

**Federal Energy Regulatory Commission  
February 2, 2006 Commission Meeting  
Statement of  
Chairman Joseph T. Kelliher**

**E-3 (Long Term Firm Transmission Rights Rule)**

Today, the Commission issues proposed rules to require transmission organizations with organized electricity markets to make available long term firm transmission rights that satisfy certain guidelines set forth in the draft regulations. These guidelines provide a framework for the development of specific long-term firm transmission right designs by each transmission organization with an organized market.

These proposed rules will implement provisions of the Energy Policy Act of 2005 concerning native load service obligations. Section 1233 of the Energy Policy Act directed the Commission to issue final rules within a year of enactment that facilitate the planning and expansion of transmission facilities to meet the reasonable needs of load serving entities to satisfy their service obligations and enable load serving entities to secure firm transmission rights or equivalent financial rights and make long term supply arrangements.

Long term firm transmission rights are an important issue, particularly to wholesale power customers who want to make long term supply arrangements. These customers want to obtain rights comparable to what was available to them under prior to the formation of organized markets, namely a fixed, long term level of service under pricing arrangements that hedge the congestion cost risk that they now face in the organized markets.

Long term firm transmission rights are also important to development of the grid. Long term rights are currently available to market participants that support an expansion or upgrade of grid transfer capability. Specifying and allocating long term firm transmission rights supported by the existing transfer capability raises difficult issues.

While we are acting under the Energy Policy Act, we have been working on this issue for some time. The proposed rule is informed by the Staff White Paper released in the spring, as well as by public comments on the white paper. Some of these comments argue that failure to offer transmission rights in the organized markets with terms greater than one year is a key deficiency that increases financial risk, impedes development of forward energy markets, and erects barriers to investment in new generating capacity.

The guidelines in the proposed rule will guide development of long term transmission rights that transmission organizations would make available to all transmission customers. In the event a transmission organization cannot accommodate all requests for long term firm transmission rights, over existing transmission capacity, the Commission proposes that a preference be given to load serving entities with long term supply arrangements used to meet service obligations. We believe that preference is consistent with the Energy Policy Act statutory language.

Under the guidelines, long term firm transmission rights must be available with term lengths sufficient to meet the needs of load serving entities with a long term power supply arrangements, existing or planned, used to satisfy their service obligations. As a general rule, we would expect proposals with multiple-year terms.

The approach the Commission is taking appropriately allows for regional flexibility. This flexibility will allow transmission organizations to craft alternative designs that reflect regional preferences and accommodate regional market design. The comments on the Staff White Paper did not favor a “one size fits all” approach, and that is not what we propose.

Consistent with the Energy Policy Act, this proposed rule is limited to transmission organizations with organized electricity markets, not public utilities outside those regions. I support the proposed rule.