Market Renewal FACT SHEET

Financial Transmission Rights

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The single schedule market (SSM) is one initiative in the Market Renewal's Energy work stream. The IESO is moving from a two schedule market that includes Financial Transmission Rights (FTRs) only at interties to a SSM that could include an FTR market within the province.

What are Financial Transmission Rights?

An FTR is a financial instrument that entitles the holder to be compensated for charges due to transmission congestion between the point where power is injected into the system by a generator and the point where power is consumed by a load. The value of an FTR is calculated as the difference in the congestion component of the LMPs at those two points on the system. Currently, the IESO operates a market only for FTRs between the IESO and intertie zones.[1]

There are two benefits to having FTRs within the province.

First, they provide a mechanism to value and hedge the financial risk that is caused by high uncertainty in the cost of congestion. Other ISOs auction off FTRs or provide FTRs to transmission developers who in turn sell them to market participants interested in hedging.

Second, FTRs can be used to mitigate disconnects between load pricing rules. There is a risk that if non-dispatchable load is charged an average price while dispatchable load is charged LMP that the incentive to be dispatchable may be reduced.[2] FTRs can be used to offset the costs for dispatchable loads to ensure that their payments do not significantly differ from the costs of non-dispatchable loads while maintaining their incentive to respond to LMP.

[1] Currently there are no FTRs within the province of Ontario since there is a single market clearing price that does not take congestion into consideration.

[2] When dispatchable loads pay LMPs and non-dispatchable loads pay aggregated prices a risk occurs when aggregated prices are lower than LMPs. In this situation dispatchable loads are incented to become non-dispatchable.

Why is it important?

FTRs can help align incentives and allocate risk among market participants. This can help ensure that the potential benefits of the SSM are realized. However, implementing FTRs across the province can be complex and the costs associated with implementation must be weighed against the benefits.

In particular, the load pricing framework must be carefully considered when designing a SSM. Keys to this framework are alignment of incentives to the pricing structure and continued encouragement of dispatchable load participation. Since FTRs may provide one mechanism that supports this goal it would be prudent to consider its role and function in the market design.