UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Long Term Transmission Rights in	)	**Docket No. AD05-7-000**
Markets Operated by	)	
Regional Transmission Organizations	)	
and Independent System Operators	)	

JOINT COMMENTS OF THE ISO/RTO COUNCIL ON NOTICE INVITING COMMENTS ON ESTABLISHING LONG TERM TRANSMISSION RIGHTS IN MARKETS WITH LOCATIONAL PRICING

Pursuant to the Notice Inviting Comments on Establishing Long Term Transmission Rights in Markets with Locational Pricing ("Notice Inviting Comments") issued by the Federal Energy Regulatory Commission ("Commission") on May 11, 2005, in the above-captioned proceeding, the Alberta Electric System Operator ("AESO"), the California Independent System Operator Corporation ("CAISO"), the Independent Electricity System Operator of Ontario ("IESO"), ISO New England, Inc. ("ISO-NE"), Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"), New York Independent System Operator, Inc. ("NYISO"), PJM Interconnection, LLC ("PJM"), and the Southwest Power Pool ("SPP") hereby jointly submit comments[1] as the ISO/RTO Council ("IRC")[2] [3] on the Long-Term Transmission Rights Assessment, FERC Staff

[1] IRC members may also submit individual comments. The Electric Reliability Council of Texas ("ERCOT"), also a member of the IRC, elected not to participate in these Joint Comments.

[2] The nine functioning Independent System Operators ("ISOs") and Regional Transmission Organization ("RTOs") in North America formed the IRC in April 2003. The IRC's mission is to work collaboratively to develop effective procedures, tools, and standard methods for improving competitive electricity markets across North America. In fulfilling this mission, it is the IRC's goal to provide a perspective that balances reliability standards with market practices so that each complements the other.

[3] While the AESO and the IESO concur with the statements and positions contained in these Joint Comments of the ISO/RTO Council, their participation in these Joint Comments does not represent and should not be construed as their agreement or acknowledgement that their respective organizations are subject to this Commission's jurisdiction.

Discussion Paper ("Staff Discussion Paper"), issued together with the Notice Inviting Comments.

The IRC appreciates the timeliness of the Staff Discussion Paper and the recognition of the key benefits and risks that are inherent in the offering of financial transmission rights (or "FTRs," as referenced in the Staff Discussion Paper.) The Independent System Operators/Regional Transmission Organizations ("ISO/RTO") markets are in different stages of development with respect to the markets each ISO/RTO facilitates and the associated financial transmission rights. While differences exist, each of the ISO/RTOs must balance the inherent desire by market participants for financial certainty with the ISO/RTO's ability to provide financial rights that realistically represent the configuration and use of the grid over a given timeframe. The Staff Discussion Paper captures very well the difficulties in reconciling the benefits, costs, and risks associated with financial transmission rights. The IRC agrees that these trade-offs are significant, and recognizes that market participants within each ISO/RTO give varying emphasis to these trade-offs.

I. Commission Policy on Long-term Transmission Rights should Reflect the Measured Regional Level of Interest in Such Rights

While the IRC recognizes that there is some interest in long-term transmission rights by market participants in each of the ISO/RTOs, the level of interest appears to vary significantly by region. In evaluating the need for long-term transmission rights in the existing ISO/RTOs, the Commission should determine the varying levels of interest and recognize such stakeholder differences in the respective ISO/RTOs in light of the benefits derived from one easily applied harmonized rule. In regions where the Commission finds that a significant number of market participants have expressed a desire for long-term transmission rights, the relevant ISO/RTO should endeavor to work with its market participants to fashion and offer a product that best meets the needs of those market participants both with respect to the term and the degree of "firmness" of such product. On the other hand, where the Commission finds that the interest in long-term transmission rights is low, the relevant ISO/RTO should not be required to offer a long-term product that may encroach upon the rights of current and future holders of such financial instruments. In addition, because FTRs impact the costs incurred by load serving entities, many state regulators have become active participants or express strong interest in participating in ISO/RTO decisions related to the design of financial hedging instruments. Thus, the IRC believes the Commission should proceed carefully to avoid imposing inflexible rules that require long-term FTRs even in ISO/RTOs where the interest in this type of product is low.

As reflected in Appendix A of the Staff Discussion Paper, the different market designs, particularly the varying grandfathering of existing transmission rights, the allocation and auction procedures for FTRs, and the different retail access rules that exist among the ISO/RTOs have resulted in the development of FTR products that carefully balance the competing interests in each of the regions. This balance has been struck only after lengthy negotiations, settlement discussions, and in some cases litigation. This suggests that a standardized national long-term FTR could alter the trade-offs that have previously been established with stakeholder input and approved by the Commission within an ISO/RTO.

II. ISO/RTO Long-Term FTRs Can Be Harmonized While Avoiding Seams

The IRC is cognizant that a regional approach to the development of a long-term FTR product must not create seams issues. The IRC also recognizes that the allocation procedures for such long-term FTRs in closely aligned markets, such as the PJM and the Midwest ISO markets, must be synchronized to the extent feasible.[4] Nevertheless, the development of different long-term FTR allocation methodologies in different ISOs/RTOs does not, *in and of itself*, create a seam, so long as the products meet a certain degree of comparability as outlined below.

By definition, FTR allocations represent equitable determinations as to the extent to which different entities should be hedged from congestion based on either their historic use of the system, the nature of their service, whether the entity has undertaken to build transmission infrastructure which relieves congestion and, in some cases, the cost impact of different allocation schemes. For example, FTRs or Auction Revenue Rights have traditionally been allocated to load on the basis of its historic use and in recognition of the continued contribution of native load payment for the transmission system. FTRs or Auction Revenue Rights are also allocated to entities that build transmission to relieve congestion. Specific adjustments to allocations have been made in some markets to limit the effects of cost shifting that would otherwise occur. Although these allocation decisions have, at times, proven difficult for the Commission and stakeholders, the difficulty arises from the fact that FTR allocations represent, in effect, equitable determinations of fair outcomes, which are separate and apart from the operation of the marketplace. As a result, it may not be necessary for the Commission to create a single

[4] *See e.g.*, *Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,249 at P 29 (2005).

allocation methodology or product in order to ensure well-functioning markets across regions.

While a "one size fits all" allocation scheme may not be necessary for the reasons stated above, the IRC believes that to the extent loads wish to procure resources across ISO/RTO boundaries, long-term FTR seams coordination at the borders will continue to be necessary. Specifically, in such instances, the IRC believes that there are certain minimum characteristics associated with any FTR product being offered by ISO/RTOs with organized markets. Specifically, neighboring ISO/RTOs should utilize consistent proxy bus prices to: (1) allow for cross-border transactions; (2) ensure that products in different ISO/RTOs provide for a comparable hedge against congestion; (3) ensure that the short-term products cover comparable periods to allow a load to put together a workable portfolio covering cross-border transactions; (4) and ensure comparability in the obligation associated with being a holder of an FTR. The Commission can be assured that these criteria are today consistent across neighboring ISO/RTOs with organized markets and allow for an appropriate degree of comparability while allowing each region to meet its stakeholder needs. By ensuring this minimum degree of comparability, regional variations and avoidance of seams issues can be appropriately balanced.

III. Alternatives to Long-Term FTRs

Many of the ISO/RTOs that have adopted FTRs have converted existing long-term firm transmission service rights into financial transmission rights at the time of LMP implementation. The IRC believes that this is the preferable method for handling the transition to financial transmission rights. The conversion of pre-existing transmission rights allows the ISO/RTO to apply the same scheduling and congestion management rules to all transmission users.

In certain instances, ISO/RTOs have been required to allow pre-existing contractual transmission rights that were "grandfathered" out of the scheduling and settlement procedures under the ISO/RTO structure. The IRC believes these exceptions reduce efficiency and may also shift costs in ways that are not always transparent.

To the extent that the Staff Discussion Paper suggests that an alternative to long-term FTRs may be to allow parties to revert to some version of the pre-OATT service within the LMP-based markets as a way to meet market participants' desire for long-term certainty, the Commission should note that there may be significant costs to the market and stakeholders as a whole resulting from the exemption of particular subgroups of transmission users from the congestion management system utilized by the ISO/RTO. Creating additional exceptions to the "grandfathered" rights that already exist will inevitably diminish the efficiency of congestion management systems, and would create additional operational challenges that could adversely impact reliability if a large number of users are permitted to schedule outside the ISO/RTO's congestion management system.

IV. Conclusion

The IRC appreciates the Commission's efforts in evaluating the need for long-term transmission rights in the ISO/RTOs. The IRC suggests that, subject to certain basic minimal characteristics (all of which are already common among the ISO/RTOs with organized markets) a long-term FTR product that is developed within the unique market design of individual ISO/RTOs is the best way to reconcile the varying stakeholder requirements in each region. The Commission should note that within the comments of the individual ISO/RTOs there are varying degrees of market participant interest in long-term FTRs and varying impacts upon the different market designs in each region. Solutions that improve long-term certainty should be designed to work within each ISO/RTO's respective congestion management system.

Respectfully submitted,

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Dated: June 27, 2005

California Independent
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June 27, 2005

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: Long Term Transmission Rights in Markets Operated by Regional Transmission Organizations and Independent System Operators Docket No. AD05-7-000

Dear Secretary Salas:

Enclosed please find an electronic filing of Joint Comments of ISO/RTO Council on Notice Inviting Comments on Establishing Long Term Transmission Rights in Markets with Locational Pricing.

Thank you for your attention to this filing.

Respectfully submitted,

/s/ Anna McKenna
Anna McKenna

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