

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

April 4, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF APPEALS (BELLAK) *RCB DS*
DIVISION OF ELECTRIC & GAS (BALLINGER) *DS ZLT*
DIVISION OF RESEARCH & REGULATORY REVIEW (HEWITT) *RY DM*

RE: DOCKET NO. 960214-EU - PROPOSED REVISION TO RULE 25-6.035, ADEQUACY OF SUPPLY

AGENDA: 4/16/96 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED PERSONS MAY PARTICIPATE

RULE STATUS: PROPOSAL MAY BE DEFERRED

SPECIAL INSTRUCTIONS: I:\PSC\APP\WP\960214.RCM

CASE BACKGROUND

On March 19, 1993, Florida Power and Light Company (FPL) filed with the Federal Energy Regulatory Commission (FERC) an extensive and comprehensive revision to its existing wholesale power, transmission and interchange service tariffs. Among the rate changes in the FERC Docket (Docket No. ER93-465-000, et. al.), was FPL's proposal to determine the interchange service schedule under which emergency and short-term firm service would be available to other utilities, and to base that determination on the installed and operating reserve standards contained in the interchange schedules filed with the FERC.

FPSC intervened in the FERC docket and, on September 13, 1993, filed its initial comments. FPSC expressed its concern that FPL's proposed tariffs could interfere with FPSC's statutory authority and obligation to determine the appropriate level of reserves for utilities in the State of Florida, as well as its historical responsibility to protect retail ratepayers. The Commission's comments urged that the FERC defer to FPSC's determination on the adequacy of reserves.

After discussion at the Internal Affairs meeting on April 5th, 1994, this docket was opened to investigate the planning practices and operating reserves of Peninsular Florida's generating electric utilities. An expedited hearing was held June 23, 24 and July 6,

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1994, with the expectation that the Commission's final order would be filed with FERC for consideration in the FERC docket. At the September 20, 1994 Agenda Conference, the Commission established reserve margin criteria and other policies, such as the appropriate treatment of non-firm load, non-firm purchases, and shared generating units when calculating reserve margins. In addition, the Commission found that utilities should not be required to provide "buy-through" power to another utility's interruptible customers pursuant to emergency interchange schedules. Order No. PSC-94-1256-FOF-EU was sent to the FERC for its consideration and FPSC staff was also directed to initiate a proceeding to codify all of the decisions contained in Order No. PSC-94-1256-FOF-EU in the form of a rule.

On December 13, 1995, the presiding judge in the FERC docket issued an Initial Decision on Comparability and Other Rate Issues. This decision found that the reserve margin criteria contained in FPL's interchange tariffs conformed with FPSC's Order No. PSC-94-1256-FOF-EU. The judge also recognized the potential for disputes to arise and therefore recommended that since "this decision approves FPL's interchange proposal that adopts the FPSC reserve margin reserve tests as eligibility criteria under AF and BF, it is logical and reasonable for such disputes to be arbitrated by the FPSC." To date, this decision has not been affirmed by the FERC.

The Commission established reserve margin criteria in order to maintain equitable reserve sharing among utilities, not to set a prudent level of reserves. While these are related, they should be kept separate. A prudent level of reserves was not the subject of the hearing in Docket No. 940345-EU. Therefore, if the Commission adopts a rule, it should be for the purposes of insuring equitable reserve sharing and coordination of interchange, not a minimal level for prudence.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose the attached revisions to Rule 25-6.035, Florida Administrative Code?

RECOMMENDATION: Yes.

STAFF ANALYSIS: Interchange agreements between utilities benefit each utility in that capacity reserves can be shared during emergencies and short term capacity shortages. Docket No. 940345-EU originated because FPL believed that it was being "leaned on" for capacity reserves in light of the traditional method of pricing emergency power. The Commission found that the problem of over-reliance on emergency power was not due to inadequate reserves but

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rather was due to purchases of "buy-through" power for non-firm loads and the inability to interrupt non-firm load in order to satisfy the reciprocity requirements contained in the companies' interchange schedules. The Commission went on to say that these problems require "policy decisions by this Commission on retail tariff provisions..." In other words, once the retail tariffs are fixed to reflect the Commission's policy decisions, the problem of over-reliance on emergency power should vanish. However, other methods of insuring that this problem of over-reliance does not happen in the future were explored because the Commission "cannot foresee all problems that may eventually arise in the increasingly competitive power market..." Order No. PSC-94-1256-FOF-EU, pg. 6. Two methods of correcting this anomaly were presented: (1) an emergency power broker system and (2) certain reserve margin criteria which, if not met, would "trigger" a higher price for emergency power. Both methods rely upon competitive forces to optimize capacity reserves.

As stated on page 6 of Order No. PSC-94-1256-FOF-EU the Commission's overall goal was to "assure the continued conservation, reliability and coordination of shared energy reserves in Florida's electric grid under the mandate of Chapter 366, Florida Statutes." This policy is codified in the current version of Rule 25-6.035, Florida Administrative Code (F.A.C.). One shortcoming of the current rule is that it was written at a time when demand side management programs were not utilized. Staff has rewritten this rule to "codify the standards and policy determinations detailed in this Order as a rule." Order No. PSC-94-1256-FOF-EU, pg. 12.

ISSUE 2: If there are no comments or requests for hearing, should the attached revisions to Rule 25-6.035, Florida Administrative Code, be submitted to the Secretary of State for adoption and this docket closed?

RECOMMENDATION: Yes.

RCB

1
2 25-6.035 Adequacy of Supply Resources. ~~The generating capacity of~~
3 ~~the utility's plant, supplemented by the electric power regularly~~
4 ~~available from other sources, must be sufficiently large to meet~~
5 ~~all reasonable demands for service and provide a reasonable reserve~~
6 ~~for emergencies.~~ (1) Each utility shall maintain sufficient
7 generating capacity, supplemented by regularly available generating
8 and non-generating resources, in order to meet all reasonable
9 demands for service and provide a reasonable reserve for
10 emergencies. Each utility shall also coordinate the sharing of
11 energy reserves with other utilities in Peninsular Florida. To
12 achieve an equitable sharing of energy reserves, Peninsular Florida
13 utilities shall be required to maintain, at a minimum, a 15%
14 planned reserve margin. The planned reserve margin for each
15 utility shall be calculated as follows:

16
$$RM = [(C - L)/L]*100 \quad \text{where:}$$

17 "RM" - Is defined as the utility's percent planned reserve
18 margin;

19 "C" - Is defined as the aggregate sum of the rated
20 dependable peak-hour capabilities of the resources
21 that are expected to be available at the time of
22 the utility's annual peak; and

23 "L" - Is defined as the expected firm peak load of the
24 system for which reserves are required.

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CODING: Words underlined are additions; words in
~~struck-through~~ type are deletions from existing law.

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2 The following shall be utilized as the operating reserve
3 standard for Peninsular Florida's utilities: operating reserves
4 shall be maintained by the combined Peninsular Florida system at a
5 value equal to or greater than the loss of generation that would
6 result from the most severe single contingency. The operating
7 reserves shall be allocated among the utilities in proportion to
8 each utility's maximum demand for the proceeding year, and the
9 summer gross Southeastern Electric Reliability Council (SERC)
10 capability of its largest unit or ownership share of a joint unit,
11 whichever is greater. Fifty percent shall be allocated on the
12 basis of demand and fifty percent on the basis of the summer gross
13 SERC capability of the largest unit. Operating reserves shall be
14 fully available within ten minutes. At least 25% of the operating
15 reserves shall be in the form of spinning reserves which are
16 automatically responsive to a frequency deviation from normal.

17 (2) Treatment of Purchased Power. Only firm purchase power
18 agreements may be included as a resource for purposes of
19 calculating a planned or operating reserve margin. A utility may
20 petition the Commission on a case-by case basis for exceptions to
21 this rule.

22 (3) Treatment of Shared Generating Units. Only the utility
23 which has first call on the generating unit may count the unit
24 towards its planned or operating reserve margin. A utility has
25 first call on a unit if the unit is available and the utility has

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2 the contractual right to dispatch the unit to meet its native load
3 and other firm contractual commitments before any other party to
4 the unit's sharing arrangement. The Commission may consider other
5 methods on a case by case basis.

6 (4) Treatment of Non-Firm Load. If non-firm load (i.e.
7 customers receiving service under load management, interruptible,
8 curtailable, or similar tariffs) is relied upon by a utility when
9 calculating its planned or operating reserves, the utility shall be
10 required to make such reserves available to maintain firm service
11 to other utilities.

12 (5) Buy-through Power for Interruptible Customers.
13 Interruption of service to non-firm customers is not an emergency.
14 As such, a utility shall not be required to provide buy-through
15 power for another utility's interruptible customers under
16 obligatory emergency interchange schedules.

17 Specific Authority 366.05(1) FS.

18 Law Implemented 366.03 FS.

19 History--New 7-29-69, Formerly 25-6.35, Amended _____.

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M E M O R A N D U M

February 2, 1996

TO: DIVISION OF APPEALS (BELLAK)
FROM: DIVISION OF RESEARCH AND REGULATORY REVIEW (HEWITT) *GH 1 ad over*
SUBJECT: ECONOMIC IMPACT STATEMENT FOR PROPOSED REVISIONS TO RULE 25-6.035,
FAC, ADEQUACY OF SUPPLY

SUMMARY OF THE RULE

Currently, Rule 25-6.035, FAC, states that the electric power generating capacity of a utility's plant, supplemented by other sources, must be sufficiently large to meet reasonable demands for service and to provide a reasonable reserve for emergencies. There is no explicit amount of reserve required.

The proposed rule revisions would require Peninsula Florida utilities to maintain an explicit 15 percent planned reserve margin. Also, the proposed rule would adopt the Florida Specific Procedure for operating and spinning reserves as administered by the Florida Coordinating Group (FCG). A general formula for calculating the planned reserve margin for each utility would be included.

Treatment of purchased power, shared generating units, and non-firm load for reserve margins are addressed in the proposed rule revisions. Finally, buy-through power for interruptible customers would be accommodated pursuant to voluntary interchange schedules, not under obligatory emergency interchange schedules.

DIRECT COSTS TO THE AGENCY AND OTHER STATE OR LOCAL GOVERNMENT ENTITIES

Those government entities that generate electrical power could be affected by the proposed rule changes. Six generating municipalities responded to a data request for their expected costs and benefits from the proposed rule revisions. Four municipal utilities reported no expected change in costs because they currently comply with the proposed reserve margin criteria.

The City of Lakeland says it could gain some financial benefits by

foregoing future capacity for a period of time, thus, dropping its reserve margin to the proposed rule's minimum level. However, Lakeland sees a potentially significant negative impact to complying with the proposed rule changes. It states the revisions would impact its load-management program and may benefit another utility at Lakeland's expense or inconvenience and leave it short of capacity to serve load. This would result in much higher replacement cost and would ultimately affect rates. Lakeland also believes that its electric rate tariffs for load management, interruptible, and curtailable tariffs are not compatible with the proposed rule's treatment of non-firm load. Changing its tariffs to comply would cost an estimated \$2,000 to \$3,000. Other, intangible costs would also be incurred that cannot be quantified or captured.

Another municipal utility, Fort Pierce, states that although it currently maintains a 15 percent reserve margin, it objects to the loss of flexibility it would suffer with the proposed rule changes.

The City of Tallahassee Electric Department has a planning margin of 17 percent and would not be affected by the proposed minimum margin of 15 percent. However, the city objects to the proposal in Rule 25-6.035(2), FAC, to allow a petition for using non-firm purchase power agreements as a resource for calculating a planned or operating reserve margin. Because the nature of non-firm power implies a lack of accountability and accessibility at some future time (likely during a peak period), it could result in the failure of a utility to meet its reserve obligations.

The Commission currently monitors utilities' level of reserve margin. However, if there is an increase in the number of proceedings concerning the treatment of various reserve margin contingencies in the proposed rule revisions; there would be additional staff time and effort spent in those proceedings.

COSTS AND BENEFITS TO THOSE PARTIES DIRECTLY AFFECTED BY THE RULE

The proposed revisions to Rule 25-6.035, FAC, would affect the electric generating utilities in peninsular Florida by requiring that they maintain a 15 percent planned reserve margin. The utilities affected include investor owned utilities (IOUs), city generating utilities (MUNIs), and Cooperatives (Co-ops). The effect on MUNIs is included in the previous section.

The Seminole Electric Cooperative states that it anticipates no additional costs associated in complying with the proposed rule changes and that it should

eliminate ambiguity relative to what level of reserves satisfies reciprocity requirements under certain interchange agreements within the state.

IOUs generally expect no significant additional costs from the proposed rule revisions. Tampa Electric Company (TECO) states that there may be additional costs associated with any proceeding relative to treatment of Non-Firm Load. The costs would include preparation of evidence, involvement of expert witnesses, participation in a hearing, and preparation of post-hearing statements. These costs could vary over a wide range, depending on the complexity and number of proceedings required.

Florida Power Corporation expects to receive some benefit from the proposed requirement that all utilities would meet or exceed the 15 percent reserve level for firm load requirements they serve in the state, but the benefits are difficult to quantify.

Florida Power & Light Company (FP&L) believes the state would benefit from the minimum reserve requirements by reducing the chances that reliability would be adversely affected.

REASONABLE ALTERNATIVE METHODS

The alternative most often suggested by affected utilities would be to not change the existing rule. However, this alternative would not remove the ambiguity in the existing rule regarding a reasonable reserve margin.

Seminole, FP&L and TECO suggested language changes for clarification and consistency, but indicated the proposed methods in the rule revisions were acceptable.

IMPACT ON SMALL BUSINESSES

No direct impact on small businesses is foreseen, as none of the affected utilities qualify as a small business as defined in Section 288.703(1), Florida Statutes (1991).

IMPACT ON COMPETITION

The City of Lakeland believes that if it has to eventually add capacity because of the proposed rules, rates would have to increase and would seriously affect Lakeland's ability to compete in the energy services market.

Fort Pierce Utility Authority states that the proposed rule would reduce

utility flexibility in meeting the unknown, but likely volatile, competitive conditions of the future.

Seminole Co-op believes that the proposed rule changes have the potential, in the future, to place Florida utilities at a competitive disadvantage vis-a-vis out-of-state utilities. These non-Florida generators may maintain reserves at a lower level than the Florida minimum reserve level, in order to gain a competitive advantage.

FP&L thinks that the proposed minimum level of reserves would prevent Florida utilities in a competitive environment from reducing reserve margins in order to drive down costs and thus a minimum level would maintain overall system reliability.

IMPACT ON EMPLOYMENT

There could be increased employment in constructing additional capacity if any utilities below 15 percent reserve margin build generating capacity rather than purchasing additional capacity. However, that impact could be offset to some degree if utilities with over 15 percent reserve margins allow their reserve margin to decline instead of continuing excess capacity above the minimum reserve margin. The net effect would depend on the amount of excess or deficiency of reserve margin.

TECO indicated that no additional positions would be anticipated to adhere to the proposed rule revisions. However, satisfactory disposition of TECO's issues relating to the treatment of Shared Generating Units and treatment of Non-Firm Load may require additional efforts in other areas of the company.

METHODOLOGY

Data requests were sent to generating utilities in Peninsula Florida to ascertain the expected impact of the proposed rule amendments. Meetings were held with legal and electric industry Commission staff. Relevant statutes and rules were reviewed and cited where appropriate. Standard economic analysis was used to determine the likely impact of the rule revisions.

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