



Electric Power Supply Association
Advocating the *power* of competition

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THE TRANSITION TO CONGESTION REVENUE RIGHTS THE BARE ESSENTIALS

The Electric Power Supply Association (EPSA)¹ enthusiastically supports the Commission's initiative to standardize the design of the nation's competitive wholesale electricity markets, including standardization of the transition to Congestion Revenue Rights (CRRs). This initiative is critical to ultimately realizing an efficient, seamless national power marketplace that brings the benefits of competition to all consumers. The rules and protocols associated with implementing CRRs are critical to a systematic adoption of Standard Market Design (SMD). EPSA recognizes that during the transition to and implementation of CRRs, it is important to consider each feature of CRRs and how they affect other aspects of the SMD.²

CRRs should be based on a system of point-to-point financial transmission rights in the form of obligations that can be aggregated into trading zones and hubs. The NOPR correctly recognizes that going forward the SMD will need other products to ensure transmission rights, such as financial flowgate rights and options. These should be offered as the market requires, once the foundation of CRRs is in place. The anticipated evolution of transmission rights requires that the Commission remains proactive during the implementation of CRRs. To the extent the ability to implement both options and obligations is available they should both be included in the Independent Transmission Provider's (ITP) software, even if options are "switched off" in the beginning.

An independent entity with responsibility for a day-ahead scheduling process and a Locational Marginal Pricing (LMP)-based congestion management system will ensure appropriate price signals for market participants. To ensure the efficiency gains of the LMP market, the Commission must move quickly to convert all transmission rights to a single, uniform and fully financial set of transmission rights for all service. An initial allocation of CRRs that replicates use under existing "physical" rights and the right to receive the revenues of subsequent auctions of such CRRs will

¹ EPSA is the national trade association representing competitive power suppliers, including independent power producers, merchant generators and power marketers. These suppliers, who account for more than a third of the nation's installed generating capacity, provide reliable and competitively priced electricity from environmentally responsible facilities serving global power markets. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this document represent the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

² EPSA commented on the beneficial aspects of the proposed Network Access Service (NAS) tariff and CRRs in its November 15 SMD comments and anticipates filing additional comments in January.

enhance the transition to a system of financial-based CRRs. Specifically, financial-based transmission rights in the form of CRRs allow the Commission to create incentives to convert from existing “physical” rights, which do not facilitate efficient congestion management. At the same time, the Commission’s objective of not abrogating existing contracts is honored.

CRRs need to be quickly established as financial rights because the SMD embodies an LMP system where these rights are the means by which transmission customers will be able to hedge against the highly uncertain costs associated with grid congestion. Under the existing “physical” approach, congestion costs are the costs of curtailment of transmission service when congestion occurs. These costs are generally unrelated to the economic value of the constrained transmission facilities as well as to the transactions that cause the congestion. They are typically spread among a wide variety of market participants, many of whom do not directly cause the congestion or benefit from the transactions involved with it. This manner of managing congestion and its associated costs leads to an inefficient dispatch of generation and an inefficient use of transmission capacity.

CRRs should initially be allocated in a manner consistent with existing rights for firm use of the grid. At the same time, efficient and competitive use of the grid requires that the right to hedge congestion be allocated to those that place the highest value on those rights. By determining the economic value of CRRs through an auction process, market participants can ensure that they get either the greater of congestion revenues associated with their own use of the rights as a hedging instrument, or the value placed on the rights by another market participant. Moving to an auction in an expeditious, but reasoned, manner provides the best opportunity for timely market valuation of CRRs. Expedient market valuation of CRRs will facilitate the active secondary forward market in CRRs, needed for successful implementation of SMD.

Fundamentals of CRRs in SMD:

- Fully financial transmission rights lead to efficient scheduling and dispatch of generation and the efficient use of transmission capacity, since they give market participants the ability to accomplish their commercial objectives while allowing flexibility to achieve efficient operations.
- Rapid conversion of existing “physical” transmission rights to an allocation of financial rights in the form of CRRs followed as soon as practicable, by a full auction of CRRs is necessary to create a liquid market for CRRs. Transmission customers should have the ability to be price-takers in an auction as a means to acquire CRRs for their load.
- If CRRs are initially allocated to existing transmission customers for an interim period, that interim period needs to be clearly defined and as short as technically feasible and should be followed by a mandatory auction of the CRRs.
- The proceeds from the mandatory auction of CRRs following the interim CRR allocation period should be distributed to existing transmission customers.
- Day-ahead market scheduling should not be limited to customers with CRRs for their requested receipt and delivery points combinations, since it relies on past “physical” practices rather than the market-driven, financial direction of the SMD. CRRs are financial instruments and should not have any “physical” attributes. Priority day-ahead market scheduling would create such an inappropriate “physical” right. This can be particularly troubling if CRRs are allocated instead of auctioned.
- The attribution of any “physical” properties to CRRs will also distort designation and deliverability if CRRs are used as a proxy for deliverability of capacity resources. If a resource adequacy requirement is implemented, some form of capacity deliverability will be needed; however CRRs should not be used for this purpose.

- Fully funded or revenue-adequate CRRs may be desirable and consistent with the financial nature of these instruments. However, alternative approaches should be allowed in the interim instead of allocating shortfalls.
- Both annual and multi-year CRRs should be made available to market participants. The quantity of multi-year CRRs that is made available may be phased in to allow the market to gain experience.
- CRRs associated with grid upgrades should not be specifically tied to the upgraded path. Generators who pay for grid upgrades should receive CRRs that reflect all additional capacity value in the system resulting from the upgrades. If that value is greater than the CRRs, then CRRs and transmission credits or some combination should be available if congestion has been eliminated.
- Variations in treatment of CRRs between independent regional markets should be minimized and such regional variations should be for limited periods.
- Even with independent regional markets with LMP in place, numerous issues associated with the use of CRRs³ as a monetary substitute for credits for grid upgrade costs need to be resolved.

³ Entities making infrastructure investments must be able to recover those investments. Those contributing to the system should get a choice of CRRs, transmission credits, or some combination which provides incentive for investment that may not be fully compensated with CRRs alone. If the investment resolves congestion, the CRRs may not have sufficient or immediate value. In addition, some transmission investments, such a replacement circuit breaker, do not increase transmission capability and thus do not create any CRRs to allocate. It is also unclear how the investment community will view CRRs in the financing of new generation or transmission.