Federal Energy Regulatory Commission
April 15, 2010
Open Commission Meeting
Staff Presentation
Item A-4

"Commissioners:

Good morning. A-4 on today's agenda is a Staff Report on Capacity Reassignment.

In Order No. 890, the Commission lifted the price cap on the reassignment of transmission capacity. The price cap had previously been set at the maximum of the original purchase price, the transmission provider's current tariff rate, or the assignor's opportunity costs capped at the cost of expansion. The Commission removed the price cap in order to help expand the secondary market for transmission capacity and thereby help parties manage the financial risks associated with their long-term commitments, reduce the market power of transmission providers by allowing customers to compete, and foster efficient capacity allocation.

The Commission limited reassignments above the cap to a study period ending October 1, 2010 and directed staff to monitor the secondary market and prepare a report to assist the Commission in deciding whether to extend the rule beyond the study period. Staff prepared this report in response to the Commission's directives in Order No. 890-A and Order No. 890-B.

In the report, staff analyzed five key aspects of the data: the number of transactions, the terms of the reassignments, the magnitude and variability of resale prices, the relationship between reassignments and price differentials in related energy markets, and the nature of affiliate transactions,

Using the data filed by transmission providers in EQR, staff observed 26 transmission providers report almost 35,000 capacity reassignments totaling 65 TWh during the period from the effective date of Order No. 890 in May 2007 through the end of 2009. The number of reported transactions and volume of capacity reassigned rose over the two and a half year period.

The terms of the reassignments were for hourly, daily, monthly, and yearly capacity. Hourly reassignments were the most prevalent, accounting for almost 97% of transactions, however, reassignments of over a month in duration accounted for 88% of the volume.

Almost all prices for capacity reassignments were below $3.00/MWh. There were 134 transactions priced above the cap, less than one percent of the total number of reassignments. None of the capacity reassignments priced above the cap exceeded the cap by more than $2.00/MWh.

Most of the capacity reassignments had receipt and delivery points in energy markets without reported price indices. Based on the points that did have reported prices, it appears that the value of capacity reassignments were comparable to the price differentials between relevant markets.

Sixteen percent of the capacity reassignments were sold by affiliates of the transmission provider. One affiliate reseller had transactions priced above the cap. The volume weighted mark-up for these 32 transactions was $0.85/MWh.

Based on the staff analysis of the study period data, staff concludes that the removal of the cap did not raise anticompetitive concerns. It appears that, during the study period, resellers used the secondary market mainly to derive value from unneeded capacity. In addition, based on the data before us, there was no evidence that affiliates of the transmission owners were given any undue preference with regard to released capacity rights.

That concludes our presentation. We are happy to answer any questions."