
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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LONG-TERM FIRM TRANSMISSION RIGHTS GUIDELINES FINALIZED

The Federal Energy Regulatory Commission today finalized guidelines for independent transmission organizations to follow in developing proposals to provide long-term firm transmission rights in organized electricity markets. These guidelines will increase long-term transmission price certainty in the organized electricity markets and allow for new investments and other long-term power supply arrangements, the Commission said.

Commission Chairman Joseph T. Kelliher observed: “Long-term firm transmission rights are an important issue, particularly to wholesale power customers who want to enter into long-term transmission service arrangements without being exposed to unhedged congestion cost risk. This final rule goes far to reduce the risk exposure to transmission customers. Long-term firm transmission rights are also important to development of the grid.”

The final rule implements section 1233(b) of the Energy Policy Act of 2005, which requires the Commission to implement a new section 217(b)(4) of the Federal Power Act for transmission organizations with organized electricity markets. Congress directed the Commission to implement this provision within one year of the August 8, 2005, enactment of the Energy Policy Act.

The Commission noted that the guidelines adopted in the final rule “will give transmission organizations the flexibility to propose designs for long-term transmission rights that reflect regional preferences and accommodate their regional market designs...” The Commission also said that long-term transmission rights “must be made available with terms that are sufficient to meet the reasonable needs of load-serving entities to support long-term power supply arrangements used to satisfy their service obligations.”

The final rule requires independent transmission organizations such as Regional Transmission Organizations and Independent System Operators that oversee organized electricity markets to make long-term firm transmission rights available to all

transmission customers. The availability of such rights will provide an added measure of certainty to load-serving entities that wish to enter into long-term power supply arrangements to serve their load, which in turn should allow load-serving entities to more readily obtain financing for new infrastructure.

Consistent with current practice, the guidelines also require that long-term firm transmission rights be available to entities that pay for upgrades or build expansions.

In its February 2006 notice of proposed rulemaking, the Commission sought comment on eight guidelines. The Commission adopted the following seven guidelines in the final rule approved today:

- The long-term firm transmission right should specify a source (injection node or nodes) and sink (withdrawal node or nodes), and a quantity;
- 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.
- Long-term firm transmission rights made feasible by transmission upgrades or expansions must be made 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.
- 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.
- 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 transmission capacity. The transmission organization may propose reasonable limits on the amount of existing transmission capacity used to support long-term firm transmission rights;

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

Today's final rule, "Long-Term Firm Transmission Rights in Organized Markets," takes effect 30 days after publication in the *Federal Register*. Transmission organizations subject to the rule are required to make compliance filings within 180 days of the final rule's publication in the *Federal Register*.

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