

Beyond the Ten Principles: Merchant Transmission Policy & Why It Still Matters

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*Note: The Views Presented are the Presenter's Alone and Do
Not Necessarily Represent Those of Other Staff or the
Commission*

Policy Perspective

- Regulatory Framework to Establish Merchant Projects
- Merchant Project Operation
- Merchant v. Conventional Transmission

The Ten Principles

- Conformity Necessary for Negotiated Rate Approval
- Supplies Framework for Merchant Transmission Projects
- Australian Origins

Ten Principles: Briefly

1) **FULL MARKET RISK**

2) **USE RTO/ISO TARIFF**

3) **TRADABLE TRANSMISSION RIGHTS**

4) **OPEN SEASON**

5) Post Open Season Results on OASIS

6) **AFFILIATE CONCERNS ADDRESSED**

7) Does not preclude access to essential facilities

8) **MARKET MONITORING**

9) **SUBJECT TO RTO/ISO RELIABILITY REQUIREMENTS**

10) Does not impair pre-existing property rights

Ten Principles In Depth

1) Full Market Risk: The Merchant Investor Must Assume Full Market Risk

- Pays Full Cost of Line
- Assumes Business, Credit, & Other Risk
- Reaps All Rewards
- **Incurs No Obligation to Serve**

Ten Principles In Depth

2) RTO/ISO Tariff: Service Provided Under RTO/ISO Tariff & Controlled by RTO/ISO

- ➔ Merchant Does not File Own Tariff
 - ✓ RTO's/ISO's OATT
 - ✓ Merchant Adds Specific Provisions
- ➔ Inherent Tension Between RTO/ISO and Merchant Provider

Ten Principles In Depth

3) Tradable Transmission Rights: Merchant Must Create Tradable Transmission Rights

- Rights Sold to Finance Line
- Can Be Sold in Secondary Market
- “Use It or Lose It” Provisions

Ten Principles In Depth

4) Open Season: An Open Season Process Should be Employed to Initially Allocate Transmission Rights

➔ Initial Allocation Auction/Offer Process, Public and Open to All Qualified Parties

➔ Desirable Characteristics

- ✓ Parties that Value Rights Most Receive Them
- ✓ Relatively Transparent Transactions
- ✓ Business Conducted at Arm's Length

➔ **Is There Something Wrong with Open Season?**

Ten Principles In Depth

8) Market Monitoring: Merchant Facility Subject to Market Monitoring for Market Power Abuse

- ➔ Monitoring Authority Implicitly Devolves Upon Host RTO/ISO
- ➔ Enforcement Power not Tested

Ten Principles: Summary

→ Merchant Lines Islands Unto Themselves

- ✓ Usually DC

- ✓ Transmission Rights Usually Physical and Allocated Separately from the LMP Process

→ RTO/ISO Shoulders Tariff Filing Responsibility

→ Open Season for Initial Rights

Conjunction Disjunction

→ Will Sink in NYC

→ Public Support

→ Companies: "We can't get this past our credit committees right now"

Why Merchant Transmission Policy Still Matters

- Transmission Needs Still Exist
- Merchant Investments Sink in Load Pockets

Future Policy Issues

→ Supply of Merchant Transmission Capacity

- ✓ Load Pockets
- ✓ Cherrypicking
- ✓ Funding

→ Market Power

- ✓ Withholding Possibilities
- ✓ Open Season Restrictions?

Future Policy Issues

→ Physical Merchant Rights v. Financial Conventional Rights in LMP System

- ✓ Do Physical Rights Create Seams?
- ✓ Can Physical Transmission Rights be Converted into Financial Rights?

Future Policy Issues

→ The Evolving “Non-Regulatory Compact”

✓ Merchant

- ◇ All Reward, All Risk
- ◇ No Obligation to Serve

✓ Conventional

- ◇ Regulated ROR, Shared Risk
- ◇ Obligation to Serve

Final Thoughts

→ Merchant Transmission Will Play Limited but Important Role

→ Watch

- ✓ Load Pockets
- ✓ Integration Challenges
- ✓ Conventional Transmission

For More Information . . .

→ U.S.

- ✓ TransÉnergie: Docket ER00-1; Initial Filing and 6/1/00 Order 91 FERC ¶61,230
- ✓ NUSCO: Docket ER01-2584, Order 97 FERC ¶61,026

→ Australia

- ✓ www.neca.com.au
 - ◆ Working Group Report on Entrepreneurial Connectors – page link
<http://www.neca.com.au/Reviews.asp?CategoryID=51&SubCategoryID=202>