Long-term Financial Transmission Rights

Brian Chmielewski
Sr. Analyst, Market Simulation
January 10, 2018
Market Implementation Committee

PJM©2018

- November 16, 2006 - the Commission amended its regulations to require each transmission organization that is a public utility with one or more organized electricity markets to make available long-term firm transmission rights that satisfy each of the seven (7) guidelines established by the Commission (see appendix)

Revisions not needed to conform with pre-existing long-term guidelines. FERC recognized the current PJM FTR/ARR market construct achieved this at the time.

PJM©2018

History

- May 28, 2008 – PJM submitted revisions to its OATT & OA to establish a long-term Financial Transmission Right (FTR) auction (Docket No. ER08-1016-000)
  - Gives participants greater flexibility in hedging their market positions
  - Gives participants access to congestion hedges that better align with the requirements of retail access auctions that commit a load-serving entity to multi-year load serving obligations
  - The longer-term products also increase financial market participants' opportunities in the FTR Market by increasing the number of FTR products that can be traded in the market

PJM©2018

FERC Ruling for PJM Filing

- July 25, 2008 – FERC Order accepting proposed OATT & OA revisions
  - Will allow all market participants to obtain longer-term hedges thereby increasing their options and providing them with greater flexibility in hedging market positions
  - Will increase liquidity in the FTR market
  - Will better align congestion options with the requirements of retail access auctions that commit a load-serving entity to multi-year obligations

PJM©2018

Appendix

PJM©2018

- (1) The long-term firm transmission right should specify a source (injection node or nodes) and sink (withdrawal node or nodes), and a quantity (MW).

- (2) The long-term firm transmission right must provide a hedge against day-ahead locational marginal pricing congestion charges or other direct assignment of congestion costs for the period covered and quantity specified. Once allocated, the financial coverage provided by a financial long-term right should not be modified during its term (the “full funding” requirement) except in the case of extraordinary circumstances or through voluntary agreement of both the holder of the right and the transmission organization.

PJM©2018

- (3) Long-term firm transmission rights made feasible by transmission upgrades or expansions must be available upon request to any party that pays for such upgrades or expansions in accordance with the transmission organization's prevailing cost allocation methods for upgrades or expansions.

- (4) Long-term firm transmission rights must be made available with term lengths (and/or rights to renewal) that are sufficient to meet the needs of load serving entities to hedge long-term power supply arrangements made or planned to satisfy a service obligation. The length of term of renewals may be different from the original term. Transmission organizations may propose rules specifying the length of terms and use of renewal rights to provide long-term coverage, but must be able to offer firm coverage for at least a 10 year period.

PJM©2018

- (5) Load serving entities must have priority over non-load serving entities in the allocation of long-term firm transmission rights that are supported by existing capacity. The transmission organization may propose reasonable limits on the amount of existing capacity used to support long-term firm transmission rights.

- (6) A long-term transmission right held by a load serving entity to support a service obligation should be re-assignable to another entity that acquires that service obligation.

- (7) The initial allocation of the long-term firm transmission rights shall not require recipients to participate in an auction.

 PJM©2018