Negotiated Rates for Merchant Transmission: Two Case Studies

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What’s New?

- Evolution of FERC merchant transmission policy
- Tres Amigas
- Champlain Hudson Power Express
Merchant Transmission

- First authorized for Cross-Sound Cable (2000)
- Developers assume all of the market risk
- No captive customers
- Rates are market-based, not cost-based
  - Incumbent utility obligation to expand under OATT
  - Price differentials in power sales
- Operated under OATT, OASIS
- Tradable secondary transmission rights
Four-Factor Analysis

- New policy adopted in *Chinook/Zephyr* (2009)
  - Just and reasonable rates
    - Full market risk
    - No ability to withhold, erect barriers to entry
  - Undue discrimination
    - Open season (fair, transparent, non-discriminatory)
    - OATT commitments
  - Undue preference and affiliate concerns
    - Heightened scrutiny if customers are affiliates
  - Regional reliability and operational efficiency
    - ISO control, NERC compliance, regional planning
Anchor Customer Model

- Until *Chinook* (2009) FERC required open season for all capacity of merchant transmission
  - *Neptune* (2001) rejected request to subscribe 30% capacity to large customers through negotiations

- *Chinook* adopts anchor customer model
  - Authority to presubscribe 50% capacity to anchor customers
  - Commitments overcome “chicken-and-egg” scenario
  - Case-by-case determination
  - Review of precedent agreements, selection process
Tres Amigas

Western Interconnection

Eastern Interconnection

Texas Interconnection

22.5 sq. miles
Clovis, New Mexico

5 GW DC Superconductor Cable
Innovative Technology

- 3-way AC/DC transmission superstation in NM
  - Voltage source converters at each terminal (Eastern Interconnection, ERCOT, WECC)
  - Underground superconducting cables connect the 3 terminals
  - AC energy from one interconnection converted to DC and back to AC onto another interconnection
  - Control of real and reactive power flows at each terminal
  - Large scale batteries provide station power, ancillary services, firming energy services
A New Marketing Hub?

- Transfer capability exceeds sum of existing interconnections
  - 5 GW planned, expansion up to 30 GW
- Convergence of energy prices
- Firming of variable energy resources
- Enhanced value of regional investments, improved reliability
Legal Issues

- ERCOT utilities are generally not subject to FERC jurisdiction
  - Facilities not used for transmission or sales in interstate commerce
  - FERC can order interconnection and wheeling services under FPA 210 and 211
- FERC denied disclaimer of jurisdiction and blanket FPA 210 and 211 authorizations
- Open season cannot allow for withholding of capacity
Champlain Hudson Power Express
Innovative Technology

- Two submarine cable systems
  - 400-mile, 320 kV HVDC underground cables
  - Route follows Lake Champlain, Champlain Canal, Hudson River
  - Separate 1,000 MW HVDC bipoles terminate in NYC, CT
  - Minimal environmental impact
  - No electromagnetic fields
  - No weather outage events
  - Energy losses at 3% per 1,000 km
Presubscription of 75% Capacity

- DOE loan guarantee process
  - $3 billion debt financing
  - Commence construction by Sept. 30, 2010
  - Requires commitments from creditworthy customers of sufficient scope and duration

- Role of private equity
  - Blackstone expected to commit $800 million and fund development activities

- Unique commercial and geographic characteristics support 75% presubscription
For more information

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