TESTIMONY OF MIKE NAEVE, C. MARTIN MENNES, HENRY SOUTHWICK AND GREG RAMON

DOCKET NOS. 001148-EI, 010577-EI AND 000824-EI

AUGUST 15, 2001

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power & Light Company's proposed merger with Entergy Corporation, the formation of a Florida transmission company ("Florida transco"), and their effect on FPL's retail rates.	**DOCKET NO. 001148-EI**
In re: Review of Tampa Electric Company and impact of its participation in GridFlorida, a Florida Transmission Company, on TECO's retail ratepayers.	**DOCKET NO. 010577-EI**
In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light.	**DOCKET NO. 000824-EI** **FILED : August 15, 2001**

JOINT TESTIMONY OF
MIKE NAEVE, C. MARTIN MENNES,
HENRY SOUTHWICK AND GREG RAMON

Q. Please state your names and occupations.

A. There are four persons presenting this testimony jointly on behalf of Florida Power & Light Company, Florida Power Corporation and Tampa Electric Company (the "GridFlorida Companies"). Our names, employers and positions are:

1. Mike Naeve – partner in the law firm of Skadden, Arps, Slate, Meagher & Flom LLP.

2. C. Martin Mennes – Vice President, Transmission, Operations and Planning of Florida Power & Light Company ("FPL").

3. Henry Southwick – Manager, Regional Transmission Organization Development, Florida Power Corporation ("FPC").

4. Greg Ramon – Director of Transmission Policy and Analysis, Tampa Electric Company ("TECO").

Q. Please briefly describe your involvement with GridFlorida.

A. Each one of us has been significantly involved in the development of GridFlorida. During the stakeholder collaborative process for the development of GridFlorida, Mr. Naeve was the chairman of the Governance Working Group, Mr. Mennes was the chairman of the Planning and Operations Working Group, and Mr. Ramon was the chairman of the Market Design Working Group. Mr. Mennes, Mr. Southwick and Mr. Ramon have had the lead responsibility for representing the GridFlorida Companies in the negotiations regarding the development of GridFlorida.

I. INTRODUCTION

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of our testimony is to describe the significant features of the GridFlorida proposal and to explain why the GridFlorida Companies developed the proposal as they did. Although each one of us has greater knowledge of certain topics addressed in this testimony than others, the subjects are closely interrelated, and the GridFlorida Companies believe that it would be more helpful to the Commission if we present our testimony and are available for questioning jointly. The general subjects of our testimony are as follows:

1. **Governance.** We will explain the ownership structure of GridFlorida and how that structure satisfies the Order No. 2000 independence requirements and, at the same time, permits transmission owners to divest their transmission facilities to GridFlorida in a way that minimizes taxes, allows for favorable accounting treatment and creates the financial flexibility for GridFlorida necessary for it to raise capital for transmission investment and expansion.

2. **Planning and Operations.** We will describe GridFlorida's planning and operations functions, and explain why transferring these functions to GridFlorida will not affect the reliability and safety of the Florida transmission grid. We also describe the demarcation between transmission facilities and distribution/generation facilities that was developed for determining which facilities will be subject to GridFlorida's operational authority and the rationale for that demarcation.

3. **Market Design.** We will describe the market design and congestion management features included in the GridFlorida proposal. We also will explain the proposed market power mitigation measures that will permit the market design to function appropriately under the current levels of market concentration.

4. **Market Entry.** Finally, we will provide information on the amount of new merchant generation projects being planned for Florida. We are presenting this testimony to show that there is competition in Florida

wholesale markets notwithstanding the provisions of the Florida Electrical Power Plant Siting Act (the "Siting Act").

Q. Are you sponsoring any exhibits in connection with this testimony?

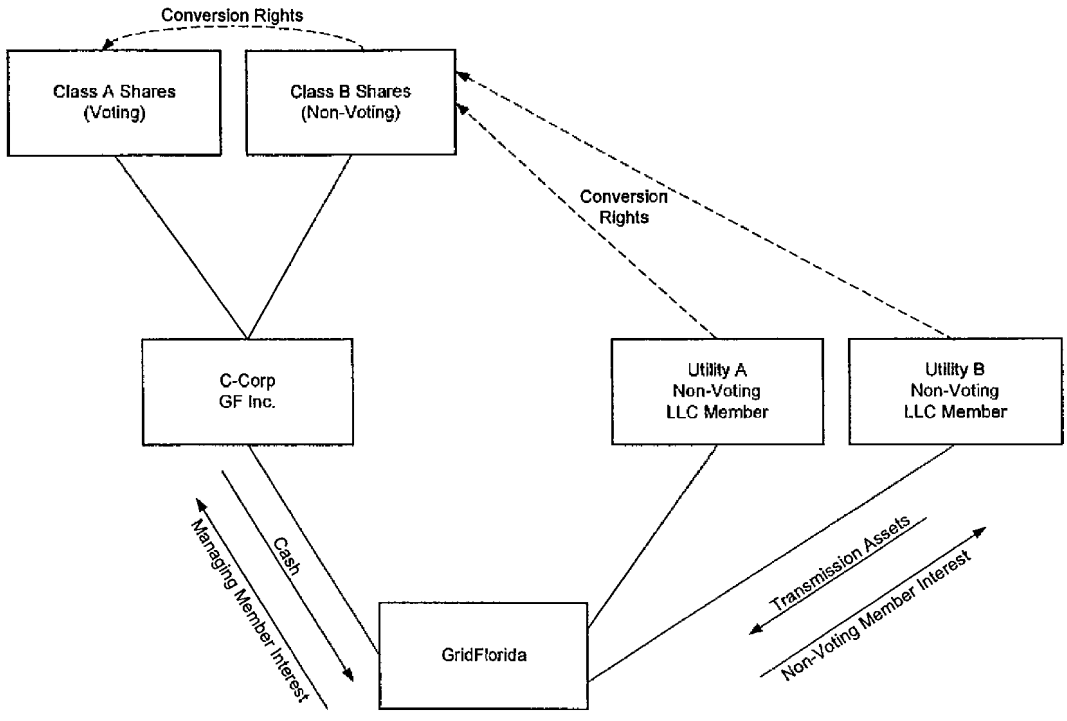
A. No.

II. GOVERNANCE PROVISIONS OF GRIDFLORIDA

A. CORPORATE STRUCTURE

Q. What is the proposed corporate structure of GridFlorida?

A. As discussed in the Testimony of Mr. Naeve, the GridFlorida Companies have proposed a for-profit transmission company that will own the transmission assets of at least FPL and TECO. The proposed structure of GridFlorida calls for the creation of two new companies: (1) GridFlorida, a Florida limited liability company which will be the RTO and will own and operate transmission facilities; and (2) "GF Inc." a Florida corporation, which will be formed specifically to own a controlling interest in GridFlorida and to manage its operations. The following chart illustrates the proposed structure.



Interests in limited liability companies such as GridFlorida are referred to as "Member Interests." Passive interests are referred-to as "Non-Voting Member Interests" and voting interests are referred-to as "Managing Member" Interests. The Managing Member Interest in GridFlorida will be held by GF Inc. and the Non-voting Member Interests will be held by those transmission owners that divest their transmission assets to GridFlorida.

It is contemplated that GF Inc. will raise equity financing for GridFlorida through an Initial Public Offering ("IPO"). Ultimately two classes of stock will be issued – Class A Common Stock and Class B Common Stock. Class A Common Stock will be voting common stock. Market Participants, as defined in Order No. 2000, will not be permitted to own shares of Class A Common Stock. Class B Common Stock will be non-voting common stock, and may be owned by Market Partici-

pants. Holders of shares of Class B Common Stock will not be entitled to vote on any matter presented for a vote of shareholders, except in limited circumstances.

Q. Why did the GridFlorida Companies provide for the non-voting Class B stock?

A. The Class B voting stock is part of the provisions that have been made to give divesting owners the flexibility to sell their non-voting Member Interests in the future. Divesting Owners have the right to convert their Member Interests in GridFlorida to shares of Class B Common Stock, which again qualify as passive interests. That Class B Common Stock can then be sold to another entity. To the extent that the purchaser of the Class B Common Stock is not a Market Participant, the purchaser can convert its shares to Class A Common Stock.

Q. Why did the GridFlorida Companies select this structure?

A. This structure allows the accommodation of two competing interests. Use of a limited liability company to own the transmission facilities allows passive ownership interests in GridFlorida by divesting transmission owners to satisfy the Order No. 2000 independence standard, and offers favorable tax treatment. However, limited liability companies have restricted access to the capital markets in comparison to publicly traded corporations. Use of a corporation to own the Managing Member Interest in GridFlorida allows greater access to the capital markets through the issuance of shares in GF Inc.

B. INDEPENDENT BOARD OF DIRECTORS

Q. What is the nature of GF Inc.'s Board of Directors?

A. GF Inc. will have an Independent Board, i.e. none of the Board members will have any connections to any of the GridFlorida Companies or any other Market Participant.

Q. How will Board members be selected?

A. A Board Selection Committee, made up of representatives of the GridFlorida Companies and of other stakeholders, was established to select the initial Directors. The Committee selected the search firm of Hiedrick and Struggles, which was one of three specified nationally recognized executive search firms, to propose a pool of eight candidates and four alternate candidates for election as initial Directors. Each candidate must have qualifications equivalent to those of directors of public corporations with equivalent or larger revenues and assets than those anticipated for GF Inc., and at least six of the eight candidates and three of the four alternates must be or have been a president, chief executive officer ("CEO"), chief operating officer ("COO") or director of a publicly traded company.

The Board Selection Committee will have the discretion to replace up to four of the eight primary candidates with alternate candidates. The Board Selection Committee will declare the resultant group of eight candidates as its slate of candidates for election as initial Directors of GF Inc. Following their selection,

such candidates will meet to select the initial CEO of GF Inc., who will be the initial Chairman of the Board of GF Inc.

GF Inc.'s Board will be established with Directors serving three-year staggered terms. Three of the initial Directors will be in a class that has a term that ends one year from the date GridFlorida begins commercial operations, three will be in a class that has a term that ends two years from the date GridFlorida begins commercial operations, and three (including the CEO) will be in a class that has a term that ends three years from the date GridFlorida begins commercial operations. The Board Selection Committee will determine the class of Directors in which each Director will serve (except that the CEO will serve in the class with the latest expiration date).

As is common with other corporations, subsequent Directors will be elected by the holders of Class A Common Stock at each annual meeting of shareholders of GF Inc. Until GF Inc. has issued and sold its voting stock to the public or to third party private investors, GF Inc. will use a voting trust mechanism to permit the Directors whose terms are not expiring to elect Directors to fill those directorships that expire at that year's annual meeting of shareholders. Market Participants thus will have no voice in choosing subsequent Directors.

Q. How can Directors be removed?

A. Directors can be removed only for cause and upon a majority vote of the holders of Class A Common Stock or, before such shares are issued and sold to the public

or third party private investors, the Directors-Trustees under the voting trust. If there is a vacancy on the Board prior to the end of a Director's term, the remaining Directors then in office will select a replacement Director to serve for the remaining term of such directorship. Again, Market Participants have no vote on these matters.

Q. Did the GridFlorida Companies establish any mechanism for giving stakeholders input into the management of GridFlorida?

A. Yes. An Advisory Committee consisting of a broad array of stakeholders has been established to advise the Board. A designated representative of the Advisory Committee will be entitled to: (i) make presentations to the Board at regularly scheduled Board meetings on matters that a majority of the representatives of the Advisory Committee agree are of sufficient importance to merit Board attention; (ii) prepare and submit written recommendations and reports, at any time, to the Board and senior management of GF Inc.; (iii) meet and confer with senior management of GF Inc., at least once during each calendar quarter, on matters of concern or interest to the Advisory Committee; and (iv) have reasonable and timely access to information concerning GF Inc.'s operation of GridFlorida's assets, in a manner consistent with GF Inc.'s Information Policy. There thus are significant opportunities for the Advisory Committee to obtain information regarding GridFlorida operations and for the representatives to convey any concerns they have to the Board and senior management of GF Inc.

Q. Who is entitled to serve on the Advisory Committee?

A. The Advisory Committee, which has been formed, can consist of up to 13 representatives. Each of the following stakeholder groups is entitled to appoint up to that number of representatives set forth below:

- Three representatives of investor-owned utilities that are, or as of September 1, 2000 were, owners of transmission facilities in the markets served by GridFlorida.

- Two representatives of electric utilities that distribute electricity at retail in the markets served by GridFlorida.

- Two representatives of non-investor-owned utilities that sell electricity exclusively at wholesale in the markets served by GridFlorida.

- Two representatives of entities that own or are developing generation facilities that will take transmission service from facilities owned or controlled by GridFlorida.

- Two representatives of power marketers and brokers.

- Two representatives of governmental or non-profit organizations that are not utilities, represent end-use consumers' economic or environmental interests, and are located within the geographic region in which GridFlorida provides transmission service. One of the two representatives for this stakeholder group will be from the Florida Office of Public Coun

- sel, unless the Florida Office of Public Counsel declines to serve on the Advisory Committee.

The names of the current Advisory Committee members and minutes of their meetings are posted on the GridFlorida website.

Q. How will the Advisory Committee function?

A. Each representative appointed to the Advisory Committee will have one vote, and a vote of a majority of the representatives present at a meeting at which a quorum is present will control. Each stakeholder group may direct its representatives to vote in such a manner as to split the votes allocated to the representatives of such stakeholder group into an affirmative component and a negative component, based on the individual votes of the Market Participants participating in such stakeholder group, in direct proportion to the votes cast for and against a particular matter by such Market Participants. If the representatives present and voting at a meeting of the Advisory Committee cannot unanimously agree on an issue, minority opinions will be presented to the Board of Directors and/or officers of GF Inc.

Q. Is the GF Inc. Board obligated to accept the recommendations of the Advisory Committee?

A. No. The Advisory Committee was established to give stakeholders a formal avenue for providing their advice to the Board, but was not given any ability to require the Board to take any specific actions. As a result, Advisory Committee recommendations will not be binding on the Board.

III. PLANNING AND OPERATIONS

A. OPERATIONS

Q. What did FERC require in Order No. 2000 with respect to the level of control that should be exercised over transmission facilities?

A. Order No. 2000 requires that an RTO exercise operational control over all transmission facilities of all transmission owners that participate in the RTO. Order No. 2000 provides some flexibility over how this operational control can be exercised, but FERC does require that all transmission facilities be subject to the RTO's control.

Q. Please describe how GridFlorida will exercise operational control over the GridFlorida Companies' transmission facilities.

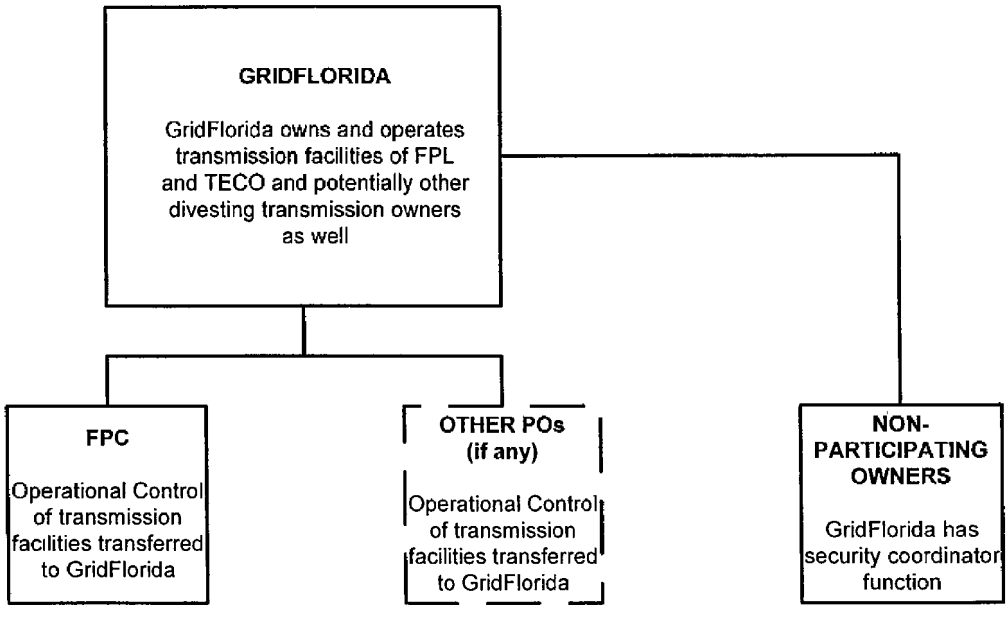
A. The GridFlorida Companies have proposed that GridFlorida will have operational control over facilities owned by the GridFlorida Companies and any other participant in the RTO that are rated 69 kV and above. GridFlorida will exercise this operational control over all facilities that are rated 69kV and above. This control is exercised under a two-tiered structure. On the upper tier, GridFlorida will act as a Transco that owns and operates transmission facilities divested to it by FPL, TECO and other transmission owners in peninsular Florida that wish to transfer facilities to GridFlorida.

On the second tier, GridFlorida will assume operational control over the transmission facilities of transmission owners, such as FPC, that do not wish to divest ownership of their transmission facilities. The relationship between

GridFlorida and the owners of these facilities ("Participating Owners" or "POs") is similar to an ISO-type relationship where the Participating Owners retain ownership of their facilities, but operational control is transferred to GridFlorida pursuant to a Participating Owners' Management Agreement ("POMA"). The POMA gives GridFlorida all of the rights over the Participating Owners' transmission facilities that are required by Order No. 2000. In addition, as required by Order No. 2000, GridFlorida will act as Security Coordinator for the FRCC. GridFlorida will perform this function both for POs and for transmission owners in the FRCC that choose not to transfer control over the transmission facilities to GridFlorida ("Non-Participating Owners" or "NPOs").

The proposed RTO structure is illustrated by the following chart.

PROPOSED RTO STRUCTURE



Thus, after the formation of GridFlorida and the commencement of its operations, GridFlorida will have operational control over all transmission facilities currently owned by the GridFlorida Companies and of any other transmission owner that chooses to participate. That operational control will result either from GridFlorida's ownership of the facilities or as a result of the transfer of operational control pursuant to the POMA GridFlorida also will act as the Security Coordinator for the entire FRCC region.

Q. What kinds of operational control will GridFlorida exercise over transmission facilities?

A. The Operating Protocol, which is Attachment O to GridFlorida's Open Access Transmission Tariff ("OATT"), spells out the extent of GridFlorida's operational authority. In general, the Operating Protocol specifies three types of control that constitute GridFlorida's operational authority: (1) direct control; (2) indirect control; and (3) security coordinator authority. GridFlorida will exercise direct control over its own facilities and over any transmission facilities owned by POs that GridFlorida determines should be subject to its direct control. All other transmission facilities included in the RTO will be subject to GridFlorida's indirect control.

Q. What is meant by "direct control?"

A. Direct control means that the facilities are placed into or out of service by GridFlorida from the GridFlorida control center either directly in the case of GridFlorida-owned facilities or relayed automatically from the GridFlorida control center through a PO control center in the case of PO-owned facilities. In

addition, GridFlorida's facilities are considered to be under the direct control of GridFlorida if they are operated manually by GridFlorida employees.

Q. What is meant by "indirect control?"

A. Indirect control means that GridFlorida issues instructions to the owner of the facilities, who then follows those instructions to place the facilities into and out of service. The owner of facilities subject to GridFlorida's indirect control may not take such facilities into or out of service without GridFlorida's approval, except in the event of an emergency.

Q. What is meant by "security coordination?"

A. By NERC rule, each NERC region (FRCC in our case) must designate a security coordinator for purposes of short term reliability. The function has the operational control authority over all generation and transmission facilities in the region for purposes of short-term reliability. This control responsibility, as distinguished from the other FERC RTO control functions, is a "keep the lights on" function.

Q. Will GridFlorida operate its own control area?

A. Yes. However, Participating Owners and those owners who have divested their transmission assets to GridFlorida ("Divesting Owners") will have the option of operating their own "internal" control area that will be subject to GridFlorida's indirect control. FPL and TECO have agreed to place their operations under the GridFlorida control area, while FPC has decided to retain its internal control area.

Q. What authority does GridFlorida have with respect to maintenance of transmission facilities?

A. GridFlorida will be responsible for performing maintenance on the transmission facilities that it owns. Participating Owners who have retained ownership of facilities placed under GridFlorida's operational control must obtain GridFlorida's approval of their proposed maintenance schedules and may not change those schedules without GridFlorida's approval. Such Participating Owners also must change previously approved schedules if so directed by GridFlorida, provided that they are reimbursed for the direct costs incurred as a result of such change.

Q. What is GridFlorida's role with respect to generation maintenance?

A. GridFlorida will not have a direct role in reviewing or approving generation maintenance, since GridFlorida's responsibilities do not extend to oversight of generation. However, GridFlorida will work with the FRCC to review proposed maintenance schedules on a monthly basis to ensure compliance with NERC and FRCC transmission reliability criteria, and will attempt to obtain voluntary agreements to change maintenance schedules if the criteria are violated, and can resort to dispute resolution if voluntary agreements are not forthcoming. In its role as Security Coordinator, GridFlorida also will have the ability to require short-term changes to generation maintenance schedules in order to preserve the short-term reliability of the transmission system.

Q. Do you believe that GridFlorida will be able to operate the transmission system in a reliable manner?

A. Yes. The POMA requires GridFlorida to demonstrate its ability to operate the transmission system prior to operational control of Participating Owners' transmission facilities being transferred to GridFlorida, and the Divesting Owners will require a similar provision in the agreements pursuant to which ownership of their transmission facilities is transferred to GridFlorida.

Furthermore, GridFlorida's tariff ensures the reliability of delivery over GridFlorida's transmission system to the GridFlorida Companies' distribution systems and serves to maintain the reliability of service to the GridFlorida Companies' ratepayers. The Operating Protocol, Attachment O to the GridFlorida OATT, Section I.F., describes the Reliability Agreement that GridFlorida would enter into with the GridFlorida Companies. Attachment O obligates GridFlorida to provide the GridFlorida Companies "with reliable service that is at least equivalent to the reliability of the transmission system for [the GridFlorida Companies] prior to [GridFlorida] assuming operational and planning authority." Certain precise measurements for managing this requirement are included. In addition, GridFlorida must annually specifically address the worst six percent of delivery points based on the previous year's reliability indices.

Finally, the GridFlorida Companies recognize that GridFlorida may not be ready to exercise direct control over all facilities from the outset. Therefore, the GridFlorida Companies have provided in Attachment O for a transition to direct control. In particular, Attachment O allows GridFlorida to contract with the

Divesting Owners to perform operations and maintenance services on the divested facilities for a transition period until GridFlorida is ready to perform this function itself.

B. DEMARCATION BETWEEN TRANSMISSION FACILITIES AND DISTRIBUTION FACILITIES

Q. What is the demarcation between transmission facilities and distribution facilities?

A. The GridFlorida Companies have proposed to define transmission facilities (control over which will be transferred to GridFlorida) as follows:

Transmission Line segments: All overhead transmission line segments 69 kV and above, including the structures, foundations, line switches, metering equipment, conductors, insulators, overhead ground wire, bonding, and other hardware, but not the land and/or right-of-way. All underground transmission line segments 69 kV and above, including the cable and pipe, and any cooling equipment associated with the underground cable, excluding land and/or right-of-way, also will be transferred.

Transmission switching stations (type T): All equipment associated with a transmission switching station.

Generator switchyards (type GT): All equipment associated with the generator switchyards with the exception of the generator step up transformers and coolers, and the protective equipment associated with these devices.

Generator switchyards that also serve distribution load (type GTD): All equipment associated with the generator switchyards will be transferred to

GridFlorida with the exception of the following assets: the generator step up transformers and coolers, plus the protective equipment associated with these devices. The step down transformers, associated protective devices, and all equipment rated below 69 kV associated with serving the retail or generator auxiliary load will not be considered transmission facilities.

Distribution step down substations (type D): The high voltage bus and all above grade equipment associated with the high voltage bus including: bus support structures, line sectionalizing switches, motor operators, and/or transmission breakers, insulators, reactive devices, and any equipment used for protection of the transmission line or bus. Transformer fault interrupting devices, foundations, conduits, control cable, ground grid, remote communication equipment, telemetry, battery bank and charger, and all other equipment less than 69 kV are not deemed to be transmission facilities.

Combination transmission switching stations and step down substations:

Predominately distribution step down substations (type DT): The only assets from these stations that will be considered transmission facilities are autotransformers, the transmission bus(es) and all above grade equipment associated with the high voltage bus including: bus support structures, line sectionalizing switches, motor operators, and/or transmission breakers, insulators, reactive devices, plus any equipment used for protection of the transmission line or bus. Transmission breakers in a ring bus that also serve as the protective device for a step down transformer are not deemed to be transmission facilities.

Predominately transmission switching stations (type TD): All assets will be transferred to GridFlorida with the exception of the step down transformers, its associated protective devices, plus all equipment rated below 69 kV that's associated with serving the retail load. Transmission breakers in a ring bus that also serve as the protective device for a step down transformer will be transferred to GridFlorida.

Q. What factors did the GridFlorida Companies consider in determining the demarcation point for transmission facilities for GridFlorida?

A. There are at least four factors that led the GridFlorida Companies to propose to turn over all facilities 69 kV and above to GridFlorida. They are listed below.

(1) Historically, facilities 69 kV and above have been considered by the GridFlorida Companies to be transmission facilities, from a planning/operations and ratemaking perspective. This is because the primary function for the vast majority of such facilities is to transmit power for delivery and transformation to distribution voltage levels for further delivery to end users.

(2) Stakeholders in the collaborative process generally expressed the need for open access to all 69 kV and above transmission facilities in Florida. Such transmission facilities belonging to the initial GridFlorida participants currently serve a large number of wholesale delivery points. Some such facilities currently might not meet the FERC's criteria for being considered transmission, particularly because those facilities are radial lines. However, since such lines already provide

wholesale transmission access, the stakeholders generally were insistent that such service be provided exclusively under the RTO's open access tariff, without having to also deal directly with the incumbent utility for such access. In fact, the stakeholders wanted all such facilities to be accessible through the RTO's tariff, whether or not such facilities currently serve wholesale delivery points.

(3) Classification of radial facilities as distribution instead of transmission would make access to transmission more complicated than it needs to be. For example, if a radial 69 kV line were initially left under the control of an incumbent utility and it later became looped (i.e. extended to interconnect to the transmission system at both ends such that power may flow in either direction), control over that facility would then need to be transferred to the RTO. This could happen many times each year. Similarly, a looped line could later become radial. The changing of control of such facilities back and forth between the RTO and utilities could be cumbersome and complicated.

(4) The rate structure proposed for GridFlorida would result in subsidies across utilities if each utility chose a different demarcation point for facilities to turn over to the RTO, since the RTO rates would be based on the costs of all transferred facilities. For example, if TECO elected not to turn over control of its 69 kV facilities and FPL and FPC did turn over control of their 69 kV facilities, TECO's ratepayers would pay all the costs of the TECO's 69 kV facilities plus a load ratio share of the costs of FPL's and FPC's 69 kV facilities, while FPL's and

FPC's ratepayers would pay only their load ratio share of the costs of FPL's and FPC's 69 kV facilities, since TECO's facilities would not be included in GridFlorida's rate base. Thus, the GridFlorida Companies's ratepayers could pay for more than their load ratio share for use of the 69 kV facilities within the region, subsidizing the costs borne for use of 69 kV facilities by other ratepayers within the region.

Q. What did the GridFlorida Companies conclude from the above mentioned factors?

A. The GridFlorida Companies concluded that it would be in the best interest of the GridFlorida Companies and their ratepayers to relinquish control over all of their 69 kV and above transmission facilities. A uniform demarcation point is a reasonable approach to achieve fairness and equal access to the transmission system of the RTO. Given the small portion of their 69 kV and above facilities that might be eligible for reclassification as distribution, the GridFlorida Companies concluded that the other factors and benefits outweigh any reason to attempt to undertake any such reclassification.

Q. Why isn't land being transferred to GridFlorida?

A. It would be difficult to transfer some of the rights-of-way, and others cannot be transferred at all. In addition, many of the rights-of-way are needed by the GridFlorida Companies for purposes other than transmission. As a consequence, the GridFlorida Companies determined that it would be better to simply enter into a land use agreement with GridFlorida which gives GridFlorida the necessary access to its transmission assets. Retention of these rights by the GridFlorida

Companies greatly simplifies the asset transfer and ensures that they will have access to the rights-of-way for other purposes. Of course, other Divesting Owners could arrange to sell their land to GridFlorida if that was mutually agreeable.

C. PLANNING

Q. What authority will GridFlorida have with respect to planning?

A. As required by Order No. 2000, GridFlorida will have the exclusive authority to engage in the planning for its system and to direct the necessary expansion. This authority is spelled out in great detail in the Planning Protocol that is Attachment N to the GridFlorida OATT.

Q. What process will GridFlorida employ in performing its planning function?

A. GridFlorida will adopt a regional transmission planning process designed to identify and to facilitate, in a timely manner, the adoption and implementation of transmission expansion options, including the opportunity by market participants to offer generation alternatives to these transmission options that can economically relieve congestion and maintain and enhance grid efficiency and reliability. This process will encourage and provide opportunities for meaningful, in depth participation by all market participants, the Florida Public Utility Commission ("FPSC"), and other interested parties.

The GridFlorida Companies were concerned that the various aspects of GridFlorida's planning might be performed on a piecemeal basis that does not allow consideration of transmission needs on a regional basis. As a result, they have provided for an annual transmission planning process that allows for

coordinated regional planning. This process, which is set forth in Exhibit N.1 to the Planning Protocol requires the submission of data to GridFlorida on the expected uses of the system by November 1 of each year. On the following June 1, GridFlorida will develop an Initial Transmission Expansion Plan for peninsular Florida and, after receiving comments and conducting a regional planning conference, GridFlorida will post a Final Transmission Expansion Plan by October 1. The development of this plan, however, does not relieve GridFlorida of its obligation to process requests for transmission service under GridFlorida OATT under the timelines provided for in FERC's Order No. 888.

Q. What types of planning will GridFlorida perform?

A. There are three broad categories of transmission planning that GridFlorida will perform.

Bulk Transmission Planning: GridFlorida will conduct annual studies of the transmission system from a regional perspective and will coordinate with participants in the development of expansion plans. GridFlorida also will perform the planning required in order to address requests for transmission service under GridFlorida OATT. This includes conducting the necessary system impact studies and determining the additional facilities, if any, necessary to grant the transmission request.

Local Area Planning: Local Area Planning is the ongoing planning required in order to meet the load growth of Network customers (including the GridFlorida Companies, who will be Network customers). Local Area Planning consists of a process in which GridFlorida will work with each Load Serving Entity ("LSE") to

develop a plan to meet that LSE's future transmission needs. The focus of this planning is on the local transmission system serving existing and proposed new Points of Delivery where GridFlorida will deliver electricity to the LSE. However, GridFlorida also will consider expansions or additions to the high voltage bulk transfer facilities necessary to satisfy expected load growth.

Generation Interconnection Planning: In accordance with FERC's policy governing generation interconnections, GridFlorida's generation interconnection planning will involve the planning necessary to connect generators to the grid, which is performed separately from the planning necessary to transmit power from the generation to any location beyond the point of interconnection or to integrate the generator over the transmission grid. GridFlorida will perform this function, and will negotiate and execute interconnection agreements with generators.

Q. How will expansion of transmission facilities be accomplished?

A. Attachment N includes detailed provisions governing transmission expansion. As noted above, Attachment N provides that GridFlorida will make the final determination as to what facilities should be constructed after the planning process identifies the need for new facilities. In making its determination as to the best alternative, GridFlorida is required to consider the relative estimated costs of each proposed alternative, the impacts on reliability and existing firm service, consistency with the long-term planning for the region, the environmental impacts and availability of permits, and the impact of each alternative solution on congestion. In determining which alternative to select, GridFlorida is required

also to consider market solutions, including solutions that do not involve the construction of new facilities.

Q. Who will be responsible for the construction of new facilities?

A. Attachment N provides that, if the facilities are to be added to the existing facilities of a PO, then that PO shall have the option of constructing and owning that portion of the new facilities that is to be located in its service area. If the facilities are to be added to the existing facilities of more than one PO, then each PO shall have the option of constructing and owning the facilities to be added to its existing facilities that are to be located in its service area. If facilities are to be added to both the existing facilities of a PO and GridFlorida, the PO shall have the option of constructing and owning the facilities to be added to its existing facilities that are to be located in its service area, and GridFlorida shall construct and own the remaining facilities. If the facilities are to be added to the existing facilities of GridFlorida, but do not require facilities to be added by a PO, or if a PO declines the option of constructing and owning new facilities, then the facilities will be constructed and owned by GridFlorida. If a PO is selected to construct and own transmission facilities and that PO fails to obtain necessary permits or financing or fails to commence construction within a reasonable period of time, then GridFlorida shall construct and own the facilities itself. In this way a PO cannot be forced to expend the funds for expansion yet, at the same time, the PO cannot block a proposed expansion by refusing to pursue it.

Q. Questions have been raised as to whether GridFlorida will have the right of eminent domain to acquire rights of way for necessary transmission additions. How did the GridFlorida Companies account for the possibility that GridFlorida might be found not to have eminent domain rights?

A. The GridFlorida Companies addressed this possibility in the Planning Protocol. They added a provision to the Planning Protocol (Section II.F) that requires the GridFlorida Companies to use their own powers of eminent domain to acquire rights of way if GridFlorida is unable to do so.

Q. What happens if one of the GridFlorida Companies or another transmission customer wants to build facilities that GridFlorida does not believe are necessary?

A. The GridFlorida Companies recognize the concern raised by some stakeholders that they may want to build facilities that GridFlorida finds are not necessary or to provide for enhancements to the facilities that GridFlorida determines should be constructed. As a consequence, they have included extensive provisions to Attachment N providing that any entity is permitted, if certain conditions are satisfied, to construct or require GridFlorida to construct facilities in addition to those that GridFlorida determines should be built or to place facilities in service sooner than GridFlorida determines they are needed. GridFlorida's tariff provides that "A Transmission Customer may request and [GridFlorida] shall be obligated to provide and, where applicable, to interconnect enhanced or special facilities, regardless of whether such facilities have been identified as necessary by [GridFlorida]." (Attachment N, Planning Protocol, Section I.E.) Thus, although

GridFlorida is likely to build the facilities that its customers will need, GridFlorida cannot deny or obstruct special needs of a utility as it carries out its obligation to serve its customers.

Q. Given GridFlorida's assumption of authority in the planning area, will the GridFlorida Companies be able to comply with an order of the FPSC requiring them to construct new transmission facilities?

A. Attachment N obligates GridFlorida to act as the GridFlorida Companies' agent and to construct the necessary facilities. Therefore, if the FPSC orders one of the GridFlorida Companies to construct transmission facilities, GridFlorida will be obligated to perform such construction as the agent for the GridFlorida Companies.

Q. Do you believe that GridFlorida will be able to perform the planning function in an appropriate manner?

A. Yes. As was the case with the operations function, GridFlorida will have to demonstrate that it is capable of performing the planning function before control over facilities is transferred to it. Furthermore, the entire planning process is designed to give the GridFlorida Companies and others the ability to participate in the process and ensure that GridFlorida is made aware of their needs. Finally, there are transition mechanisms designed to ensure that planning will be performed appropriately when GridFlorida first commences operations.

Q. What transition mechanisms have been put in place?

A. The GridFlorida Companies recognize that GridFlorida may not be able to fully perform all aspects of planning from the date it commences operations.

Therefore, they have included two provisions for a transition from current planning processes to the planning process described above. The first provision relates to Local Area Planning, which requires an extensive knowledge about local area conditions. GridFlorida therefore will assign the Local Area Planning function to the GridFlorida Companies with respect to their local areas (and has the option to do so for other LSEs as well) for a three year transition period. The results of the planning performed by the GridFlorida Companies during the transition period are subject to review and approval, or modification, by GridFlorida.

The second transition provision provides that "as a transition mechanism, at the commencement of operation of [GridFlorida, it] shall adopt and incorporate into its transmission expansion plan the most recent ten (10) year plan of all Participating Owners and Divesting Owners associated with facilities that are considered part of the Transmission System...." (Attachment N, Planning Protocol, Section I.A.11) These 10 year plans will constitute the baseline plan for GridFlorida. Thus, the GridFlorida Companies' needs for future transmission expansion will be taken into account immediately.

IV. MARKET DESIGN

A. CONGESTION MANAGEMENT

Q. What is congestion management?

A. When there is more demand to use a particular transmission facility than there is capacity, we say that the facility is "congested." Congestion management deals with how capacity to congested interfaces is allocated, i.e. who is given rights to schedule transactions over the congested facilities and who must resort to other alternatives. Congestion management also addresses how congestion is addressed in real time when, notwithstanding the allocation of capacity, flows over transmission facilities reach the capacity of the facilities and certain transactions must be curtailed.

Q. What standards did Order No. 2000 require of congestion management proposals?

A. In Order No. 2000, FERC required that "an RTO [or an independent entity] must ensure the development and operation of market mechanisms to manage congestion," and that these mechanisms should "provide[] all transmission customers with efficient price signals regarding the consequences of their transmission use decisions." Order No. 2000 at 380-82. FERC stated that "a workable market approach to congestion management should establish clear and tradable rights for transmission usage, promote efficient regional dispatch, support the emergence of secondary markets for transmission rights, and provide market participants with the opportunity to hedge locational differences in energy prices." Id. at 385. In establishing these requirements, FERC noted that it has not

identified any one approach as being superior to all others, and stated that "an RTO's choice of a congestion pricing method will depend on a variety of factors, many of which are unique to that RTO." Id. at 384. FERC therefore decided to provide flexibility to allow proposals that are best suited to each RTO's circumstances. Id.

Q. What congestion management approach did the GridFlorida Companies propose?

A. The congestion management proposal is included in Attachment P to the GridFlorida OATT. As noted above, there are two aspects to congestion management: (1) allocation of capacity and (2) treatment of congestion in real time. With respect to the allocation of capacity, the GridFlorida Companies proposed a "physical rights" system. Under a physical rights system, customers are allocated capacity rights based on the physical capacity of the system and are entitled to use those rights to transmit power from generation to load. This is in contrast to a "financial rights" system used by some other RTOs where transmission customers do not have the right to physically transmit power between any two points in the system, but are placed in the same financial position as if they did possess such physical rights.

Q. How will GridFlorida implement its physical rights approach?

A. GridFlorida will manage congestion through "flowgates," which are the transmission facilities that are most likely to be subject to significant congestion based both on past experience and an analysis of proposed future uses of the system. The rights to transmit power through a flowgate are called Physical

Transmission Rights ("PTRs"). PTRs will provide customers with clear rights that will be fully tradeable in secondary markets, as well as afford customers a means to hedge locational differences in energy prices.

Q. What approach did the GridFlorida Companies propose for dealing with congestion in real time?

A. GridFlorida will rely on mandatory incremental bids ("incs") and decremental bids ("decs") submitted for generators scheduled by Market Participants. An inc bid is the price that a generator would charge to increase the output of its generation facility by a specified amount, and a dec bid is the price that a generator would pay to decrease the output of its generation facility by a specified amount (a dec bid will never be more than the variable cost that the generator will save by not running its unit). The incs and decs will be called upon by GridFlorida to manage real-time congestion, which will be done by calling on inc bids to increase generation on the congested side of the flowgate and calling on dec bids to decrease generation on the other side of the flowgate. The price paid to generators for the incs and decs will be cleared through the real-time balancing market described below.

Q. How will PTRs work in the scheduling process?

A. Market Participants will be required to submit their balanced schedules each day for the next day and to identify the PTRs they intend to use. PTRs not scheduled by their holders will be made available by auction as recallable PTRs to other Market Participants, subject to the right of the original holder to recall the PTR up to a specified time before the close of the hourly scheduling adjustment process

described below. The original holder of PTRs that are auctioned under this process will not be paid the revenues received in the auction. Instead, those revenues will be credited against charges under the transmission tariff. This "use-it-or-lose-it-rule" will prevent hoarding of flowgate capacity and will increase liquidity in the secondary market for PTRs; PTR holders that do not intend to use their PTRs for their own transactions will have an economic incentive to sell the PTRs in that market.

Q. How will PTRs be allocated?

A. Because load serving entities within Florida will retain their obligation to serve after GridFlorida begins operations, they must continue to be able to serve their customers in a reliable manner. Further, many entities have entered into bilateral transactions that rely on firm transmission rights under bilateral transmission agreements or service agreements under open-access transmission tariffs. The economics of these transactions should not be disturbed unnecessarily. The GridFlorida Companies therefore developed a system of PTR allocation that respects both existing native load obligations and existing contracts. PTRs will be allocated annually without auction and in sufficient quantities to preserve existing uses (including native load growth) of the transmission system, with the remainder allocated by auction. This means that the GridFlorida Companies will be assured of having sufficient PTRs to meet current and future firm native load.

B. REAL TIME BALANCING MARKET

Q. What have the GridFlorida Companies proposed for a real-time balancing market?

A. Order No. 2000 requires RTOs to establish real-time energy balancing markets that will be applicable to all market participants. Attachment P to the GridFlorida OATT includes the GridFlorida Companies' balancing energy proposal. In the GridFlorida Companies' proposal, market participants are required to submit balanced schedules to GridFlorida in the day-ahead scheduling process. With those schedules, market participants must submit incs and, where applicable, decs for all scheduled resources (and for quick-start units, even if not scheduled). These incs and decs will be available to GridFlorida in real-time to perform the balancing function. All Market Participants will be required to clear their imbalances through GridFlorida's balance energy clearing process as required by Order No. 2000.

Q. How will the balancing price be determined?

A. The real-time balancing energy price will be determined by GridFlorida's dispatch of resources for balancing and congestion management. In the absence of congestion, there will be a single real-time balancing energy price for the entire GridFlorida region. When there is congestion across flowgates, i.e. the transmission facilities that make up the flowgate are being used up to their physical capacity, the balancing energy price will be different for each Settlement Zone which, initially, will be equivalent to the service areas of the GridFlorida Companies. When intra-zonal congestion exists, i.e. when transmission facilities

that are not included in a flowgate are being used up to their physical capacity, all load within each Settlement Zone will pay the same price, generators will be compensated in a manner that recognizes any redispatch to relieve intra-zonal congestion, and the costs of relieving intra-zonal congestion will be borne only by load within the Settlement Zone (i.e., these costs will not be socialized across the entire GridFlorida region).

Q. How will market power be addressed in the pricing of balancing energy?

A. FERC rejected the GridFlorida Companies' initial market power mitigation proposal, which required entities without market-based rates to bid in at their costs, but to receive the market-clearing price. FERC found that the market data necessary to ensure that entities with market power could not abuse that market power had not been submitted. In response, the GridFlorida Companies filed two proposed mitigation proposals. They stated that they prefer Alternative A, which most closely permits the establishment of a market.

Alternative A

Alternative A retains the essential provisions of a bid-based market, where potential suppliers submit bids and a market-clearing price is established. However, a cap would be placed on the amounts that entities without market-based rates could bid and receive. This cap would be equal to a FERC-approved cost-based rate based on that entity's costs. This could be either at an existing cost-based rate for energy or a newly filed rate.

A market clearing price for generators would be established based on all bids submitted to GridFlorida, and determined at each generator location, or "node." However, to the extent that the market-clearing price exceeded an entity's cost-based rate cap, that entity would be limited to receiving its cost-based rate. For example, if an entity's cost-based rate cap was $50/MWh and the market-clearing price was $60/MWh, then that entity would be paid only $50/MWh. Only entities with market-based rate authority or a cost-based rate cap at $60/MWh or higher could receive the $60 price. If, on the other hand, the market clearing price was $40/MWh, the entity with a $50 cap would be paid only $40/MWh.

An important element of this proposal is that the cost-based rate caps are not limited to variable costs, but also permit bids that include recovery of fixed costs, including return of and on investment. It is important that bids include the recovery of fixed costs. Since the cost-based rate cap is not just a bid cap but a price cap, it would not be possible to recover any fixed costs if the price cap were limited to variable costs.

The GridFlorida Companies retained the same obligation to submit bids that was in their previous proposal. All generation owners must submit bids for the uncommited capacity of any unit that is on line, as well as for all quick start units.

Alternative B

The GridFlorida Companies submitted an alternative mitigation proposal in the event that FERC was not comfortable with a market-clearing price, even with a

cost-based cap. This proposal is identical to Alternative A in all respects except one. Generation owners will still bid into the market and entities without market-based rates will still be limited to a cost-based bid (including fixed costs). However, no market-clearing price will be calculated. Instead, each generator selected to produce energy will be paid what it bids. For example, if the entity with a $50/MWh cost-based bid cap bids $40/MWh, it will be paid $40/MWh if it is selected to produce balancing energy regardless of what other bids are selected by GridFlorida.

There is no question that this proposal should provide adequate market power mitigation. Since no market-clearing price is established, there is no market price to be artificially driven up through an improper bidding strategy. And, since sellers without market-based rate authority would be limited to recovering their costs, no seller would be able to bid at inappropriately high levels and recover more than its costs. However, the GridFlorida Companies prefer Alternative A because it more closely resembles a market-based mechanism, and the GridFlorida Companies believe that a market-based balancing price mechanism will send price signals that will permit more efficient market behavior and more efficient generation location decisions.

C. ANCILLARY SERVICES

Q. What did the GridFlorida Companies propose with respect to ancillary services?

A. Initially, the GridFlorida Companies proposed a bid-based system where a market-clearing price would be established for ancillary services in much the same way that the balancing energy price was to be established. Again, however, FERC found that the market data necessary to support this approach had not been provided.

Q. How did the GridFlorida Companies revise their proposal?

A. The GridFlorida Companies withdrew their bid-based approach. Instead, they proposed that GridFlorida satisfy its provider of last resort obligation by procuring ancillary services at cost-based rates from the GridFlorida Companies and/or other market participants and passing the costs through to customers who purchase the services. GridFlorida will charge the average of the cost that it incurs to procure the services.

Q. What is the GridFlorida Companies' obligation to provide ancillary services to GridFlorida?

A. In agreeing to provide ancillary services to GridFlorida, the GridFlorida Companies did not wish to expand their current obligation as transmission providers to provide ancillary services. For example, FPL did not want to have to provide ancillary services for a transmission customer located in TECO's service area. As a consequence, each Joint Applicant's obligation to provide ancillary services to GridFlorida was limited to transactions where they are obligated to provide ancillary services today. GridFlorida also will be able to purchase ancillary services from other sellers, if it believes it would be appropriate to do so.

Q. Will transmission customers be obligated to purchase ancillary services from GridFlorida?

A. GridFlorida is obligated only to be the provider of last resort for energy-based ancillary services. The GridFlorida Companies' new proposal continues to permit customers to self provide such ancillary services. Customers also are permitted to procure energy-based ancillary services from third parties on a bilateral basis. However, Scheduling and Black Start Restoration services, which are not energy-based ancillary services, must be provided by and purchased from GridFlorida.

Q. Is this approach to ancillary services intended to be permanent?

A. The goal for GridFlorida is that it ultimately will be able to institute the bid-based market for ancillary services. When GridFlorida determines that the market is ready for a bid based system, it will be free to implement such a market upon making an appropriate showing to FERC.

Q. How will the responsibility for providing operating reserves be determined?

A. The current FRCC method for allocating operating reserve responsibility will be retained.

Q. Does the GridFlorida proposal include any installed capacity requirements?

A. The GridFlorida Companies have proposed to include an Installed Capacity and Energy ("ICE") provision that would require GridFlorida's transmission customers to demonstrate that they have satisfied ICE requirements. The provisions for establishing the amount of ICE responsibility and exactly how that responsibility

is to be met are being discussed at the FRCC, and it is anticipated that an ICE proposal will be presented by the FRCC to the FPSC for its approval.

V. PROPOSED NEW GENERATION PROJECTS IN FLORIDA

Q. What is the current status of proposed new non-utility generation projects in Florida?

A. Because there is no obligation to inform any of the GridFlorida Companies about proposed new projects, the GridFlorida Companies do not know for sure how much new generation currently is planned. However, the GridFlorida Companies do process requests for new interconnections for generation projects, and therefore do have knowledge at least of projects that have submitted a request for interconnection to one of their transmission systems.

The following chart shows the amount of non-utility generation that is in the interconnection study queues of the GridFlorida Companies to come on line in the next five years.

NON-UTILITY GENERATION IN GRIDFLORIDA COMPANIES INTERCONNECTION QUEUES FOR 2001-05		
In-Service Date	**Number of Units**	**Total MW**
2001	3	684
2002	14	6,546
2003	22	8,676
2004	10	6,844
2005	4	3,728
Total 2001-05	**53**	**26478**

Not all of the units included in the study queues and reflected in the chart will be constructed. However, significant sums are being expended on a number of these projects, and the GridFlorida Companies expect that many of the units will be completed and placed on line. It thus is clear that non-utility generation facilities are being built in Florida.

CONCLUSION

Q. Please summarize your testimony.

A. The GridFlorida Companies' GridFlorida proposal appropriately addresses the requirements of Order No. 2000 while still protecting the interests of Florida retail customers. In particular, with respect to each area discussed above, our conclusions are as follows:

Governance

GridFlorida will be managed through an Independent Board that will have the appropriate skill sets and experience to make appropriate decisions. Stakeholders will have input into GridFlorida management through the Advisory Committee.

Planning and Operations

The Florida transmission system will be planned and operated reliably by GridFlorida. The GridFlorida Companies have provided for appropriate transition mechanisms that will help ensure that GridFlorida will be able to perform its planning and operations functions.

Market Design

The congestion management, balancing energy and ancillary services proposals have been designed to facilitate efficient markets while at the same time mitigating any market power that might be possessed by a market participant.

Q. Does this conclude your testimony?

A. Yes it does.