



Electric Power Supply Association
Advocating the power of competition

The Bare Essentials

Order No. 888 Reform: Redispatch and Conditional Firm Transmission **October 2006**

Introduction

In the Order 888 Reform effort, FERC seeks to prevent discrimination against competitive suppliers and their customers. Current redispatch practices offer several opportunities for discrimination. In addition to modifying redispatch practices, the development of conditional firm service can protect customers from being denied firm transmission service based on infrequent availability concerns. Including both redispatch and conditional firm service in the new open access rules will provide non-discriminatory long-term firm service options for transmission customers not available today. When utilized together, redispatch and conditional firm service can help maximize the availability of long-term point-to-point transmission service, making the most of existing resources at a time when siting new transmission is a challenge and can take years to complete. Therefore, FERC should implement both services in the reformed open access tariff.

The Problem

Today, when a competitive supplier requests long-term transmission service, transmission providers give them only two answers: yes to the full service request or no to any service at all. This “all or nothing” approach is operationally unnecessary and discriminatory. As a result, current practices deprive customers of least cost supply options. If congestion occurs for only a small portion of a transmission service request, today that request will be denied even if it may provide more efficient, lower cost power. Forcing transmission customers to choose between no service or shouldering the full financial burden of costly network upgrades is an unacceptable, discriminatory barrier to entry. As such, it violates the Federal Power Act and frustrates the national policy in favor of wholesale competition.

Redispatch

Redispatch is the optimization of which generation resources are used to meet demand in real time based on both reliability and congestion costs. All transmission providers use redispatch today, although those in regions outside of organized markets exclude all non-affiliated generation resources, which often

produces inefficient and uneconomic outcomes. In order to maximize transmission access, all redispatch should include not only the transmission provider's own resources, but also all non-affiliated resources that offer themselves for redispatch. An all-inclusive redispatch is essential to ensure the most efficient result, and is the only redispatch method that will fully eliminate the potential for undue discrimination that exists today.

When analyzing transmission service options, transmission customers need sufficient cost information in order to make efficient economic decisions that provide financial institutions with an adequate level of certainty. Transmission providers can reasonably determine redispatch costs to allow customers to make such decisions. In many cases, the cost of making longer term service available using redispatch service will not exceed the average OATT cost rate since the reliance on redispatch occurs in only a few hours per year. Redispatch service allows both the transmission provider and customer to make an economic choice to utilize a firm redispatch service or to make additional firm service available by expanding the transmission system.

Conditional Firm Service

Conditional firm service provides the certainty of a flexible long-term service that is only unavailable during limited hours of the year. Similar to redispatch, it rationalizes the efficient use of the existing system with the need for upgrades to deal with infrequent congestion. Conditional firm service also offers opportunities for different forms of generation to run, facilitating fuel diversity and renewable resources' grid access. While redispatch provides firm transmission service in all hours, conditional firm is appropriate where only occasional congestion occurs and is acceptable to a transmission customer. In some cases, conditional firm service may be a more economic service than redispatch, making it an attractive alternative for transmission customers willing to accept the contingencies or hours when the service is not available. This product facilitates project financing by providing more firm transmission access and offering options for developers to manage project risk.