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