

Miscellaneous LTTR Comments

October 6, 2006

[NU LTTR Comments, 10/3/06]

Full-Funding of FTRs

ISO-NE's proposal is to utilize surplus congestion revenues to carry-over into an account to fund future shortfalls. Network Load will be credited / charged for surpluses / shortfalls in this fund. As an alternative, ISO-NE should explore the idea of using the ARR settlement process as the balancing fund to ensure fully-funded FTRs. In any given month in which the congestion revenues exceed the FTR target payments, the surplus would flow proportionally to ARRs holders in that month. Similarly, any under-funding of FTR target payments would be funded by proportionally reducing each ARR holder's settlement. Since the basic cause of an under-funded FTR market is an auction that sold more FTRs than were feasible under the actual system conditions that prevailed during the month, it is appropriate to reduce the ARR fund. Stated differently, the ARR disbursement was greater than it would have been if the FTR auction had been able to foresee the exact system conditions and, therefore, auction-off the exact set of feasible FTRs. The same principle holds true in a month in which surplus congestion revenues are collected (i.e. too few FTRs were made available and, thus, ARR holders were insufficiently compensated). This concept is further supported by the theory that current FTRs purchasers reflect the risk of under-funding via reduced FTR bids (which would lead to fewer ARR dollars). Eliminating the risk of under-funding would, therefore, lead to higher-valued ARRs.

The inappropriateness of using Network Load as the full-funding insurance mechanism is summarized in the Final Order at section 150 (as well as in the "Comments of Northeast Utilities" in Docket No. RM06-8-000, March 13, 2006). Section 177 of the Order discusses as one "reasonable approach" the allocation of full-funding uplift charges to all holders of both short-term and long-term FTRs. Given that stance, an allocation based on all ARRs holders would apparently also be considered "reasonable".

Test for Auction Competitiveness

DBD should include a placeholder for a future mechanism that will be used to ensure any LTTR auction is competitive.

Eligibility / Load Asset Registration

The Allocated LTTR mechanism is not an optimal design for short-term LSE's (i.e. less than one year contracts). A load transfer from Supplier A to Supplier B mid-year will require Supplier B to choose whether or not to accept the reassigned LTTRs that were nominated by Supplier A in a prior period. These LTTRs may not be optimal for Supplier B's portfolio. This unavoidable design weakness should be minimized as follows:

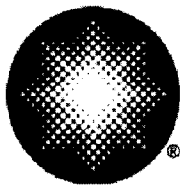
When ISO-NE develops each LSE's maximum nomination MWs, that analysis should be based on the current load asset registrations AND be reflective of any prospective registrations on file at ISO-NE. For example, if the LTTR allocation for the year beginning January 1, 2008 will be performed on November 1, 2007, each LSE's eligibility and maximum nomination quantity should be based on the load assets they are serving as of November 1st but also reflect any known changes that will be in effect as of January 1, 2008. This will minimize the administration of LTTR reassignments and also enable the new suppliers (i.e. those in effect for Jan 1) to optimize their nominations. In addition, the LTTR nomination process should be held as late in the year as possible to allow for annual load RFPs to be completed.

Extenuating Circumstances

The FERC Order (Guideline 2) requires full-funding of LTTRs except in the case of “extraordinary circumstances”. The DBD should note that additional design work is required to develop the circumstances under which a particular FTR, or the entire universe of awarded FTRs, would no longer be fully-funded.

Source Nodes to include HUB

The source point for Allocated LTTRs should not be restricted to generator nodes. Any source location, including the HUB, should be eligible for nomination. This expanded eligibility will make Allocated LTTRs a more useful product for those LSE’s serving load under short term contracts, i.e. those that may use the HUB as a supply point.



Constellation Energy®

Commodities Group

To: NEPOOL Long-Term FTR Working Group

Date: October 3, 2006

Re: Constellation Alternatives for Design Basis Document

Constellation Energy Commodities Group (“Constellation”) appreciates the opportunity to offer the following alternatives for inclusion in the Long-Term FTR Working Group Design Basis Document (“DBD”)

Allocated Long-Term Transmission Rights – Allocation Process

- The ISO’s current proposal limits the Allocated LTTRs to less than or equal to the available ARR monies. During discussion of its Design Summary, the ISO clearly stated its position that there would be no cross-subsidization of LTTRs by other ARR holders. Having said this, the ISO did acknowledge that in out years there would be a small risk of asymmetry whereby the available ARR monies of the Allocated LTTR holder may be less than the Allocated LTTRs. Constellation believes that this risk is substantial. One way to address the risk of cross-subsidization in out years is to limit the amount of Allocated LTTR awards to a percentage of available ARR monies from the LTTR auctions, as well as allow ARRs from monthly auctions to be used in the event of a shortfall. Specially, Constellation recommends that the cost of Allocated LTTRs would be less than or equal to **75%** of available ARR monies from the LTTR auction.

Full Funding – Congestion Revenue Assurance Fund (CRAF)

Constellation does not support the proposed Congestion Revenue Assurance Fund. As proposed, during the transition period, the current congestion fund would continue “as is” with FTR holders and congestion paying entities responsible for funding the CRAF and network load the beneficiaries of it. Constellation disagrees with the fundamental premise of this approach.

Constellation recommends the use of a CRAF-type of fund on Day One of the LTTR market. For instance, if the new market were implemented on January 1st, FTR holders would be made whole by network load if there was a shortfall and excess congestion revenues should be paid to network load. If all surpluses and shortfalls are the responsibility of network load, there is no reason for a CRAF. Additionally, this proposal avoids the need for the ISO to address questions such as which entities own the \$50-75 million fund should it be terminated in the future and which entities are beneficiaries of the interest received on those funds.

Further, Constellation recommends that the ISO use its schedule of planned outages to sell FTRs. Specifically, through all of the auctions proposed, the ISO should sell 95% of the system, based upon the schedule of planned outages.

Constellation appreciates the opportunities to offer these alternatives to the DBD and looks forward to discussing its recommendations at subsequent Long-Term FTR Working Group meetings.

Runge, Eric K.

From: Matthew Tate [tate@dc-energy.com]
Sent: Tuesday, October 03, 2006 9:29 AM
To: Runge, Eric K.; Marc Montalvo; Mario DePillis; bowieca@nu.com
Cc: Sadao Milberg
Subject: DC Energy: ISO-NE LTTR comments

All:

Overall, we are supportive of the ISO proposal. We have concerns that the working group will not be able to come to a consensus, and that we may need to take our chances at FERC that they side with the public power view. That said, we would actively support the ISO proposal.

Per my conversation with Marc after the last working group meeting, we have a few basic suggestions to ensure robustness in the market:

1. Capacity available for auction. We believe that a robust outcome can arise from awarding even a limited amount of capacity (e.g., less than 25%). There are several examples in the FTR/TCC markets: PJM monthly and balance of planning period, NYISO monthly and MISO monthly auctions all have no capacity explicitly set aside yet all have been producing robust pricing results (there are a handful of exceptions in early NYISO history). A more direct comparison is the NYISO long-term auction, which is a 10-round auction that auctions off small slices of the system capacity on the order of 5% of system capacity. In fact, we are concerned that allocating too much capacity to the auctions, especially in the out years would lead to dramatic underpricing as there is a glut of free capacity being "sold" by the ISO. So we strongly recommend that the ISO consider auctioning off a small slice of the system each year (e.g., 5%) and potentially seeding the initial auction with a larger slice in the initial years, descending over time (e.g., 25% for year 1, 20% for year 2, etc.). This will better match the natural needs of the market. It also smoothes out equity issues over time, e.g., a new entrant in Year 2 is on a level playing field in terms of getting new capacity (as opposed to selling a chunk of capacity in Year 1 and then not allocating new capacity until the instruments expire 3/5/10 years later.

2. Auction mechanics. We are concerned about the potential for gaming that can occur between the first non-binding round and the second binding round given the current wording in the ISO proposal. Namely, we are concerned about the potential for auction participants (not LSE allocations) to seed the indicative auction with phony prices, knowing that they have the option to pull out spurious bids while sending deceptive market pricing signals to the rest of the market. To address this, we recommend that auction bids/offers be binding once they have been put into the indicative round. The indicative round still does not lead to any financial obligations, but it prevents the auction participants from changing their bids to respond to the outcome. Second, we think that it is unnecessary to publish all of the indicative auction results; this will only encourage gaming as LSEs with allocation requests can try to manipulate their positions around others' requests. To address this, we suggest that the ISO simply communicate the volume and price of the paths requested by the LSE to that LSE.

3. Allocated LTTR pricing. We would recommend that the pricing be fixed to the forward curve that is created by the long-term auction. To this end, we realize that the auction period must match the allocation period, e.g., 10 years. We think this is preferable

because the very nature of a long-term hedge (in pure financial terms) is not only to fix the volume (per the Order), but also to fix the price (i.e., the foregone ARR revenue) at the initial acquisition time. For those who do not want to lock-in the right, but would prefer to renew each year, the pricing could follow the renewal scheme proposed by the ISO. To effect this, the LSE would indicate what years they wanted the allocation. If they only choose Year 1, they get "squatter's rights" to renew for the following 9 years, but at the price of each year's auction for the prompt/front year. If they choose all ten years, they lock-in the price (and the obligation) to "buy" the LTTR with their ARR funds.

As always, feel free to contact me if you have any questions or would like to discuss further.

Regards,
Matthew

Runge, Eric K.

From: Currier, Carol A. [CAROL.CURRIER@us.ngrid.com]
Sent: Wednesday, October 04, 2006 6:35 PM
To: mmontalvo@iso-ne.com; Runge, Eric K.; bowieca@nu.com
Cc: Currier, Carol A.
Subject: NG Comments on LTTR Design Summary Document

As requested at the LTTR meeting last week, National Grid is providing comments/suggested changes to the ISO's draft LTTR Design Summary document dated September 27, 2006.

1) Per our previous discussions, National Grid continues to have a concern with the Load Serving Entity (LSE) and Load Serving Obligation definitions reflected in the 9/27 document and provided below:

- LSE: A Market Participant, in accordance with ISO New England System Rules, ~~is~~ supplying the Load Serving Obligation.
- Load Serving Obligation: Real-Time Load Obligation, excluding pumps and station service load obligation.

Our main concern hinges on the LSE tie in with (or requirement to have) a Real-Time Load Serving Obligation (RTLO). As the Provider of Last Resort (POLR) for the ultimate customers within their respective service territories, National Grid's distribution subsidiaries have a state-mandated, long-term obligation to provide Standard Offer and Default service to their respective customers. However, in contracting for supply of Standard Offer and Default service, National Grid's distribution subsidiaries transfer their RTLO to the contracting party, at times for periods as short as three months. These definitions, as proposed, pose a problem in that, as written, National Grid and other LSEs who contract for supply of Standard Offer and Default service load, would be ineligible for direct allocation of LTTRs. Instead, long term rights would be allocated to suppliers that may have short term obligations, which we believe is inconsistent with the LTTR Final Rule. It is our recommendation that the definitions as provided for in the LTTR Final Rule (see 116FERC ¶61,077 P34) be incorporated in the Design Basis Document (DBD):

- LSE: A distribution utility or Electric Utility that has a Service Obligation. -- *as Congress defines in new section 217 of the FPA*
- Electric Utility: A person or Federal or State agency (including an entity described in section 201(f)) that sells electric energy. -- *as defined in EPCAct 2005*
- Service Obligation: A requirement applicable to, or the exercise of authority granted to, an Electric Utility under federal, State or local law or under long-term contracts to provide electric service to end-users or to a distribution utility. -- *as Congress defines in new section 217 of the FPA.*

Adherence to/incorporation of the definitions as provided for in the Final Rule "most closely effectuates the intent of Congress in section 217(b)(4) of the FPA," while avoiding the inadvertent exclusion from direct allocation of LTTRs to LSEs providing POLR service via contractual arrangements with suppliers.

2) We note that in the 9/27 document, Long Term Load Serving Obligation is a defined term. However, given that it is not used in the document (perhaps a carryover from prior versions?), we recommend that this defined term be deleted.

3) With regard to the Full Funding proposal, National Grid has a concern with the allocation of CRAF shortfalls to Network Load. It is our belief that any CRAF shortfalls must be allocated in a manner consistent with the allocation of ARRs (i.e., to the Congestion Paying LSEs).

Thank you. We look forward to working further with you on development of the DBD.
Carol

Carol A. Currier

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**** For your information: the Rhode Island Operations of New England Gas Company have been acquired by National Grid and are now doing business under that name. ****

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