Considerations With Respect To Voluntary Funding Of Economic Upgrades

Background

Voluntary funding of economic upgrades to the SPP transmission system means that transmission customers must commit to pay at least Y% of the cost of the project. This commitment to pay occurs through requests for firm point-to-point transmission service and the application of FERC "or" pricing. In return for this commitment to pay, the transmission customer receives the following rights:

1) Firm point-to-point transmission service;
2) Revenue credits from the sale of transmission service that would not had been available but for the addition of the economic upgrade; and
3) Eligible for a refund of a portion of the funding once the term of the firm point-to-point transmission service expires.

In many respects, this approach parallels the approach in RTOs that have market-based congestion management systems. In those systems, the voluntary funder would receive financial transmission right rather than firm point-to-point transmission rights, would receive payments of congestion costs rather than revenues from the sale of transmission service, and would be able to sell the FTRs through the RTO run auctions rather than receive a refund when the transmission service is terminated.

While there are parallels, these two systems are not identical. The purpose of this short paper is to explore these differences.

Firm Point-To-Point Transmission vs. Financial Transmission Rights

One complaint about firm point-to-point transmission rights is that network service customers don't need these rights in order to make economy transactions; i.e., by cheaper energy or sell excess energy in the spot wholesale market. Under existing SPP practice, network service customers can request non-firm transmission service for economy transactions and will be granted such service on a first come, first served basis. This raises the question of why would a network service customer ever volunteer to pay for firm point-to-point service when they can get it free?

The answer is twofold. First, if someone doesn't fund it, it will not be available to anyone. Second, via firm transmission rights, those who fund it have a priority to use it over those who didn't fund it. The primary difference between firm point-to-point transmission rights and FTRs is that the firm point-to-point transmission rights would be used for specific contractual arrangements for economy transactions, while the FTR applies to the workings of the RTO facilitated wholesale spot market. Today, power marketers purchase firm point-to-point transmission as an option in the energy market. If a future transaction opportunity occurs that is economic, the power marketer has the transmission service available to complete the transaction.

Revenue Credits From Transmission Use vs. Congestion Cost Payments

Priority of transmission use does not assure the holder of firm point-to-point transmission rights a revenue credit when the holder is not using that right for a bilateral transaction. Moreover, when the holder has not scheduled a transaction, the "released" transmission capability is available to network service customers who can schedule non-firm transactions at no additional cost and therefore no additional revenue to pay to the holder of the firm transmission right. FTRs pay the holder the congestion cost whether or not the holder is involved in a transaction.

In a bilateral market, congestion is reflected by the fact that a request for non-firm transmission service cannot be granted because there is no additional transmission capacity available. If this happens, the requestor has the ability to request short-term firm transmission service with a willingness to pay the short-term firm transmission rate and this will have priority over non-firm transmission service requests. Thus, in time of congestion, network service customers requests for non-firm use of the transmission system will be bumped off by requests from other transmission customers for short-term firm transmission service and the holder of the long-term firm point-to-point transmission rights will receive revenue payments. Much the same as FTRs, in non-congested times, neither the holder of firm point-to-point transmission rights or FTRs receive revenue payments.

Refunds For Excess Capacity vs. Markets For FTRs

The holder of a firm point-to-point transmission right has several options. First, the contract can be rolled over; i.e., the holder can continue to hold the firm point-to-point transmission right. In this option, the transmission capacity in that firm point-to-point transmission right is not available for reliability or for designation of new/different network resources. Second, the holder can apply that right or a portion of that right for a reliability upgrade or a new/different network resource. If the holder is not a load-serving entity, this option is not of value. If the holder is a load-serving entity, then whether or not to exercise this option is an economic choice. Third, the contract can be terminated.

The FTR holder has similar types of rights. First, the holder can simply retain ownership of the FTR. Second, the holder can use the FTR to hedge congestion costs from a new/different network resource. Third, the holder can sell the FTR in the RTO auction.

Why then do we need to refund dollars for excess capacity that the transmission customer is paying for in their rates for point-to-point transmission service? When the FTR holder sells the FTR in the auction, he receives a payment for the use of that FTR by another entity for the period for which the FTR is sold. In the case of the firm point-to-point transmission right, if the transmission customer has funded the full cost of the upgrade, but has only used the transmission rights for a period of time that is less than the life of the facilities, without some form of refund, the only option available is to continue to hold or convert the firm point-to-point transmission right. This could be a major roadblock to attracting funding for economic projects. A properly designed refund mechanism is needed to overcome this hurdle.