NAESB Dynegy/Entergy Work Paper

In FERC Order No. 676-H in Docket No. RM05-5-022, the Commission declined to incorporate by reference NAESB WEQ-001-9.5 and WEQ-001-10.5 with the explanation that these two standards are not consistent with the Commission’s policy in *Dynegy Power Marketing, Inc.* and *Entergy Services, Inc.* regarding the treatment of redirects of a transmission service reservation. Following the order, 2015 WEQ Annual Plan Item 7.b was created to address the Commission’s directive. The Wholesale Electric Quadrant (WEQ) Executive Committee (EC) tasked the WEQ Open Access Same-time Information System (OASIS) Subcommittee with developing the recommendation to support the annual plan item. The subcommittee voted out a recommendation addressing the treatment of redirects for transmission service for unconditional parent reservations, but could not reach a consensus on how to modify the standards associated with redirects for transmission service on a firm basis where the parent reservation is conditional. During its April meeting, the WEQ Executive Committee (EC) approved the recommendation and assigned an ad hoc task force to investigate and develop, as appropriate, standards for redirects from conditional parent reservations.

The *Dynegy* policy, as reiterated in FERC Order No. 676-H, states “a transmission customer does not lose its rights to its original path until the redirect request satisfies all of the following criteria: (1) it is accepted by the Transmission Provider; (2) it is confirmed by the transmission customer; and (3) it passes the conditional reservation deadline under section 13.2.”[[1]](#footnote-1) The current NAESB Business Practice Standard WEQ-001-9.5 contained in Version 003 provides that the amount of capacity available to redirect transmission service reservations could be reduced before the redirect has passed the conditional reservation deadline as set forth in Section 13.2 of the *Pro Forma* Open Access Transmission Tariff (OATT). NAESB Business Practice Standard WEQ-001-10.5 allows the capacity available for a redirect of a transmission service reservation to be reduced when the request for a firm redirect is confirmed, rather than unconditional. In the order, the Commission explained that NAESB Business Practice Standard WEQ-001-9.5 does not support the *Dynegy* policy concerning when a transmission customer loses its rights to its original path after the submission of a redirect request because “reducing the capacity available to redirect prior to the passage of the conditional reservation deadline could lead to a customer paying firm transmission charges and losing capacity on both its original path and its redirect path.” The Commission further explained that the *Dynegy* policy “effects a reasonable balancing of interests between the customer and the transmission owner by ensuring that the customer does not potentially lose rights to capacity, while at the same time still permitting the transmission owner to sell available capacity on a short term basis until the redirect becomes unconditional.” The Commission stated that NAESB Business Practice Standard WEQ-001-10.5 is contrary to the *Dynegy* policy as the language of the standard allows for the redirect to be reduced when confirmed “which precedes expiration of the conditional reservation deadline.”[[2]](#footnote-2)

Treatment of Redirects from a Parent Reservation with Conditional Status

The recommendation only addressed redirects on a firm basis from unconditional parent reservations because the subcommittee could not reach consensus on modifications to the standards regarding the treatment of redirects from conditional parent reservations. The subcommittee struggled with the question of how to address treatment of a redirect on a firm basis (firm redirect) where the parent reservation has not yet passed the conditional reservation deadline as established in the *pro forma* OATT Section 13.2.

In particular, the subcommittee could not find a mechanism to always retain rights on the parent reservation until the firm redirect became unconditional. For example, a conditional 100 MW daily firm parent reservation is redirected to another path, and the firm redirect is conditional. In this instance, both the parent reservation’s 100 MW capacity on the original path and the firm redirect’s 100 MW capacity on the alternate path are subject to preemption until they pass their respective conditional reservation deadlines. If the parent reservation is preempted in full before the firm redirect becomes unconditional, then it is no longer possible to restore the rights on the original path if the firm redirect were subsequently preempted.

In order to move forward with a proposal to develop business practice standards to address redirects for conditional parent reservations, additional clarification is needed in the following areas:

1. If the conditional parent reservation is redirected, could there be a limit to the levels of redirect (grandchild, great grandchild, etc.)? If so, what should be the limit?
   1. The Entergy minority position recommended one level of redirect (grandchild).
   2. Redirects are a common occurrence. From the technical implementation point, past a grandchild redirect, the level of complexity greatly increases. For each additional redirect, if the customer retains rights on the previous paths, there are an increased number of paths which need to be traced.
2. Should a customer with a firm conditional redirect be permitted to relinquish the capacity and return to the parent reservation at times other than after loss of capacity due to preemption?
3. Should a customer with a firm conditional required be permitted to relinquish the capacity and return to the parent reservation only for the purpose of being redirected to another path? (The substitution of one redirect for another redirect)
4. If the capacity is lost due to competition/preemption on the parent reservation, how should the capacity be handled on the redirect? If the parent reservation is lost in this manner, is the redirect still legitimate (i.e., should the redirect be terminated)?
5. Should a customer be able to convert a firm redirect reservation to an original request if the conditional parent reservation is lost due to preemption?
6. Assuming a transmission provider must permit a redirect of a short-term firm parent reservation with a conditional status, what happens if the parent reservation is preempted? Is the redirect request, which is also in a conditional status, also preempted because the customer has no short-term firm service to redirect?
7. Assuming a transmission provider must permit a redirect of short-term firm reservation with a conditional status, explain how the following scenario should be addressed:

| **Reservation Number** | **Request Type** | **Long Term/ Short Term** | **Conditionality** | **ATC Retained on Path[[3]](#footnote-3)** |
| --- | --- | --- | --- | --- |
| 1 | Original | LT | Unconditional | Yes |
| 2 | Redirect of Reservation 1 | ST | Conditional | Yes |
| 3 | Redirect of Reservation 2 | ST | Conditional | Yes |
| 4 | Resale of Reservation 3 | ST | Conditional | N/A  (only scheduling rights) |
| 5 | Redirect of Reservation 3/4 | ST | Conditional | Yes |

What happens above (all reservations are confirmed and for the same number of megawatts and all tied parent reservation but none are for the remainder of the term of Reservation 1): if Customer A opts not to match a competing request or is preempted by a longer-term request as to Reservation 2? What should be done about Reservations 3 – 5?

When the subcommittee first began discussing the issue, it proposed to develop standards consistent with the following motion:

Redirect on a firm basis from a conditional parent the capacity will be conveyed to the redirect upon confirmation of the redirect and will then be released from the parent reservation. Redirect on a firm basis from an unconditional parent reservation the capacity will be conveyed to the redirect upon 1) acceptance, 2) confirmation and 3) unconditionally of the redirect and will then be released from the parent reservation*.*

Upon further consideration, the subcommittee found that the treatment of a redirect from a conditional parent reservation would essentially establish a standard identical to the current standard, as the new standard would not permit a transmission customer to utilize capacity on the original path (parent reservation’s path) if both the parent and firm redirect is preempted. Thus, the subcommittee deliberated potential standards language but could not agree on the course of action and decided not to pursue standards consistent with this proposal.

All together, the subcommittee discussed six proposals for business practices to address redirects on a firm basis from conditional parent reservations. There are advantages and disadvantages with each proposal, but no one proposal concerning the treatment of firm redirects from conditional parent reservations gained enough support for the subcommittee to reach a consensus. The proposals considered by the subcommittee were:

1. **Do not allow redirects on a firm basis when the parent reservation is still conditional.**
   1. Pros
      1. Easy to do this.
      2. No transparency issues
      3. There will never be a case where there is not capacity on the parent reservation to allow for return if a redirect is preempted.
      4. It reduces the risk of losing the right to return to the parent reservation if preempted.
   2. Cons
      1. It reduces the transmission customer’s current abilities.
      2. It reduces the market flexibility. Restricts customers’ existing right to redirect to the unconditional window.
      3. It could be contrary to the FERC intent in the *pro forma* OATT Section 22.2.
2. **When a conditional parent reservation is preempted, there is no longer a parent reservation for the redirect and the “orphaned” redirect must be displaced.** 
   1. Pros
      1. It is clear and easy for the transmission provider to administer.
      2. Because the redirect is displaced when the parent is lost, there would not be an “orphaned” redirect that cannot be returned to the parent reservation.
      3. It does not conflict with *Dynegy* Order because the redirect is not there without a parent.
      4. It will continue to allow redirects from conditional parent reservation.
      5. It will continue to allow netting per NAESB WEQ-001-9.1.3.1.
   2. Cons
      1. Contrary to OATT section 22.2 - “shall be treated as a new request for service”.
      2. Administration by the customer is difficult if there are multiple redirects and multiple tags.
      3. Administration by the customer is difficult if there are multiple redirects and partial lost on the parent.
      4. Partial solution of side cases will need to be examined.
3. **Redirect on a firm basis from a conditional parent reservation the capacity will be conveyed to the redirect upon confirmation of the redirect and will then be released from the parent reservation**. (This would continue the treating redirects on a firm basis from a conditional parent the same as done in previous and current WEQ standards.)
   1. Pros
      1. At the time of confirmation, the parent reservation and redirect are decoupled and competed independently.
      2. The transmission customer would only loose in competition that portion of the capacity of the parent/child that is left/confirmed on the reservations.
      3. With the decoupling, the daisy chain problem goes away (the treatment of reservations within multiple reassignments, aggregations and redirects).
      4. This follows FERC guidance that the redirect is treated as a new request per the *pro forma* OATT Section 22.2. “shall be treated as a new request for service”.
   2. Cons
      1. The resolution restricts the customers’ ability to retain the rights on the parent path if the redirect is lost.
      2. At the time of confirmation, the parent reservation and redirect are competed independently.
      3. There could be a transparency issue, because the customer will not be certain that the redirect is coupled or decoupled from the parent reservation at any given time. This could be resolved by adding a flag or market to indicate the status of the redirect.
4. Two proposals would allow the redirect to remain under specific conditions. Both of these took into consideration the impact of WEQ-001-9.1.3.1 which states that the evaluation of the request to redirect on a firm basis shall incorporate the reduction of the capacity of the parent reservation by the amount of the capacity requested for the time period of the Redirect on a firm basis. In practice, this standard means if there are any flowgates in common between the parent reservation and the firm redirect, the firm redirect will benefit from any relief on constraints that would be provided by the removal of capacity from the parent reservation. In the current WEQ Version 003 Standards, the relief was applied immediately upon confirmation of the firm redirect, because the standards required immediate reduction in the parent reservation’s capacity. However, under Dynegy/Entergy, there is no immediate relief on confirmation of the firm redirect while the redirect is conditional. With WEQ-001-9.1.3.1 in place as currently written, there could be a confirmed firm redirect that is only viable if the parent reservation’s capacity is reduced. This means that if the firm redirect were to be permitted to remain, there could be adverse impact on ATC. Both these proposals are based on the presumption that there are only two states for capacity – consumed by a transmission request or posted to the market – and do not take into account the third state where the capacity is being held by the provider. The two proposals are shown below:
   1. **When the parent reservation is conditional, disallow the netting impact currently required in WEQ-001-9.1.3.1. Upon preemption of the parent reservation, remove the right of the redirect to return to the parent’s path should the redirect subsequently is preempted.** 
      1. Pros
         1. The redirect is evaluated without any benefit of the parent reservation and is evaluated based on available capacity. Therefore, if the parent reservation is preempted, there is no shared capacity to be removed from the redirect.
      2. Cons
         1. Changes to the NAESB standards will have to be made.
         2. The redirect is less likely to be approved.
         3. There is an incremental difference between netting and not netting.
   2. **When a conditional parent reservation is preempted and the redirect did not receive any capacity benefit due to WEQ-001-9.1.3.1 (i.e., the parent’s reservation does not have any flowgates in common impacts with the firm redirect), remove the right of the redirect to return to the parent reservation’s path should the redirect subsequently be preempted.** 
      1. Pros
         1. Resolves the issue in the above proposal when you have a competition on a non-common flowgate.
         2. Does not preempt more capacity than is required to grant the challenger.
      2. Cons
         1. It is an increase in complexity and a decrease in transparency.
         2. It conflicts with the *Dynegy* order in that the redirect cannot return to the parent if the redirect loses its capacity due to preemption.
         3. It is not a complete solution as it is only applicable to cases for non-common flowgates.
         4. The customer will not know how much capacity remains on a redirect when deciding whether or not to match for the parent reservation
         5. The details of the proposal are complex, and it could be difficult to develop clear and concise language for business practice standards.
         6. Once implemented, it could be difficult to show compliance with these business practice standards.
         7. With a loss of the parent reservation, the transmission customer no longer has the right to a redirect. This may conflict with the *pro forma* OATT Section 22.2.
5. **Once the redirect on a firm basis has been confirmed, earmark the capacity of the parent reservation that is needed for restoration of the redirect and do not permit the earmarked capacity to be subject to competition on the parent path until the redirect becomes unconditional.**
   1. Pros
      1. This is the only option that always allows the movement of the redirect back to the parent reservation.
      2. The redirect will be allowed.
      3. It allows for netting, upholding NAESB WEQ-001-9.1.3.1.
   2. Cons
      1. It makes less capacity available to the challenger of the parent reservation.
      2. It evaluates the conditionality of a conditional parent reservation for the part of the redirect to the level of unconditional.
6. **Permit a transmission provider to elect to administer redirects on a firm basis from conditional parent reservations but require those transmission providers to explain in their tariff or business practices how they handle the redirect standards for conditional parent reservations.**
   1. Pros
      1. It manages the various transmission provider interpretations for conditional parent reservations.
      2. It allows the transmission provider to maintain the existing functionality with today current practices.
      3. Permits maintenance of the current marketing functions.
      4. Allows the NAESB OASIS Subcommittee to address only redirect from an unconditional parent. (This will allow OASIS subcommittee to finish faster.)
      5. Allows the NAESB OASIS Subcommittee to reevaluate this when the subcommittee returns to the development of preemption and competition business practice standards.
   2. Cons
      1. It is a transmission provider business practice decision to manage the conditional Parent Reservation scenarios.

As consensus could not be reached, the subcommittee opted to follow Proposal 6 and added the introductory paragraph in WEQ-001-9:

The following Business Practice Standards WEQ-001-9.1 through WEQ-001-9.8.1 are defined in order to enhance consistency of the reservation process that applies to Redirects on a firm basis from Parent Reservations that are unconditional, as described in pro forma tariff section 13.2. The Transmission Provider shall specify any reservation process that applies to Redirects on a firm basis from Parent Reservations that are conditional, as described in pro forma tariff section 13.2, in its Business Practices that are posted in accordance with Business Practice Standard WEQ-001-13.1.4.

During the formal comment period, Entergy submitted comments recommending a proposal for the treatment of redirects from conditional parent reservations. The minority position proposed that redirects from a conditional parent reservation be restricted to one level of redirect, meaning the original redirect is considered the child reservation and the redirect of that redirect would be the grandchild reservation. Transmission customers would always be allowed to displace a redirect of the conditional parent reservation. In instances of a redirect (grandchild) of a redirect (child) from a conditional parent reservation, the transmission customer may displace the redirect (child) and submit a second redirect (child) from the original parent reservation. If the conditional parent reservation loses its capacity during competition, the transmission customer may either give up rights of the redirect (child) to go back to the conditional parent or displace the redirect (child):

* Should the transmission customer elect to give up the rights of the redirect (child) to go back to the conditional parent reservation, the transmission provider may reevaluate the redirect (child) and make that redirect (child) an original reservation up to the capacity that can be supported. The transmission provider may charge for this original reservation since this service is no longer supported by the parent reservation.
* If the conditional redirect (child) loses its capacity during competition, the transmission customer will have the option to revert to the parent reservation regardless of if that parent reservation is conditional or has achieved unconditional status.

This proposal was briefly discussed by the subcommittee but has not yet been fully addressed.

1. *Standards for Business Practices and Communication Protocols for Public Utilities*, Order No. 676-H, 79 FR 56939 (Sept. 24, 2014), 148 FERC ¶61, 205 (Sept. 18, 2014). [↑](#footnote-ref-1)
2. Id. [↑](#footnote-ref-2)
3. ATC is being held on paths for reservations 1, 2, 3, and 5. [↑](#footnote-ref-3)