

Introduction

Many load serving utilities in the Northwest purchase long term transmission capacity from the Bonneville Power Administration (BPA) through Point to Point (PTP) contracts. Because these customers must meet their obligations under peak load and generation conditions, they contract for enough transmission capacity to cover infrequent load and hydro events. Under normal system loading conditions, this means that excess firm capacity is typically available for resale into the secondary transmission market. However, the North American Energy Standards Board (NAESB) standards and methodologies related to Preemption and Competition could adversely impact not only individual utilities' ability to resell transmission into the market, but the entire transmission resale market in the Northwest.

The Northwest Transmission Secondary Resale Market

There are a number of contributing factors that help define and shape the Northwest as a unique market:

- BPA's role as a Transmission Service Provider to a diverse and numerous range of Northwest electric utility customers who may reserve and manage their own inventory of different types of BPA transmission (such as NITS and PTP)
- Properties of power products available to Federal Preference customers, which allow a short-term energy market with bilateral arrangements
- Geography of adjacent Balancing Authorities
- Demand for energy flow into California

Because of the above, Northwest transmission customers must utilize the transmission system in different ways to serve their needs. Some utilities may take NITS service from BPA for a certain amount of their load service, but rely on PTP to move generation assets to market or serve excess load with market resources. These customers rely on a liquid transmission market to serve their needs and manage expenses. Other utilities help provide some of this liquidity by reselling excess firm transmission, while ensuring sufficient capacity remains to serve load.

Without the presence of this viable secondary transmission market, customers are adversely affected. For example, those PTP customers who have bought and paid for enough firm capacity to cover peak load conditions would have an excess of transmission capacity that is unusable in 99% of load scenarios. Additionally, if the purchasers of this excess transmission no longer have access to recovering sunk costs of firm transmission rights through resale, this could have significant business impacts to those customers and potentially alter how they buy and sell power in the energy market or even how they choose to serve load.

Over 10,000 MW of capacity is resold on an average daily basis across BPA's transmission system. Because of this capacity's value to load serving Northwest customers, Preemption and Competition standards should be designed to ensure the resale market is not degraded. Although

the majority of resales occur from Yearly reservations (at least currently), some are made from short-term reservations during their conditional window. These transactions are faced with a high level of complexity from Preemption and Competition and thus appropriate Business Practice standards must be implemented to ensure the market is maintained and smoothly operated.

How Current FERC and NAESB Standards Impact Resales

Under Order 890A, Paragraph 819, the Federal Energy Regulatory Commission (FERC) clarifies that when transmission is resold, only the *scheduling rights* to the capacity are conferred, not the capacity itself. This has a number of implications related to both resales and Preemption and Competition:

- An assignee may create eTags based on rights obtained from parent reservations that are short-term and in the conditional window – these eTags could be left stranded if capacity is then recalled due to Preemption or Competition
- ROFR rights do not rest with the assignee. This creates situations where:
 - The assignee is not in control of the ultimate result of competitions
 - The seller will have final say in matching decisions and, if all else is equal, will make decisions based on the seller's best interest or contractual arrangement
 - Additional work is created for the reseller – an additional set of choices, notifications and response windows that may be better responded to if it is the responsibility of the assignee
- If 50 MW is recalled from a 100 MW parent reservation, 25 of which has previously been resold, uncertainty is created around which 50 MW are recalled – none, some, or all of the resold amount?

The ultimate result of these factors is a devalued and uncertain “firm” transmission resale product. For transmission customers and sellers of excess transmission capacity, this is concerning. The implications of current standards create the perverse incentive for market participants to avoid resales of short-term reservations during the conditional window and force purchasers to wait until parent reservations have reached their unconditional window to acquire their needed transmission.

This represents a significant reduction in value to market participants. Purchase decisions are delayed until unconditionality is reached; the purchaser cannot develop or implement any kind of plan or strategy based on firm transmission capacity being available until closer to actual flow. For daily products, this is as late as one day prior to start-of-service. Pushing planning decisions farther into the future impacts a load serving entity's ability to leverage resources, find alternate generation options or participate in the wholesale power market on a planning basis. Accordingly, the resold product from certain conditional reservations will lose value both before and after the conditional cutoff. By choosing to wait until parent reservations are unconditional, some market participants are adversely affected.

“Option 2” and FERC Superiority

The link between scheduling rights and capacity is clear – they are essentially two sides of the same coin. Scheduling rights are meaningless without available capacity to support them. Even in FERC Order 890A, Paragraph 819, FERC refers to “reassignment of capacity in the secondary market” and only speaks to a ROFR related issue. The context of the clarification seems to be that a customer who has resold a portion of their capacity still has ROFR rights and would not then be forced to match a shorter duration challenger simply because they have resold a “hole” in their longer term reservation. FERC generalized this clarification to apply ROFR only to the “primary transmission service.” To be clear, implementation of Option 2 does not affect how the parent reservation would be treated; current standards would dictate that the duration of the parent remains unchanged despite having a section resold. Under Preemption and Competition, it would be treated similarly as having the same original duration, but with reduced or zero capacity for some or all of the duration.

The clarification in 890A is a broad stroke aimed at protecting existing reservations and does not take into account the nuance and complexity Preemption and Competition introduces into the reservation and resale process. Indeed, in Order 676C, Paragraph 60, FERC recognizes that if standards are unworkable in certain cases, customers may petition NAESB to “modify these standards based on their experience.” In this case, not only are customers adversely impacted, but the standards undermine FERC’s stated goal for Preemption and Competition to encourage higher priority, longer term reservations of transmission capacity. Placing restraints on a subset of such an active resale market could effectively result in a portion of reserved capacity remaining unused – which reduces this core objective as outlined by FERC.

By adopting Option 2 and linking capacity and ROFR to resales, NAESB would be adopting a Preemption and Competition methodology that would enable continued resales of conditional reservations. By allowing capacity and ROFR to flow with the resale, rather than rest with the parent, assignees now have control over their transmission reservation. For typical resellers of firm transmission, this eases the burden of work, as the assignee would be in charge of their assigned transmission. Just as they have the right to redirect or schedule energy on that capacity, they too have the decision whether to match in the event it is competed. If a potential assignee wants to avoid competition altogether by waiting for an unconditional window, that is a business decision they would be allowed to make, rather than being forced into that situation by standards. The ability to obtain a conditional resale transmission product would not be adversely affected and the market would remain liquid.

By allowing the market to remain liquid, as well as not devaluing resale products, Option 2 would achieve FERC’s goals of:

- maintaining the value of existing transmission
- encouraging market interaction
- promoting longer duration use of the transmission system, as assignees would have the right to extend their reservations through competition
- transmission allocation to those who value it most

Conclusion

By adopting Option 2, NAESB would prevent many harmful impacts to the Northwest transmission market. Additionally, transmission customers would have increased choice and ability to determine their optimal plan of service. For transmission customers and participants in the resale market, Option 2 presents the best blend of service to implement and manage Preemption and Competition while preserving the critical value of the resale product.