

# **SUMMARY OF FERC SMD NOPR**

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**Albany, NY**

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# Summary

 Background/FERC Rulemaking Schedule

 Major Elements

 FERC Proposed Compliance Schedule

 NYISO Process for Response

 Attachment: FERC Briefing Schedule

# Background/Rulemaking Schedule

- ✍ Process began during “RTO Week”—Oct 2001
- ✍ FERC/Staff held numerous conferences/meetings during early 2002
- ✍ Staff Issued “Working Paper” and “Options Paper”
- ✍ SMD NOPR issued on July 31<sup>st</sup>
- ✍ Comments due on October 15<sup>th</sup>
- ✍ Reply comments not allowed
- ✍ Final Rulemaking expected by end of 2002

# Major Elements of NOPR

- ✍ Independent Transmission Provider (“ITP”)
- ✍ Independent Transmission Companies (“ITCs”)
- ✍ Single Transmission Tariff
- ✍ Network Access Transmission Service (“NAS”)
- ✍ Transmission Pricing
- ✍ Congestion Management
- ✍ Market Design
- ✍ Market Power Monitoring & Mitigation
- ✍ Transmission Planning
- ✍ Resource Adequacy Requirement
- ✍ Role of States
- ✍ Governance

# Independent Transmission Provider (“ITP”)

## An ITP must be:

 *Independent*

 *File Network Access Tariff to govern all FERC jurisdictional transmission service*

 *Administer markets that comply with SMD requirements*

## **FERC requires that all jurisdictional public utilities that own, control or operate interstate transmission:**

 *File to become an ITP*

 *Join an ISO or RTO that qualifies as an ITP*

 *Contract with another “entity” that qualifies as an ITP*

# Independent Transmission Companies (“ITC”s)

- ✍ ITC, if appropriately defined, can bring “significant benefits” to the industry
- ✍ NOPR does not directly address division of responsibilities
- ✍ Seeks comments on:
  - ✍ *Whether the ITC functions identified in “Translink” are still appropriate under SMD?*
  - ✍ *Whether an ITC should qualify as an ITP?*
  - ✍ *Whether an ITC’s interests in transmission would cause it to unduly discriminate in any operational or planning functions?*

# Single Transmission Tariff

- ✍ **Single tariff to govern all transmission service**

- ✍ *Wholesale transmission*

- ✍ *Transmission for unbundled retail service (retail access)*

- ✍ *Transmission component of bundled retail service*

- ✍ **Single tariff for both:**

- ✍ *Transmission service*

- ✍ *Market rules*

# Network Access Transmission Service (“NAS”)

- ✍ Bid-based, flexible transmission service
- ✍ Compatible with LMP
- ✍ Builds off of Order 888’s “Network Integration Service”
- ✍ Provides the right to transmit power between any “point of receipt” and “point of delivery”
- ✍ Provides tradable Congestion Revenue Rights



# Transmission Pricing

- ✍ **Access charge to be paid by all LSE's**
  - ✍ *Based on peak load ratio shares*
- ✍ **Access charge to provide for recovery of TOs embedded revenue requirements**
- ✍ **License plate or postage stamp rates allowed**
  - ✍ *Should license plate rates be phased out?*
- ✍ **Rates for bundled retail load**
  - ✍ *Should all customers (wholesale and retail) pay same rate?*
- ✍ **CRR's allocated to those who pay access charge**
  - ✍ *CRR's should "follow the load" for retail access*

# Transmission Pricing (cont'd)

## Eliminate “rate pancaking” between ITP regions


 *One access rate would be charged to load in zone where power is ultimately delivered*

 *Congestion charges and losses would still be paid*

 *Propose: “source” ITP to allocate a portion of its RR to the “sink” ITP’s customers*

## Pricing for Transmission Expansion

 *ITP determines cost allocation for those who benefit (“participant funding” approach)*

 *W/o ITP: Propose to roll-in costs for 138KV and above*

 *Costs allocated to region which benefits from expansion*

# Congestion Management

## ✍ Locational Marginal Pricing

## ✍ Provide Congestion Revenue Rights (“CRR”s) to provide financial hedge

✍ *CRR's provide hedge in DAM; not in RTM*

✍ *CRR holders would receive priority in event of curtailment*

## ✍ Initial Allocation Mechanism

✍ *Allocate CRR's*

✍ *Allocation of auction revenues (preferred method in longer term)*

## ✍ Allocation of CRR's to:

✍ *Holders of existing transmission contracts*

✍ *Entities previously serving bundled retail load*

✍ *Those who pay access charges*

✍ *Builders of new facilities*

# Congestion Management (cont'd)







- ✍ **Anyone can hold CRRs**
- ✍ **Obligations vs. options?**
  - ✍ *Obligations required initially*
  - ✍ *Options and flowgates when requested and when feasible*
- ✍ **Full funding?**
  - ✍ *Full funding except in force majeure events*
  - ✍ *Allocate shortfalls/surplus to TOs to incent transmission availability*
- ✍ **Auctions**
  - ✍ *Periodic auctions to be conducted by ITP*
  - ✍ *Varying terms*
- ✍ **All resales of CRRs to be conducted on OASIS**

# Market Design

- ✍ **Substantially similar to current NYISO markets**
- ✍ **Fundamental spot market characteristics:**
  - ✍ *Voluntary (bilaterals & self-supply accommodated)*
  - ✍ *Bid-based (multi-part bidding)*
  - ✍ *Financially binding*
  - ✍ *Multi-settlement (DAM and RTM)*
  - ✍ *LMP nodal pricing*
  - ✍ *Security constrained commitment and dispatch*
  - ✍ *Co-optimized energy and ancillary services in DA and RT*
  - ✍ *Marginal losses*


# Market Design (cont'd)

## Other market features

-  *Virtual bidding for supply and demand*
-  *Trading hubs at request of MPs*
-  *Hourly variation in bids*
-  *ELR's accommodated (optimization of schedules by ITP)*
-  *Ex-post pricing in RTM*
-  *Demand bidding encouraged*

# Market Design (cont'd)

## Ancillary Services Markets

-  *Multi-settlement (DAM and RTM)*
-  *Co-optimized with energy markets (DAM and RTM)*
-  *Markets for: regulation, spinning and non-spin reserves*
-  *Other: Scheduling; reactive support; energy imbalance*
-  *Balancing occurs in RTM*
-  *Self-supply/third party supply permitted*
-  *Locational pricing for reserves*
-  *Regional variation in non-spin reserve markets*
-  *Lost opportunity costs included*




# Market Power Monitoring

- ✍ **Market Monitoring Unit (MMU) “autonomous” of ITP management and market participants**
- ✍ **MMU reports to: FERC, RSAC, and ITP Board**
- ✍ **MMU will monitor:**
  - ✍ *Generation owners (as well as audit forced outages)*
  - ✍ *Transmission owners*
  - ✍ *Energy markets*
  - ✍ *CRR markets*
  - ✍ *Seek comments on whether to monitor ITPs and/or ITCs*
- ✍ **Evaluate state of the markets**
- ✍ **Identify need for changes in market rules**
- ✍ **FERC will identify standardized monitoring plan**






# Market Power Mitigation

## Three mandatory mechanisms:

-  *PGA's between ITP and generators to deal with locational market power conditions*
-  *"Safety net" bid cap: (e.g. -\$1000/MWh)*
-  *Long term resource adequacy requirement for load*

## Optional mechanisms

-  *To be activated in response to non-competitive market conditions (e.g. – NYISO's AMP)*
-  *Could limit bids due to withholding—but not scarcity*
-  *Need for this measure to be determined by region*

# Market Power Mitigation (cont'd)

- ✍ Expands MMU data collection authority
- ✍ MMU to report market power abuses or tariff violations to FERC immediately
- ✍ NOPR prescribes seven specific “anti-gaming” rules
- ✍ Penalties included for specific violations
  - ✍ *Minimum penalty: repayment of economic gain*
  - ✍ *Harsh penalties for jeopardizing reliability*
  - ✍ *MP's must consent to penalties in-advance*

# Transmission Planning

- ✍ Regional planning process: four regions proposed
  - ✍ *NPCC (NERTO in US)*
  - ✍ *PJM/MISO*
  - ✍ *WECC*
  - ✍ *SERC/FRCC*
- ✍ “Multi-state entity” to preserve state role in siting
- ✍ Start process 6 months after final Order
  - ✍ *First plan due in 12 months*
- ✍ ITP to identify economic and reliability needs
- ✍ Rely initially on “private investments”

# Transmission Planning (cont'd)




- ✍ If private investments do not respond to need--ITP may issue an RFP
- ✍ Open to all resources (supply, demand, merchant transmission)
- ✍ ITP to act as a "clearinghouse" to evaluate alternative proposals
- ✍ ITP to approve transmission options to be paid for by "all customers"
- ✍ TOs have obligation to build if bidding process fails

# Resource Adequacy Requirement





- ✍ **To replace ICAP**
- ✍ **RSAC to establish resource adequacy criteria**
  - ✍ *FERC proposes 12% reserve margin as a "minimum"*
- ✍ **ITP functions:**
  - ✍ *Forecast future demand*
  - ✍ *Provide technical support to RSAC*
  - ✍ *Assign each LSE a load ratio share of requirement*
  - ✍ *Audit LSEs resource plans*
  - ✍ *Impose penalties on deficient LSEs*
- ✍ **Eligible resources: generation , transmission ,demand response**
  - ✍ *Eligible resources must meet certain standards*
  - ✍ *"Deliverability" requirement*

# Resource Adequacy Requirement

## Planning horizon

-  *To reflect the time necessary to construct new resources*
-  *To be determined by RSAC for each region*
-  *Seeks comments on 3-5 year limits*

## Penalties for deficiencies

-  *All penalties on LSEs who are found deficient*
-  *"Very large" penalties for withdrawals from spot markets*
-  *Deficient LSEs to be curtailed first in event of shortage*
-  *"Very high" penalty for failure to obey curtailment order*

## ITP Auction?

-  *Is not precluded*
-  *FERC appears to prefer bilateral arrangements*

# Role of States


- ✍ **Formation of Regional State Advisory Committee (RSAC) to advise ITP Board on various issues:**
  - ✍ *Resource adequacy standards*
  - ✍ *Transmission planning, expansion*
  - ✍ *Rate design & revenue requirements*
  - ✍ *Market power and market monitoring*
  - ✍ *Demand response/load management*
  - ✍ *Distributed generation and interconnection policies*
  - ✍ *Energy efficiency and environmental issues*
  - ✍ *RTO management and budget review*
- ✍ **“Multi-state entity” to facilitate state coordination on transmission planning, certification and siting issues**

# Governance--Board

## Independence of Board

 *Board to be independent of any market participant or class of market participants*

 *Code-of-conduct requirements established*

 *Board has Section 205 authority over its Tariff*

## Specifies Board characteristics: number, experience, terms, term limits

## Specifies Board selection/election requirements

 *New Boards*

 *Boards resulting from mergers of ISOs*

 *Stakeholders' role described*



# Governance—Stakeholder Role

- ✍ Stakeholders elect new Board members

- ✍ Stakeholder advisory committees

- ✍ At least six classes:

  - ✍ *Generators & Marketers*

  - ✍ *TOs*

  - ✍ *TDU's*

  - ✍ *Public Interest*

  - ✍ *Alternative energy*

  - ✍ *End users and LSE's*

- ✍ **State Regulator's Role**


  - ✍ *Regional State Advisory Committee*

# Proposed Compliance Schedule

## 30 Days after Effective Date of Final Rule

 *Begin discussions with stakeholders to select/form ITP*

## June 30, 2003

 *File "Interim Tariff" placing bundled retail load under OATT*









 *Eliminate "undue preferences" for native load customers*

## September 30, 2003

 *Effective date for Interim Tariff*

# Proposed Compliance Schedule

## July 31, 2003

-  *File Implementation Plan for compliance with final rule*
-  *Identify entity that will serve as the ITP*
  -  Utility may request a waiver if already a member of a qualified entity
-  *Proposal for compliance with resource adequacy requirements*
-  *Identify software vendors; identify implementation timeline*
-  *Provide detailed estimate of projected cost of compliance*
-  *File quarterly reports*
-  *Regional State Advisory Committee in place*

# Proposed Compliance Schedule

## **Six months after Effective Date of Final Rule**

 *Begin Regional Transmission Planning Process*

 *Produce a plan within one year of Final Rule*

## **December 1, 2003**


 *All ITP's to file the SMD Tariff*

 *Indicate date for full implementation of SMD*

## **January 31, 2004**

 *File self-certification of compliance with security standards*

## **September 30, 2004**

 *Latest date for full implementation of SMD (unless FERC establishes an alternative date)*

# NYISO Process for Response

- ✍ Provide initial summary
- ✍ Complete Staff assessment of NOPR
- ✍ Monitor FERC Public Briefings
- ✍ Provide updates to Market Participants
- ✍ Seek input from Market Participants at Sector meetings to be held in mid-September

# ATTACHMENT

## FERC SMD PUBLIC BRIEFING SCHEDULE

✍ The following materials are posted on the FERC website under:

**“Standard Market Design Activities”**

## **FERC Industry-Wide SMD Briefings**

FERC is also planning SMD briefings for the industry at large. There will be four public meetings that anyone can attend. *These will be free of charge, but individuals must pre-register to attend. Industry participants can e-mail or fax the registration form below.* They are:

### **Monday, August 19**

**1:00 to 3:00 p.m.**

**Commission Meeting Room  
Federal Energy Regulatory Commission  
888 First Street, Washington, D.C.**

### **Thursday, August 22**

**10:00 a.m. to 3:30 p.m.**

**Boise City Council Chambers  
150 North Capitol Boulevard, Boise, Idaho**

### **Wednesday, August 28**

**1:00 to 5:00 p.m.**

**Renaissance St. Louis Airport Hotel  
9801 Natural Bridge Road, St. Louis, Missouri  
(Immediately following the MISO/SPP Tariff Convergence Technical Conference)**

### **Thursday, September 19**

**12:00 noon to 4:00 p.m.**

**MISO Headquarters, 701 City Center Drive, Carmel, Indiana  
(Immediately following MISO's monthly Advisory Committee and Board Meetings)**

These briefings will consist of a 45-minute presentation of the SMD rule by FERC staff, followed by discussion with the audience. For more information, contact Sarah McKinley, State Relations, 202-208-2016 (or e-mail [customer@ferc.gov](mailto:customer@ferc.gov)). Hotel information will be provided upon registration.

*Please fill out the registration form on the following page.*

**Registration for Industry-Wide SMD Briefings**

Please register me for the following SMD Briefing(s):

\_\_\_\_\_ Washington, DC, August 19

\_\_\_\_\_ Boise, Idaho, August 22

\_\_\_\_\_ St. Louis, Missouri, August 28

\_\_\_\_\_ Carmel, Indiana, September 19

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Organization: \_\_\_\_\_

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