ancillary Services
 - TP and Customer Custom Applications

Option 3: Strategy Point 1 (cont'd)

3. Industry-wide Business Models and Practices supporting a robust secondary market were built upon these Industry-wide Systems.
4. To modify the current implementation to match the WEQ-001 Preemption and Competition Standards for Resales would be a major cost to the industry and a major disruption to the NW Regional Secondary Market.
5. These foundational commercial systems would need to create a separate 'scheduling capacity' distinct from 'encumbering capacity' in order to track the transactions.
6. The systems must have the ability to track 'encumbering capacity' with 'scheduling capacity' and subsequent down stream transactions. For C&P, systems must have tracking ability 'up stream' for down stream transactions that may be 'unwound' due to the conditional parent losing a competition.

Option 3: Strategy Point 1 (cont'd)

7. Of particular difficulty would be the need to track aggregations and determining which scheduling capacity came from which original reservation should the aggregated reservation do a partial redirect or one of the parents lose capacity to a preemption or competition.
8. There would need to be a massive data conversion effort to take the existing capacity residing on the resale reservations and creating the encumbering capacity on the original parent.
9. The financial aspect of tracing who paid what to whom would be complex given the daisy chain of potential resales and redirects of resales allowed by the current standards.
10. The complexity of the above items requires that NAESB OS determine the time needed to address the implementation modifications and additions to OASIS and impacts to other commercial systems

Option 3, Strategy Point 2

- FERC 676C ¶ 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.’
- FERC should be flexible if the complexities of C&P for Resales are ‘unworkable’ and recommends the TP to go to NAESB if re-evaluation is deemed necessary.
 - Implementation complexities described in Option 1 can also be used in support of option 3
 - This language provides support for NAESB to reconsider treatment of conditional Resales

Option 3, Strategy Point 3

FERC guidance

- FERC 676C paragraph 28 & 33
 - FERC adopts Resales as scheduling rights
- WEQ 001-11
 - Resale – Any Transition Customer (Reseller) shall have the right to offer for sale the scheduling rights associated with PORs and PODs of a firm or non firm PTP reservation (i.e., Parent Reservation). Any Eligible Customer (Assignee) may request to purchase scheduling rights from the Reseller.

Option 3, Strategy Point 4

Develop Mitigation Plan

1. Limit Conditional Resales
 - a) (pros and cons)
2. Form a NAESB OS Task Force:
‘Transmission Reservation Merge’ project
 - a) Rationale
 - i. Review BPA’s ‘Daily’ secondary transaction market volume
 - ii. Aggregation Issues
 - b) NAESB OS Task Force Operation

Limiting Conditional Resales – Pros and Cons

■ Pro

1. Eliminates the uncertainty around conditional Resale loss of scheduling rights
2. Eliminates the need to ‘unwind’ complicated secondary transactions
3. Allows the C&P BPs to move forward without resolving the WEQ-013 issue now
4. A permanent solution provides the stability to the industry (simplifies changes to WEQ-013)
5. Other?

■ Con

1. Changes the timing of when a customer can sell scheduling rights to excess capacity.
2. Limiting of conditional Resales is not popular with the NW Regional customers
3. Postpones resolving the WEQ issues now
4. Is not consistent with FERC guidance on the treatment of conditional Resales
5. Other?

Transmission Reservation Merge Description (R09015)

‘Transmission Customers may from time-to-time have a portfolio of transmission service reservations from a single provider on a single path. For ease of tracking and efficiency, the customers desire to combine or merge like reservations (i.e., firm, non-firm, etc) into a single reservation. Under existing OASIS business practices and protocols, customers must use the Resale mechanisms to merge two or more like reservations under a single assignment reference number. In other words, customers sell their reservations back to themselves.’

Revised Volumes for BPA's Secondary Transaction

- A recent BPAT review of 2012 secondary transaction volume lends support to a third Option for C&P issues associated with Resales.

<u>2012 BPA Resale Activity</u>				
	Total Resales	Total Resales to Conditional Reservations *	Conditional Resales To Self	Conditional Resales To 3rd Party
Monthly	10,696	10	5	5
Weekly	714	1	1	0
Daily	<u>2,050</u>	<u>101</u>	<u>47</u>	<u>55</u>
Non Hourly Total	13,460	112	53	60
Hourly **	24000+	4,600+	?	?
* Numbers were revised to reflect BPA's Pre-Schedule Day Start of Unconditional Windows.				
** Hourly Figures are approximate				

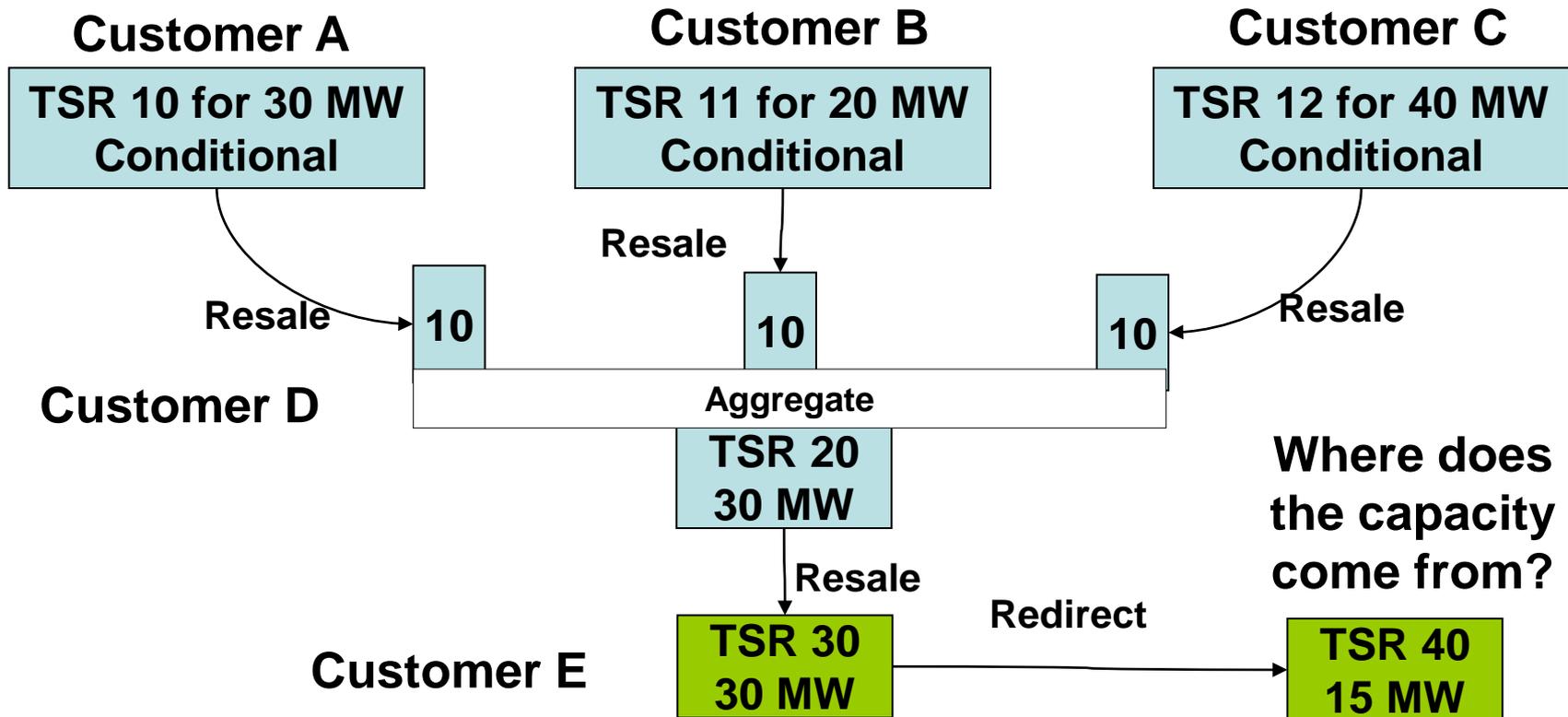
Why Tackle the 'Tx Reservation Merge' Project?

Daily Resale Activity - Summary

- **38%** of Daily Resales were done on the same day as the start day of the parent. (**Parent Reservation is Unconditional, e.g. Resale cannot lose scheduling rights.**)
- **18%** were done after the start date of the parent. (**Parent Reservation is Unconditional, e.g., the Resale cannot lose scheduling rights.**)
- **28%** were done within 1 calendar day before the start date of the parent. (**Really close to having the Parent Reservation Unconditional, lowers the probability that the Resale would lose scheduling rights.**)
- This means that **84%** of Daily Resale activity is done within 1 calendar day of the start day of the parent
- Another 11% of Daily Resales are done more than 1 calendar day ahead of the start day of the parent (but these 11% are also safe because they are within 1 pre-schedule day of the parent start time). So, more than 95% of Resales are done within 1 pre-Schedule day or later.
- Of the 5% of Daily Resales that are done in the conditional window, 45% are Resale to self. Mitigate the 2.7% of the total Daily Resales addressing the 'Transmission Reservation Merge' NAESB request **e.g., for Resales that could be recalled due to a Conditional Parent, the 'Transmission Reservation Merge' project would mitigate 45% of this exposure.**

Aggregation Issue

There must be the ability to track the Aggregation of Resales forward and backward between the original reservations and the aggregated parts in case the aggregated reservation is partially redirected, there is lost capacity on one of the original parents, and for financial reconciliation.



How the NAESB OS Task Force will Operate

- Administrative Requirements
- Project Description (see previous slide)
- Project Goals
- Roles and Responsibilities

NAESB OS Task Force – Admin Req's

- NAESB Task Force have formal administrative requirements:
 1. NAESB legal staff assigned,
 2. Formal postings on the NAESB website,
 3. Formal meeting minutes taken and posted,
 4. Chair and possibly co-chair
 5. Post meeting dates, times, 'livemeeting' hyperlinks, agenda, bridge numbers etc...
 6. OS Chair or co-Chair must be a member
- EC has to review and approve the Task Force including establishing the resources noted above and would modify the Annual Plan with the project group (e.g., Task Force) and the due date.

Transmission Reservation Merge - Goals

1. Enhance Transmission Customer efficiencies by allowing customers to merge like reservations into a single reservation
2. Lessen the TP administrative requirements tied to a Resale by reducing the volume of TP Electronic Quarterly Reporting to FERC
3. Establish BPs (if necessary) to not allow resales, reassignments, or transfers to occur where the reseller and assignee are the same entity
4. Improve market practices by constraining the use of resale, reassignment, and transfers to actual commercial transactions between two unique entities
5. Disallow C&P actions for this type of TC inventory management (expansion of the R09015 description) **NEW**

Roles and Responsibilities

- Initial Task Force time commitment estimate:
 - about 1 quarter
 - BPAT will commit resources
 - NW Regional Customers participation is critical
- Because BPAT's secondary market volume is large from an industry perspective, BPAT will recommend that BPAT chair the Task Force

Option 3: Strategy Point 5

Test Customer Support

- BPAT will submit a Task Force Request recommendation to the NAESB OS at the April 2014 meeting for Option 3.
- Regional support is needed at the NAESB OS to support the BPAT recommendation
 - Task Force Participation
 - Regional voting support at NAESB
- Straw Poll
 - Support for the Option 3 (Mitigation Plan)
 - Support for NAESB OS Task Force