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February 5, 1999

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Generic Investigation into Aggregate Electric Utility Reserve Margins Planned for
Peninsular Florida, Docket No. 981890-EU

Dear Ms. Bayo:

Enclosed for filing in the above Docket on behalf of Florida Power & Light Company are the original and fifteen (15) copies of Florida Power & Light Company's comments as requested in the Staff Workshop held on January 25, 1999.

We request you acknowledge receipt of filing of the above by stamping the additional copy of this document enclosed.

If you or your Staff have any questions regarding this filing, please contact me at (305) 552-3643.

Sincerely,

ACK 1 *Samuel S. Waters*

AFA _____
APP _____ Samuel S. Waters
CAF _____ Director, Regulatory Affairs

CMU _____ SSW/HAC:sp

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Samuel S. Waters
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Generic Investigation Into)
 The Aggregate Electric Utility Reserve Margins) Docket 981890-EU
 Planned For Peninsular Florida)

**COMMENTS OF
FLORIDA POWER & LIGHT COMPANY**

At the January 25, 1999 Staff workshop, participants were asked to submit comments regarding the proposed areas of investigation in this docket. Florida Power & Light Co. (FPL) hereby submits its comments as to the need for this docket and the topics proposed for consideration. FPL believes that, while it is appropriate for the Commission to review reliability of the electric grid and adequacy of supply, this docket, as currently envisioned, will do little to assure adequate electricity supply in Florida, while expending considerable resources for all involved. The better course would be to study the Peninsular Florida grid reliability in a series of workshops, and open a docket to investigate individual utility reserve margins, if needed.

I

The Need for This Docket

As described by Staff at the workshop, one of the major purposes of this docket would be to determine whether to recommend for adoption by the Commission a Peninsular Florida Reserve Margin Standard. This recommendation, if adopted, would be followed by a rulemaking docket to establish what that standard should be. For the reasons set forth below FPL submits that adoption by the Commission of a Peninsular Florida Reserve Margin Standard would be counterproductive and unmanageable and would waste resources in two dockets that would be better utilized elsewhere.

The Commission should not look to Peninsular Florida reserve margins and/or LOLP as a

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substitute for a review of individual utility plans. A statewide review might serve to validate that the sum of individual plans would result in adequate supply for the peninsula. It cannot, however, serve to validate the converse, that is, that adequate supply in the peninsula ensured adequate supply for each individual utility. Therefore, it is inappropriate to begin with a review of aggregate reserves.

Experience with the statewide avoided unit concept is instructive in this case. Prior to the 90's, the Commission identified a statewide avoided unit to determine cogeneration pricing. This unit was put forth as a pricing proxy for all the peninsular utilities, without regard to the need of any individual utility for cogenerated power, and without regard to an individual utility's avoided cost.

As a result of the clear disconnect between peninsular and individual utility needs and costs, the situation became unmanageable, and transitioned in the early 90's to avoided units on an individual utility basis.

The situation that would arise from this docket is similar in that Commission adoption of a Peninsular Florida reserve margin (or any other) reliability standard would result in an unmanageable, unworkable, and certainly unenforceable standard completely unrelated to the planning needs of individual utilities and their customers. The Commission should keep in mind that Peninsular Florida is nothing but a planning convention and that Commission authority over grid reliability only can be meaningfully exercised in the context of individual utility plans.

What is the point of looking at reserves from a statewide perspective? How is it better than looking at individual utility reserves? Consider for example, the questions raised by the following scenarios:

Assume that the result of this docket is a 20% reserve margin standard for Peninsular Florida. Further assume that FPL can demonstrate that a 17% reserve margin is adequate for its own individual needs. How can these numbers possibly be reconciled? Will other utilities be expected to carry 23% reserves to bring the peninsula to 20%? Will FPL be expected to add unneeded reserves, thereby increasing costs to its own customers to bring the peninsula to 20%? As set out

at the January 25 Workshop, these questions will not be answered in this docket.

As a second scenario, consider one of the areas of investigation that Staff has presented for inclusion in the docket. For example, the question of nonfirm load, when considered on a peninsular basis, is no more resolvable than the overall reserve question. Assume for this case that, as a result of this docket, a cap of 25% of total reserves is placed on nonfirm load. Again, if FPL demonstrates that its own appropriate level is 30% of reserves, will other utilities be expected to add generation or remove customers from nonfirm load programs to achieve the peninsular limit? Or, worse yet, if no individual utility is examined at all and the peninsula exceeds the cap will the “peninsula” be expected to add generation or remove customers from nonfirm load, and, if so, which utilities would be required to take those actions?

The Commission is well aware that reserve margin needs vary from utility to utility. These needs are a function of various utility specific factors and they change as that utility’s system and mix of units change. As discussed above, Commission adoption of a Peninsular Florida Reserve Margin Standard is subject to a myriad implementation concerns. Were the commission instead to undertake to adopt individual utility reserve margin standards, it could find itself with utility specific standards that may be obsolete shortly after adoption due to changes in that utility’s’s system. Both of these approaches would inefficiently utilize Commission and utility resources and would significantly limit the Commission’s’s current regulatory flexibility.

For these reasons, the Commission should not seek to set any reserve margin standard, nor should it seek to establish any “one-size-fits-all” criterion to be applied on an individual utility basis. The commission does, however, have responsibility to ensure that an adequate supply of electricity at a reasonable cost is maintained for Florida customers. Therefore, FPL suggests that a better approach to any reserve margin concerns the Commission may have is to continue to work within the existing reliability council structure too improve its confidence in the FRCC’s reserve margin standard for Peninsular Florida. The FRCC has stated that it will review the continued applicability of this standard in light of updated data and any improvements or modifications to its reserve margin methodology identified as a result of the 1999 reliability assessment work. The FRCC work will

examine this additional data and incorporate probabilistic techniques, where applicable. This should bolster the Commission's confidence level in the FRCC's reliability assessment study results. Once this review is complete, the FRCC will apply the applicable reserve margin standard to the composite Ten Year Load and Resource Plan for Peninsular Florida. Should it find any deficient periods, it will assess the information and transmit its assessment to the Commission. This information can then be used by the Commission to meet its regulatory responsibilities.

Ultimately, the commission knows that a plan that guarantees (zero probability) that it will not result in the loss of customer load is either not affordable, or will result in significant expenditures for assets that likely will be underutilized. Therefore, as it considers steps to increase its confidence that loss of load will be minimized or not occur, the Commission must keep in mind the costs of those reserves (see the discussion below). Instead of conducting a resource-intensive proceeding, the Commission can fulfill its regulatory responsibilities by simply following a participatory path through the FRCC reliability assessment process. The Staff's participation in that study can serve to address the Commission's concerns and arrive at an FRCC reserve margin standard that the Commission understands and can use if needed in individual utility cases.

II

Issues to be Studied

The areas of investigation identified by Staff are important, and form at least a subset of the issues to be addressed. Most notable among the issues not listed is that of cost to the ultimate consumers. Any consideration of reliability must be balanced against the cost to achieve a specified target. In evaluating a proper reserve margin criterion, if the Staff pursues such a task, the selection of a target should consider cost to customers of achieving the target.

Beyond this omission, FPL comments as follows:

- Rather than focus on Christmas 1989 as an event which must be addressed by reserves, address the historical weather-related

variations in peak loads by assigning probabilities to peak load levels. This, of course, reiterates the point made above that it becomes necessary to decide how much probability must be covered by reserves: 90%, 95%, 99%.

- The amount of nonfirm load in Peninsular Florida is irrelevant for the reasons stated previously. Staff's approach views Peninsular Florida as a pool. Under this view there can be no meaningful discussion of frequency and duration of interruptions, and therefore, of customer tolerance. If there are perceived problems with non-firm load then they should be evaluated on an individual utility basis, and changes that might be needed addressed for an individual utility program, since this is how nonfirm load is "dispatched". As an example of this, consider that utilities are required to discontinue service to nonfirm load before emergency interchange can be obtained. This requirement cannot be incorporated when Peninsular Florida is viewed as one entity, thus leading to an underestimate of frequency and duration of interruptions.
- Regarding the reserve margin standard, FPL believes the process should focus on testing the FRCC 15% standard. Any imposition of a different standard, for Peninsular Florida, or arbitrary allocation of any standard is unmanageable and unenforceable, as stated earlier, and the impulse to do so should be resisted.
- Treatment of merchant plant capacity should be the same as all other non-firm capacity, such as as-available energy from QF's, or non-firm exchanges between utilities, in other words, it should be excluded from the study. The assumption here is that "merchant" means not under contract to a Florida utility and cannot be relied on for these

purposes.

- The issue of price spikes for non-firm load is beyond the scope of this proceeding and irrelevant to the consideration of adequate reserve levels. Purchases by non-firm customers during interruptions are voluntary and any risks are more appropriately weighed by the customer seeking non-firm service.
- FPL is in general agreement with the areas identified as not to be included in this docket.

In summary, FPL believes that the scope of this docket and the proposed schedule are unnecessarily burdensome to address the issue of whether or not Peninsular Florida has adequate reserves. FPL also believes that any attempt by the Commission to set a reserve margin target for Peninsular Florida will result in a system that is simply unworkable. The question of adequacy of reserves in Peninsular Florida should be addressed by testing the criteria set by FRCC in 1998, with Staff participation, against a variety of conditions and assumptions to see if customers are provided an adequate level of service. Under this process the Commission can preserve its regulatory flexibility and utilize the results of the FRCC's efforts, if needed, to meet its statutory responsibilities. Every attempt should be made to avoid a litigious, protracted and resource-intensive proceeding in search of an answer to a question not asked. Staff should redirect its efforts to participating in the FRCC planning process.