RESPONSES TO THE FPSC LIST OF FLORIDA-SPECIFIC RTO AND RELATED ISSUES

MARCH 15, 1999
FPSC STAFF WORKSHOP ON RTOs

ROOM 171 EASLEY BUILDING
10:00 A.M.

RESPONSES TO THE FPSC LIST OF FLORIDA-SPECIFIC RTO AND RELATED ISSUES

RESPONSE OF FLORIDA POWER & LIGHT COMPANY TO FLORIDA RTO ISSUES

I. CATEGORY I: PLANNING AND OPERATIONAL ISSUES

First and foremost, the issues list focuses on the question of what role the FPSC should play in transmission planning, siting, reliability and operations. FPL believes that the level of coordinated planning and operation that has existed to date in peninsular Florida has served the state well. Can that coordination be improved upon? The answer, as is true in most situations, is yes. FPL's position is that improved coordination can best be achieved by increasing the role of the FPSC in both transmission planning and transmission operations.

First, with regard to transmission planning, FPL is submitting for all workshop participants' consideration the attached "Local Area and Florida Transmission Planning Process" document. It represents a joint effort by FPL and FPC to create more coordinated planning processes at the state and local levels, and to increase the FPSC's participation in, and oversight of, those processes. It is FPL's view that the FPSC, not the FERC or some new bureaucracy, should be the entity that performs this oversight role.

The Local Area and Florida Transmission Planning Process document also addresses other identified workshop issues such as the process transmission providers would follow, the sharing of transmission information with other impacted entities, and the optimization of transmission planning for peninsular Florida. Together, the provisions of this document have

the potential to provide for more effective coordinated transmission planning for peninsular Florida than now exists.

With regard to transmission operations, FPL believes that the role of the security coordinator provides the most cost effective means for properly coordinating transmission operations in peninsular Florida in order to properly maintain reliability. Alternatives such as centralized peninsular Florida (or larger area) transmission operations by some new organization necessarily will result in a new, expensive, and duplicative infrastructure and much higher ongoing operational expenditures as compared with the existing situation. It is becoming more and more evident with each passing month that the cost and bureaucracy associated with such organizations greatly outweigh the potential benefits.

Notwithstanding, FPL understands the concerns raised by others over the fact that FPL serves as the security coordinator for the state. To address those concerns, and as FPL stated at the February 4 Workshop, FPL is prepared to support a combination of auditing and real-time oversight (presence by some neutral observer) sufficient to resolve all legitimate concerns raised by entities. The upcoming Workshop meetings will provide an opportunity to discuss and adopt specific steps to ensure that the security coordinator role will be carried out in a neutral manner.

Finally, certain parties apparently want adherence to FERC's eleven ISO principles. Those principles, however, are based on the premise that the existing situation is not effective and efficient, and that "the fix" must be in the form of some new bureaucracy that takes

control of a regional (larger than Florida) grid. Because that premise is fundamentally flawed, FPL believes that the Workshop should concentrate on the incremental types of improvements suggested by FPL.

II. PRICING ISSUES

Certain entities have voiced concern over having to pay multiple transmission rates for wheeling transactions that traverse multiple control areas. As FPL understands, these entities believe that a single regional rate is the solution.

First, an understanding of what is meant by a single regional rate is necessary. With that understanding in mind, is the lack of such a rate really a problem, that is, what is the extent of the perceived problem? When does the problem occur? How much revenue does, for example, Seminole or FMPA estimate that it has foregone because of multiple transmission charges? Were the lost sales to other Florida utilities? To whom?

If it turns out that lost revenues are not significant, does it make sense to propose RTO "fixes" that potentially could cost hundreds of millions of dollars? FPL strongly sides with those who believe that a cost-benefit analysis must be performed on the single charge transmission rate proposals now being advanced. If the analysis shows a large shift of dollars from some retail customers in Florida to other Florida retail customers, with little or no attendent transactional benefits, then it should be self evident that the state should not pursue infrastructure changes that will promote such cost shifting.

Another equitable consideration that must be addressed is whether, in a regulatory regime such as Florida that forbids retail competition, it is fair to treat all transmission facilities the same. For example, in the absence of retail competition, can FPL use FMPA's transmission facilities even if FPL wanted to? If not, why is it fair to value FMPA's facilities on the same basis as FPL's integrated facilities?

Still further, would a single rate for peninsular Florida send the right pricing signals for siting new generation? Or, rather, would it encourage generation to be clustered in remote areas far from load centers as a result of cheap, postage stamp transmission being available, and cause otherwise unnecessary transmission to be constructed? The central point is that any change in transmission pricing is not something that can or should be done without considerable thought being given to all the consequences.

III. GOVERNANCE

As already explained, FPL does not believe that any RTO or ISO should be imposed on Florida utilities. Rather, improved transmission coordination in planning and operations, and increased oversight activity by the FPSC, is the proper approach to take. And, while the attached planning document does not go so far as to give the FPSC veto or decisional authority over transmission disputes, FPL may be overly optimistic in its approach, but though it would be better to attempt to work out any differences through a participatory process with oversight by FPSC before resulting in a formal governance structure.

With regard to market power issues, FPL does not see the relevance of any discussions on this matter. FPL's transmission and generation sales in Florida are regulated, cost -based sales. Further, FPL's open access tariff and the functional unbundling brought about by the codes of conduct preclude any abuses that might otherwise be possible where there is control of transmission and generation.

CONCLUSION

The transmission planning and operations proposed changes that FPL is supporting, particularly the elevated role of the FPSC, are significant steps that should, in FPL's view, be given serious consideration by workshop participants. While others may seek even greater changes, the prudent course of action would be to first reach consensus on the desirability of these proposed changes. These changes should then be put in place and tested before further steps are entertained.

LOCAL AREA AND FLORIDA TRANSMISSION PLANNING PROCESS

Local Area Planning Process

Overview. The Local Area Planning Process will be established as an open participatory process involving the Florida Public Service Commission ("FPSC"), each affected Transmission Owner and Load Serving Entities ("LSE") that use the Transmission Owner's system for the purpose of achieving coordinated local area planning. Local area transmission expansion plans will be developed by each Transmission Owner with involvement from those LSEs, then assembled for a coordinated reliability review and assessment by the appropriate FRCC working group, with oversight by the FPSC. A diagram of the Local Area Planning Process is set forth in the flow chart below attached as Appendix A.

Inputs. Long-term firm transmission requirements (i.e., load growth and existing planning assumptions) will be provided by the Transmission Owners and LSEs.

Local area databases. Databases for the Local Area Planning Process will be developed using the appropriate data (i.e., firm planning assumptions) from each of the Transmission Owners and affected LSEs. This process will be initiated by a kick-off meeting(s) hosted by each Transmission

Owner at which the LSEs will share and discuss all their respective firm planning assumptions. The FPSC will be invited to attend and participate in such meetings.

Distribution of local area databases. After the databases for the Local Area Planning Process are developed and approved by the Transmission Owner and the affected LSEs, such base cases will be provided to the affected LSEs and the FPSC.

Local area transmission assessments. As part of the Local Area Planning Process a local area transmission assessment will be performed to determine reliability problems and identify potential solutions to such reliability problems. The local area transmission assessment will be performed by the Transmission Owner with involvement from the affected LSEs. The findings from the local area transmission assessments will be presented to the affected LSEs in a meeting to be called by the respective Transmission Owner(s). The FPSC will participate and oversee such meeting.

Local area transmission expansion plans. Based on the findings of the local area transmission assessments, local area transmission expansion plans will be developed by each Transmission Owner for its respective transmission system. The local area transmission expansion plans along with the underlying assumptions will be incorporated into a database and

then forwarded to the FRCC and the FPSC for an overall reliability assessment regarding compliance with NERC (or successor organization) standards and Florida Reliability Coordinating Council ("FRCC") criteria.

Florida Planning Process

Overview. The Florida Planning Process will be established as an open coordinated participatory process to help ensure reliability in Florida. This process will be performed using NERC and FRCC established standards and criteria. A diagram of the planning process is set forth in the flow chart attached as Appendix B.

B. *Inputs*

Transmission Service Requests pursuant to Transmission Owners Open Access Tariff (i.e., transmission service requests related to merchant plants, incremental utility generation, IPPs, etc.) will be made to such Transmission Owner. Such Transmission Service Requests will include the necessary data required to perform an analysis and be posted on the Transmission Owner's OASIS node (i.e., FLOASIS).

Local area transmission expansion plans discussed in Section No. I above will be incorporated into the Florida Planning Process.

FRCC databases. The FRCC will develop coordinated FRCC databases (load flow, dynamic and short circuit) using the respective local area transmission expansion plans, generation projects, and latest interchange

assumptions.

Performance of screening analysis. The Transmission Owner will perform a screening analysis to determine the impact on its transmission system in delivering power to specified point(s) of delivery. The deliverables from the screening analysis will be a list of facilities resulting from a contingency analysis associated with a Transmission Service Request with an incremental loading that exceeds NERC (or successor organization), FRCC or the Transmission Owner's criteria/standards.

Review of screening analysis findings. After the screening analysis is completed, a meeting among the Transmission Owner receiving such Transmission Service Request, materially adversely impacted Transmission Owner(s), if any such Transmission Owner(s) are identified, and the Transmission Service Requestor(s) identified in II.B.i above will be scheduled to discuss the findings of the screening analysis and to discuss the need, if any, of an impact study, to ensure reliability. The Transmission Owner receiving the Transmission Service Request and the materially adversely impacted Transmission Owner(s) agree to provide to the FPSC the results of the screening analysis. The FPSC may provide comments on the results of the screening analysis.

Impact and facilities study. From step E, the Transmission Owner will finalize a study scope, coordinate with the study participants and conduct the impact study. The study participants will be the materially adversely impacted Transmission Owner(s) and the Transmission Service Requestor(s) identified in II.B.i above. The impact study will determine if a request violates facility ratings and reliability criteria. If violations are determined to exist, a facilities study will be performed by the study participants. Solutions to solve the violations will be identified and selected by the Transmission Owner receiving the Transmission Service

Request. The Transmission Owner receiving the Transmission Service Request will document findings, and discuss potential solution(s) with the materially adversely impacted Transmission Owner(s) and the Transmission Service Requestor(s). The Transmission Owner receiving the Transmission Service Request and the materially adversely impacted Transmission Owner(s) shall share with the FPSC the studies' findings.

Florida reliability assessment. The FRCC working group with oversight by the FPSC will review and assess the overall effect of all of the transmission plans (Local and Transmission Service Requests) on the reliability of the transmission facilities in Florida using NERC (or successor organization) and FRCC criteria (see FRCC Compliance Review Process).

III. Handling of Confidential Data

Confidentiality of planning data.

Each Transmission Owner, LSE and Transmission Service Requestor has agreed to supply confidential (generation economics and planned transactions) data in accordance with the provisions of this document for the development of FRCC databases to be used for planning studies. FRCC databases of all load levels needed to do planning studies will be developed using the data. The FRCC databases will be filed at FERC (Form 715) and distributed to each Transmission Owner, LSE and Transmission Service Requestors. The underlying data and assumptions used to develop the FRCC databases will not be made public. Each Transmission Owner, LSE and Transmission Service Requestor shall have access to the FRCC databases in accordance with such FRCC

Confidentiality Agreement.

Each Transmission Owner, LSE and Transmission Service Requestor may receive and review any composite document, data and other information that may be developed in this Local Area and Florida Planning Process, unless such information discloses any individual confidential data or information.

Unwillingness to share confidential data. To the extent that a Transmission Owner, LSE or Transmission Service Requestor does not submit firm plans for some defined planning horizon and does not do so voluntarily, the Local Area and Florida Planning Process may not be able to accommodate that Transmission Owner's, LSE's or Transmission Service Requestor's future transactions. Transmission Owners, LSE or Transmission Service Requestors will have an incentive to plan ahead and provide the requisite information to ensure reliability and coordinated expansion plans.

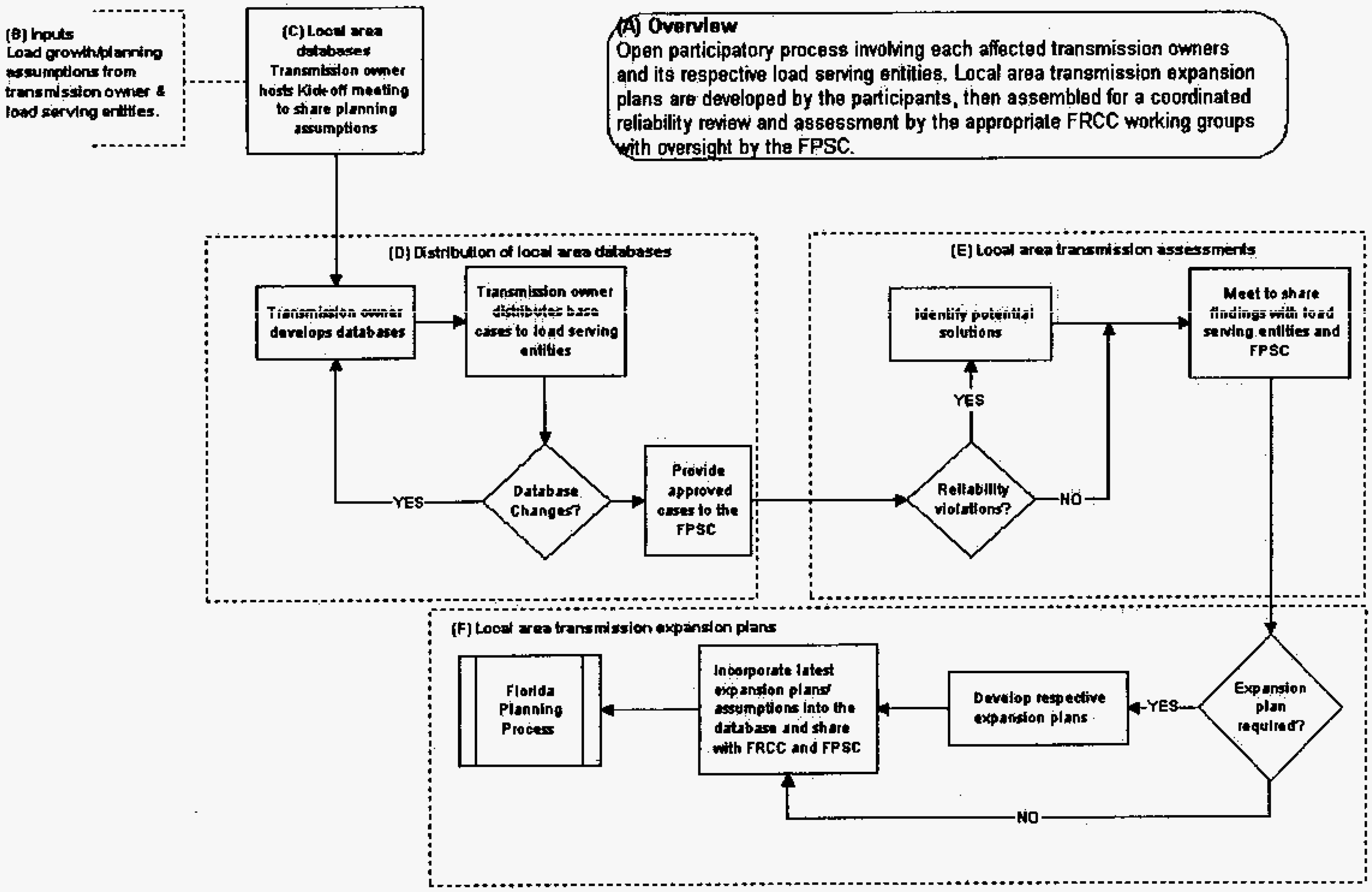
IV. Coordinated Transmission Expansion Plans

Each Transmission Owner's commitment to build transmission facilities will be in accordance with such Transmission Owner's Open Access Transmission Tariff. Additionally, in order to better coordinate transmission expansion plans in Florida, the FPSC through its involvement in the participatory process discussed above, shall provide guidance and recommendations to each Transmission Owner in circumstances where Transmission Owners, LSE and

Transmission Requestors can not reach agreement with respect to the necessity and/or appropriate cost recovery for incremental transmission facilities. It is intended that the cost recovery of transmission facilities constructed by the Transmission Owner will be in accordance with Transmission Owner's Open Access Transmission Tariff.

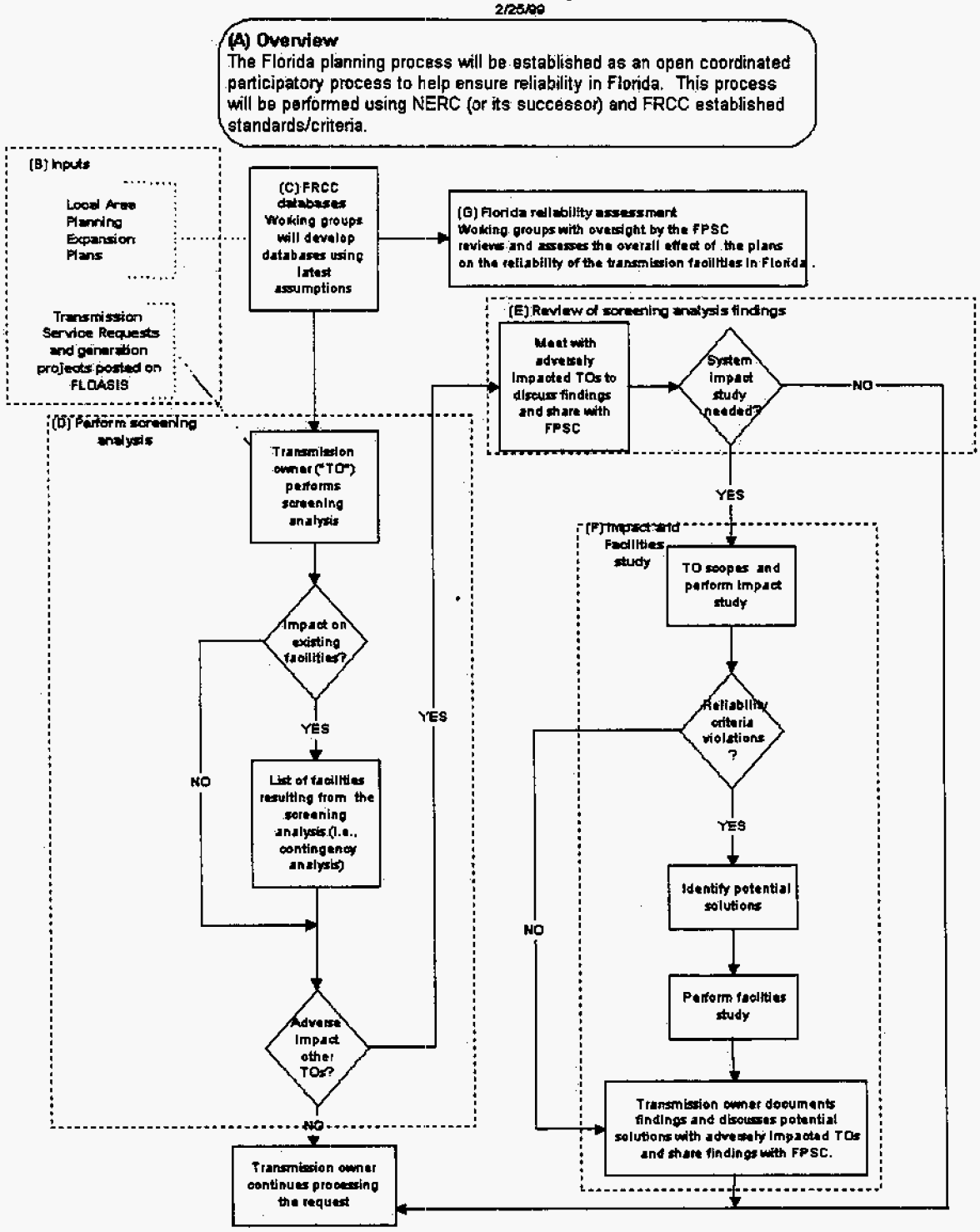
Appendix A
Local Area Planning Process

2/26/99



Appendix B
Florida Planning Process

2/25/99



FLORIDA POWER CORPORATION'S RESPONSE TO

LIST OF FLORIDA-SPECIFIC RTO AND RELATED ISSUES

Category I. Planning & Operations Issues

What is the proper role of the FPSC in transmission planning?

The existing situation:

Utilities in Peninsular Florida coordinate transmission planning through the FRCC. Individually developed plans are aggregated and studied by the FRCC to insure adequacy. Problems found are reported and given to affected parties for resolution. The FRCC is currently implementing Planning Standards with mandatory compliance. FPSC is charged by State law to oversee the development of the transmission grid and insure reliability.

Any complaints with the existing situation:

Florida Power Corporation (Florida Power) has no complaints with the existing system; however, we are aware that some transmission dependent utilities (TDUs) have expressed concerns.

Any solutions to these complaints:

Even though Florida Power has no complaints with the existing system, we feel that in the future with an even more competitive industry combined with new market participants bringing new issues and concerns requires stronger regulatory presence. Therefore, we believe the FPSC should take a more active role in transmission planning. To this end, Florida Power and Florida Power and Light have developed a proposed planning process for Peninsular Florida that incorporates an active role for the FPSC. A copy of this process is attached to this document as Attachment A.

What is the proper role of the FPSC in transmission siting?

The existing situation:

Under the Florida Transmission Line Siting Act (TLSA), the FPSC makes a determination of need for proposed new transmission lines 230kv and above that fall under this Statute.

Any complaints with the existing situation:

In certain cases, siting of transmission lines can be a lengthy process where multiple jurisdictions must approve the siting.

Any solutions to these complaints:

With the lead time on new generation additions less than the time to construct needed transmission facilities in many cases, the time to site and construct new transmission lines must be shortened. Florida Power encourages the FPSC to actively participate in finding ways to shorten the process for siting new transmission lines.

What is the proper role of the FPSC in transmission reliability and operations?

The existing situation:

Through the FRCC Peninsular Florida Security Process, the operational reliability of the Florida grid is maintained by the State Security Coordinator for the next day and by the Operations Planning Coordinator for the next week. In addition, the FRCC has developed a Compliance Review Program to monitor and insure that individual utilities as well as the FRCC Region as a whole comply with NERC Operating and Planning Standards. The FPSC has jurisdiction over the planning, development, and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes in Florida.

Any complaints with the existing situation:

No complaints with the existing system.

Any solutions to these complaints:

Even though Florida Power has no complaints with the existing system, we feel that in the future with an even more competitive industry combined with new market participants bringing new issues and concerns, requires a stronger regulatory presence. Therefore, we believe the FPSC should take a more active role in oversight of transmission operations.

Do/should transmission providers plan their transmission additions based on their own needs (for generation and load) or do/should they plan their transmission additions based on their own needs and needs of transmission dependent utilities?

The existing situation:

The Florida investor owned utilities have open access transmission tariffs that require comparable and non-discriminatory treatment of all transmission customers that are connected to or use the transmission provider's system. These tariffs include provisions for the planning of transmission additions needed to provide reliable service to transmission dependent utilities.

Any complaints with the existing situation:

Florida Power believes that the open access transmission tariffs and the standards of conduct are working.

Any solutions to these complaints:

None needed.

What information should be shared regarding transmission planning and with whom should this information be shared?

The existing situation:

Each year, FRCC utilities jointly develop transmission base cases for the next ten years. The FRCC files these cases with the annual FRCC FERC 715 filing. Associated with this filing is each utility's transmission planning criteria. All of this information is public record and available on the FERC Website.

Any complaints with the existing situation:

The FRCC process of jointly developing and up-dating transmission system data and cases on at least an annual basis has worked well for a number of years. The joint development of transmission cases and data on a regular basis facilitates the accuracy of transmission planning studies conducted by individual utilities or the FRCC Transmission or Stability Working Groups.

Any solutions to these complaints:

None needed.

What does optimization of transmission planning for Peninsular Florida entail? Is it needed?

The existing situation:

Individual utility plans are developed using a full grid model of Peninsular Florida based on annually up-dated transmission base cases as described in the response to (e) above. Utilities in Peninsular Florida coordinate through the FRCC. Individually developed plans are aggregated and studied by the FRCC to insure adequacy. Problems found are reported and given to affected parties for resolution. The FRCC is currently implementing Planning Standards with mandatory compliance. The FPSC is charged by State law to oversee the development of the transmission grid and insure reliability.

Any complaints with the existing situation:

Florida Power believes that as a practical matter, an optimal plan for the Florida transmission grid is achieved by the current processes. Since all facility needs

are planned using full grid models, there is little to be gained by full grid optimization that is not already achieved in individual utility plans, since grid problems and solutions tend to be local in nature. In addition, individual utility plans are included in FRCC seasonal and ten-year transmission reliability studies to assure that the combined plans meet criteria.

Any solutions to these complaints:

None needed. The FRCC has developed a compliance review program to insure that individual utility plans when aggregated meet FRCC Planning Standards.

Should there be a central dispatch of generation and transmission facilities in Peninsular Florida?

The existing situation:

Each utility designs its transmission grid based on the economic dispatch of its internal and external resources. Its external resources can include purchased power from other utilities both intrastate and interstate. As a practical matter the Florida Broker and an active wholesale market achieve the benefits of a central dispatch.

Any complaints with the existing situation:

None.

Any solutions to these complaints:

None needed.

What are the appropriate boundaries for regional transmission planning?

The existing situation:

The FRCC is one of the NERC reliability regions. FRCC has only one interregional interface with the other NERC regions, the Southern/Florida Interface. Power transactions in systems external to the FRCC create no loop flow impact on the Peninsular Florida transmission grid. Currently the FRCC conducts seasonal and ten year transmission reliability studies on an intraregional basis to insure individual utility transmission plans as well as State plans comply with FRCC and NERC planning criteria. In addition, a joint Southern/Florida Planning Committee addresses interregional transmission planning issues associated with the Southern/Florida Interface including the determination of Available Transmission Capability (ATC) for this Interface.

Any complaints with the existing situation:

Florida Power believes that the existing FRCC Region is the appropriate boundary for regional transmission planning. Due to the geography of the Peninsular Florida transmission grid, the fact that the grid is not impacted by loop flows from adjacent regions, and the Southern/Florida Interface is the only interregional interface, Peninsular Florida is a unique transmission grid and a logical electrical boundary for regional transmission planning.

Any solutions to these complaints:

Florida Power believes that Peninsular Florida is the appropriate boundary for regional transmission planning.

Please comment on each of the following FERC ISO Principles.

The FERC ISO principles were discussed in Order 888 as issues FERC saw as desirable in any ISO proposal that might be brought before it. They were given as information to the industry as to FERC's thinking in this area. As the industry has evolved since Order 888 was published, various types of ISOs and other forms of RTOs have been either accepted or discussed. These principles need to be viewed in this light and may not necessarily apply to the situation in Florida.

Category II. Pricing Issues

Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?

The existing situation:

All FERC jurisdictional utilities have filed open-access transmission tariffs based on the pro forma tariff in Order 888. This creates a consistent set of terms and conditions for obtaining transmission service from these transmission providers. Non-jurisdictional utilities are also encouraged to adopt open access tariffs and some have done so. Multiple transmission rates are encountered only when moving power from one transmission provider's system to another. This reflects the fact that transmission systems were built to serve the native load with the native generation, with transfers between systems primarily to provide for reserve sharing and for economy sales or purchases.

Any complaints with the existing situation:

Some transmission dependent utilities complain about paying multiple transmission charges when moving power from one system to another. They have defined this as pancaking. As described in (c) below, Florida Power believes some means of compensating transmission providers for the added burden of moving power across their systems is appropriate and does not create undue problems for transmission dependent utilities. Terms and conditions

between FERC jurisdictional utilities are the same and therefore not a cause of concern. Non FERC jurisdictional utilities that have not adopted pro forma tariffs may have different terms and conditions.

Any solutions to these complaints:

None needed.

Is wholesale/retail transmission comparability a desirable goal? If so, how can it be achieved?

The existing situation:

Wholesale/retail comparability is a desirable goal. Under FERC's pro forma tariff, a transmission provider is required to treat its wholesale customers comparably with its retail customers. Abiding by the pro forma tariff will assure comparable treatment of all transmission customers.

(2) Any complaints with the existing situation:

Florida Power is not aware of any specific complaints.

(3) Any solutions to these complaints:

None needed.

Does pancaking of transmission rates (defined as additive transmission wheeling rates from control area to control area) exist in Florida? Should pancaking be eliminated and, if so, how?

(1) The existing situation:

As defined above, pancaking does exist in Florida. Pancaking has long served as an appropriate way to recognize the additional burden placed on transmission systems to move power from one system to another. It also has served as a proxy for distance sensitive transmission rates. Absent some other pricing mechanism to adequately recognize these issues and compensate transmission owners for the burdens these transactions place on the system, pancaking should not be eliminated.

(2) Any complaints with the existing situation:

Florida Power does not have any complaints with the existing situation. Multiple transmission charges when crossing utility boundaries are appropriate since the systems, which were built and paid for by the native loads, were not designed to support large transfers between systems. If new users of the systems want to conduct these types of transactions, they should pay for the use of each transmission providers system. Furthermore, any change that might be made to

the current pricing methodology has a high potential of resulting in cost shifting among customers.

(3) Any solutions to these complaints:

None needed.

Should a cost-benefit analysis be performed on any proposed changes to the current regime? If so, generally speaking, how would such an analysis be performed?

A cost-benefit analysis must be done on any proposed changes to the current regime. The analysis should include a thorough assessment of the costs associated with any proposed changes and an identification of the parties who would pay those costs. The benefits should also be quantified and the parties who would receive the benefits identified. No changes should be implemented unless the benefits exceed the costs and only then if there is no cost shifting. Costs and benefits must be properly allocated to all parties so that no group receives more than their proportionate share of either the costs or the benefits.

Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?

The existing situation:

Yes. Congestion costs are currently paid by the native load customers of each utility in the form of out-of-economic generation dispatch costs.

(2) Any complaints with the existing system:

All customers whether wholesale or retail, should pay their share of congestion costs on the transmission system.

(3) Any solutions to these complaints:

Congestion pricing, or redispatch costs should be paid by all customers who cause the costs to be incurred. This would involve including the redispatch costs in the network transmission service rate for network customers and including an "and" pricing option for Firm Point-to-Point customers where they would pay their share of the redispatch costs required to maintain their transaction in addition to the Point-to-Point transmission service rate for their service.

Category III. Governance Issues

Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida. What governmental and private agencies should be involved and to what extent?

(1) The existing situation:

Each utility plans and operates its own transmission grid with extensive coordination through the FRCC. Utilities work together to plan, design, and construct interconnections with adjacent utilities. The FPSC regulates the planning, development, and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes in Florida and the avoidance of further uneconomic duplication of generation, transmission, and distribution facilities.

(2) Any complaints with the existing situation:

Before any significant change in organization in Florida could be justified, it would be necessary to conclude that the FERC=s present functional unbundling plan, as implemented by the open access transmission tariff and standards of conduct can not work. Florida Power believes that the open access transmission tariff and the standards of conduct are working.

(3) Any solutions to these complaints:

None needed.

(b) What is the FPSC role in transmission dispute resolution?

The existing situation:

The Commission=s rules allow companies to seek declaratory statements as to the applicability of specific statutory provisions or rules or orders of the Commission as they may apply to the petitioner in its particular set of circumstances only. Declaratory statements are a means for resolving controversies between companies. Rules 25-22.020 through 25-22.022. Section 120.57, Florida Statutes, and Part IV of Chapter 25-22 provide procedures whereby transmission customers or the transmission provider can resolve disputes. The Commission may seek relief in circuit court in the form of temporary or permanent injunctions, restraining orders or other appropriate orders where a jurisdictional utility violates a Commission order or rule and the violation impairs the operations or service of any jurisdictional entity. Rule 25-22.030.

(2) Any complaints with the existing situation:

Florida Power believes that the means of dispute resolution at the PSC available to companies is adequate to resolve the issues that exist with respect to the transmission grid in Florida.

(3) Any solutions to these complaints:

Florida Power believes that the entities in Florida with concerns regarding the transmission grid must recognize the PSC=s role in the resolution of disputes in Florida.

(c) Does undue market power exist in Florida? What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?

(1) The existing situation:

Undue market power does not exist in Florida. As to generation market power, Florida investor-owned utilities can sell power to Florida wholesale customers only at cost-based rates. The FERC has not granted any Florida utility authority to sell power within Florida at market-based rates. As to transmission market power, the FERC has held in its orders granting market rate authority for generation that a public utility that has an open access transmission tariff on file with the FERC meets the FERC=s transmission market power standard. All Florida investor-owned utilities have open access transmission tariffs on file with the FERC. The security coordinator function is presently performed by the FRCC through its contract agent Florida Power & Light.

(2) Any complaints with the existing situation:

Florida Power believes that the open access transmission tariffs and the standards of conduct are working. Florida Power has not had any complaints concerning the FRCC=s or FP&L=s performance of the security coordinator function.

(3) Any solutions to these complaints:

None needed.

(d) Is functional unbundling working in Florida? Can it work in Florida?

(1) The existing situation:

Florida Power believes that functional unbundling can and is working in Florida.

(2) Any complaints with the existing situation:

Florida Power does not have any complaints with the existing situation.

(3) Any solutions to these complaints:

When customers or other utilities have complaints about functional unbundling with respect to a Florida utility, the customer or utility should use the various

dispute resolution tools available to it with the FPSC and the FERC. Florida Power believes that the necessary tools are available to the complainants.

ATTACHMENT A

LOCAL AREA AND FLORIDA TRANSMISSION PLANNING PROCESS

Local Area Planning Process

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Inputs. Long-term firm transmission requirements (i.e., load growth and existing planning assumptions) will be provided by the Transmission Owners and LSEs.

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each of the Transmission Owners and affected LSEs. This process will be initiated by a kick-off meeting(s) hosted by each Transmission Owner at which the LSEs will share and discuss all their respective firm planning assumptions. The FPSC will be invited to attend and participate in such meetings.

Distribution of local area databases. After the databases for the Local Area Planning Process are developed and approved by the Transmission Owner and the affected LSEs, such base cases will be provided to the affected LSEs and the FPSC.

Local area transmission assessments. As part of the Local Area Planning Process a local area transmission assessment will be performed to determine reliability problems and identify potential solutions to such reliability problems. The local area transmission assessment will be performed by the Transmission Owner with involvement from the affected LSEs. The findings from the local area transmission assessments will be presented to the affected LSEs in a meeting to be called by the respective Transmission Owner(s). The FPSC will participate and oversee such meeting.

Local area transmission expansion plans. Based on the findings of the local area transmission assessments, local area transmission expansion plans will be developed by each Transmission Owner for its respective transmission system. The local area transmission expansion plans along with the underlying assumptions will be incorporated into a database and then

forwarded to the FRCC and the FPSC for an overall reliability assessment regarding compliance with NERC (or successor organization) standards and Florida Reliability Coordinating Council ("FRCC") criteria.

Florida Planning Process

Overview. The Florida Planning Process will be established as an open coordinated participatory process to help ensure reliability in Florida. This process will be performed using NERC and FRCC established standards and criteria. A diagram of the planning process is set forth in the flow chart attached as Appendix B.

B. *Inputs*

Transmission Service Requests pursuant to Transmission Owners Open Access Tariff (i.e., transmission service requests related to merchant plants, incremental utility generation, IPPs, etc.) will be made to such Transmission Owner. Such Transmission Service Requests will include the necessary data required to perform an analysis and be posted on the Transmission Owner's OASIS node (i.e., FLOASIS).

Local area transmission expansion plans discussed in Section No. I above will be incorporated into the Florida Planning Process.

FRCC databases. The FRCC will develop coordinated FRCC databases (load flow, dynamic and short circuit) using the respective local area transmission expansion plans, generation projects, and latest interchange assumptions.

Performance of screening analysis. The Transmission Owner will perform a screening analysis to determine the impact on its transmission system in delivering power to specified point(s) of delivery. The deliverables from the screening analysis will be a list of facilities resulting from a contingency analysis associated with a Transmission Service Request with an incremental loading that exceeds NERC (or successor organization), FRCC or the Transmission Owner's criteria/standards.

Review of screening analysis findings. After the screening analysis is completed, a meeting among the Transmission Owner receiving such Transmission Service Request, materially adversely impacted Transmission Owner(s), if any such Transmission Owner(s) are identified, and the Transmission Service Requestor(s) identified in II.B.i above will be scheduled to discuss the findings of the screening analysis and to discuss the need, if any, of an impact study, to ensure reliability. The Transmission Owner receiving the Transmission Service Request and the materially adversely impacted Transmission Owner(s) agree to provide to the FPSC the results of the screening analysis. The FPSC may provide comments on the results of the screening analysis.

Impact and facilities study. From step E, the Transmission Owner will finalize a study scope, coordinate with the study participants and conduct the impact study. The study participants will be the materially adversely impacted Transmission Owner(s) and the Transmission Service Requestor(s) identified in II.B.i above. The impact study will determine if a request violates facility ratings and reliability

criteria. If violations are determined to exist, a facilities study will be performed by the study participants. Solutions to solve the violations will be identified and selected by the Transmission Owner receiving the Transmission Service Request. The Transmission Owner receiving the Transmission Service Request will document findings, and discuss potential solution(s) with the materially adversely impacted Transmission Owner(s) and the Transmission Service Requestor(s). The Transmission Owner receiving the Transmission Service Request and the materially adversely impacted Transmission Owner(s) shall share with the FPSC the studies' findings.

Florida reliability assessment. The FRCC working group with oversight by the FPSC will review and assess the overall effect of all of the transmission plans (Local and Transmission Service Requests) on the reliability of the transmission facilities in Florida using NERC (or successor organization) and FRCC criteria (see FRCC Compliance Review Process).

III. Handling of Confidential Data

Confidentiality of planning data.

Each Transmission Owner, LSE and Transmission Service Requestor has agreed to supply confidential (generation economics and planned transactions) data in accordance with the provisions of this document for the development of FRCC databases to be used for planning studies. FRCC databases of all load levels needed to do planning studies will be developed using the data. The FRCC databases will be filed at FERC

(Form 715) and distributed to each Transmission Owner, LSE and Transmission Service Requestors. The underlying data and assumptions used to develop the FRCC databases will not be made public. Each Transmission Owner, LSE and Transmission Service Requestor shall have access to the FRCC databases in accordance with such FRCC Confidentiality Agreement.

Each Transmission Owner, LSE and Transmission Service Requestor may receive and review any composite document, data and other information that may be developed in this Local Area and Florida Planning Process, unless such information discloses any individual confidential data or information.

Unwillingness to share confidential data. To the extent that a Transmission Owner, LSE or Transmission Service Requestor does not submit firm plans for some defined planning horizon and does not do so voluntarily, the Local Area and Florida Planning Process may not be able to accommodate that Transmission Owner's, LSE's or Transmission Service Requestor's future transactions. Transmission Owners, LSE or Transmission Service Requestors will have an incentive to plan ahead and provide the requisite information to ensure reliability and coordinated expansion plans.

IV. Coordinated Transmission Expansion Plans

Each Transmission Owner's commitment to build transmission facilities will be in accordance with such Transmission Owner's Open Access Transmission Tariff. Additionally, in order to better coordinate transmission expansion plans

in Florida, the FPSC through its involvement in the participatory process discussed above, shall provide guidance and recommendations to each Transmission Owner in circumstances where Transmission Owners, LSE and Transmission Requestors can not reach agreement with respect to the necessity and/or appropriate cost recovery for incremental transmission facilities. It is intended that the cost recovery of transmission facilities constructed by the Transmission Owner will be in accordance with Transmission Owner's Open Access Transmission Tariff.

Appendix A

Local Area Planning Process

TAMPA ELECTRIC COMPANY RESPONSE TO FLORIDA-SPECIFIC RTO ISSUE LIST

Tampa Electric Company hereby respectfully submits its response to the issue list discussed at the RTO Workshop held at the Florida Public Service Commission on February 4, 1999.

Tampa Electric believes that the workshop process has reached a critical point. With the identification of the issues, the time is now ripe to address next steps and organization of this effort. The goal should be to develop consensus on resolution of the transmission issues described below. The FPSC should lead and chair the study effort. We once again suggest that the use of an expert third party facilitator would help, and not hinder FPSC leadership of the study effort. The issues to be addressed are complex and potentially divisive. An independent, expert facilitator could assist the FPSC by facilitating the process under the FPSC's direction as it relates to discussion, analysis and issue resolution. Facilitation could also include, if desired, administrative support such as scheduling, maintaining meeting records, noticing, establishing agendas, providing meeting materials, etc.

Category I - Planning & Operations Issues

This category of responses addresses the reliability set of issues. Tampa Electric uses the North-American Electric Reliability Council (NERC) definition of reliability, which consists of both adequacy (planning) and security (operations). The Florida Public Service Commission (FPSC) in considering the planning and operations of the Peninsular Florida grid should treat generation and transmission as integrated resources for the region. The Peninsular Florida grid (or bulk electric transmission system) is operated as a single machine moving power in bulk from production to distribution and ultimate consumption. Operation of the entire system involves the real time balancing of generation and demand ensuring interconnection frequency, system stability and safe loading levels on both lines and equipment. Generation reserves enable interconnected operation of the Peninsular Florida grid by providing regulation (AGC), frequency response, and contingency reserves to restore regional generation and demand balance following unit outages within the state. Additionally, generation reactive capability must be available under normal and emergency conditions to maintain adequate voltage levels on the grid. In terms of the operability of this "single machine", generation and transmission cannot be separated as services distinct from each other.

The Federal Energy Regulatory Commission (FERC) recognized the inseparability of generation and transmission by including certain generation services (i.e. ancillary services) as part of the pro-forma transmission tariffs required under FERC Order 888. These services (e.g., operating reserves, regulation, reactive supply and voltage control) are essentially, enabling services without which a power system could not function. FERC recognized that these services are necessary for the provision of basic transmission service, so it required in Order 888 that transmission providers include these services in their tariffs.

(a) What is the proper role of the FPSC in transmission planning?

Existing Situation: Historically the FPSC has had different roles in the planning of generation and transmission capacity. It has played a very significant and important oversight role in the planning of generation capacity as well as in demand side management, including conservation. The FPSC has required utilities to file ten-year generation site plans, reviewed an annual Florida Reliability Coordinating Council (FRCC) process that establishes prospective statewide reserve margins and determined the adequacy of those forecasts. In contrast, the FPSC's role in the assessment and planning of transmission capacity has been more limited. Although the FPSC has exercised its authority under the grid bill in the past to investigate transmission adequacy (e.g. third 500 kV line), it has played less of a role in FRCC's annual transmission planning process.

Complaints: With the advent of increased wholesale competition and "open access" rules by the FERC, the FRCC planning process needs to be re-addressed and the FPSC needs to play a larger role in the determination of statewide transmission adequacy. The revamping of the regional transmission planning process should be done from both a generation and transmission planning perspective. The review should include both, because they can be substitutes for each other to varying degrees in addressing reliability needs.

Solutions: The FPSC should lead the development of a regional planning process that fully:

Integrates Loads
Integrates Generation
Assesses and Ensures Reliability
Facilitates Wholesale Markets
Addresses Transmission Service Requests, and
Addresses compatibility with the generation planning process.

This process should reflect continuing involvement of the FPSC and an important ongoing surveillance review of the adequacy of the then current regional plan.

(b) What is the proper role of the FPSC in transmission siting?

Existing Situation: Under the Transmission Line Siting Act (TLSA), the FPSC holds hearings to certify the need for high voltage transmission lines and responds to complaints regarding the need for lower voltage transmission lines. However, the utilities are on their own to site the needed lines and obtain required permits.

Complaints: The existing siting process is very difficult and expensive. In Florida and nationwide recently there has been limited success in the siting of high voltage transmission lines.

Solutions: The siting difficulties would be significantly mitigated if the FPSC were to play a larger role in regional transmission planning that identifies needed expansion for the Peninsular Florida

grid. The FPSC has sufficient legislative mandate (Grid Bill, Power Plant Siting Act [PPSA] and TLSA) to plan, site and order construction of transmission facilities to ensure and maintain a reliable, cost effective and environmentally acceptable Peninsular Florida grid.

(c) What is the proper role of the FPSC in transmission reliability and operations?

Reliability, as defined by NERC, consists of adequacy (planning) and security (operations). The role of the FPSC in transmission adequacy was discussed above. Tampa Electric's following comments focus on the role of the FPSC in transmission security.

Existing Situation: Transmission security of the Peninsular Florida grid is accomplished through the FRCC Operating Committee in compliance with NERC operating policies. The FRCC process to ensure security is well established. A major feature of the FRCC protocols is the "Security Process" published October 30, 1996, by the FRCC. The Peninsular Florida grid security process consists of these major elements:

Security Coordination
Regional Security Plans
Florida Electrical Emergency Contingency Plan
Capacity Emergency Operations
Automatic Load Shedding
Reserve Capability
Transmission - Oscillations
Transmission - Resolving/Reporting Potential Transmission Problems
Florida/Southern Interface

Complaints: There are at least two issue areas regarding the role of the FPSC in transmission operations: (1) independence of system operators, and (2) FPSC involvement in the setting of reliability standards by NERC and FERC.

(1) With the advent of increased wholesale competition and the FERC open access code of conduct rules, concern has been raised by some parties in Florida and elsewhere over potential discrimination by the system operator in making operational decisions that could affect commercial operations.
(2) NERC is undergoing a transition to a self-regulating organization with FERC oversight. Reliability legislation has been developed to make this transition complete. New NERC standards (issued recently and filed with the FERC for approval) will change regional planning and operating practices. Until now, the FPSC has not involved itself in the development of these new NERC standards nor has it evaluated the standards to determine if they meet the needs of the Peninsular Florida grid.

The FRCC Security Process is specific and unique to Peninsular Florida to ensure operational security of the bulk transmission grid and consequently, continuity of service to the citizens and ratepayers of Florida. The Automatic Load Shedding program is a good example of a unique standard to Peninsular Florida that directly impacts retail customers. The utilities in Peninsular

Florida have developed a sophisticated and coordinated load shedding program that is designed to prevent a Peninsular Florida blackout.

Over half of Peninsular Florida's distribution load is placed on the underfrequency load shedding program to protect equipment from generator out of step conditions (instability) and to ensure timely restoration. Recovery from a blackout condition could take days and weeks. The load served from distribution feeders automatically trip, in stages, as frequency dips below 59.82. There are no "boundaries" on who solves this problem; all utilities share equitably in loss of load to enable timely restoration of service to the Peninsular Florida grid.

Solutions:

(1) Tampa Electric does not believe that the current FRCC Security Process results in discriminatory practices, although the potential exists for such discrimination. Tampa Electric does not support a "California" solution where a complete, duplicative infrastructure is being put in place to insure "independence". The California ISO was put in place to enable retail competition. This ISO does not own generation or transmission but is accountable for ensuring reliability. A very complex and costly infrastructure is being put in place to accommodate bidding, scheduling and the procurement of critical generation services for reliability (i.e. ancillary services). Recent estimates are that California has spent in excess of $500 million in creating its ISO and that the ISO's current annual operating expense is $120 million.

At the February 4th FPSC RTO Workshop there was a brief discussion of lower cost solutions. Tampa Electric supports continued discussion through this FPSC study task force to explore within the current FRCC Security Process how to better ensure non-discriminatory actions by system operators and the Security Coordinator. Tampa Electric believes that, when this inquiry is completed and corrective actions are taken, there should be no need to form an ISO in Peninsular Florida

(2) The FPSC should play a role in the development of FRCC reliability standards. FPSC input is necessary during FRCC standards development to ensure a state regulatory perspective prior to approval by the NERC Board and FERC. In addition, the FPSC should be protective of its jurisdiction under the Florida grid law should any federal reliability legislation be proposed.

The FPSC has clear authority over transmission reliability under the grid bill. The regional changes taking place under the new NERC standards are significant. These relate to security coordination, Available Transmission Capability (ATC), tagging, planning standards, Transmission Load Relief Procedures (TLR) and Interconnected Operations Services (i.e. Ancillary Services). The standards involve significant issues. An example is the recent FERC Order on the NERC TLR Policy. The filings required of FERC-jurisdictional Peninsular Florida utilities involve development of a regional congestion management methodology and procedures to ensure comparable curtailment of native retail and wholesale load.

(d) Do / should transmission providers plan their transmission additions based on their

own needs (for generation and load) or do / should they plan their transmission additions based on their own needs and the needs of the transmission dependent utilities?

Existing Situation: Transmission providers do plan their transmission additions based on both their own needs and the needs of Transmission Dependent Utilities (TDU's) but not necessarily in an optimal, regional manner. Currently, each individual transmission provider plans its own optimal local and bulk transmission system taking into account both retail and firm wholesale transactions (native load). These plans are provided individually to the FRCC Engineering Committee, which then aggregates the results and assesses the aggregation under NERC and FRCC planning standards to ensure transmission adequacy. Each provider then builds its own required expansion and deals with cost justification and recovery on its own.

Complaints: The current expansion of the bulk grid may not be optimal nor efficient for Florida as a whole because it results from an aggregated plan rather than a regionally developed plan. Consideration is not given to optimizing the individual plans from a regional perspective. It has been particularly difficult to determine which utility is responsible for expansion needed at utility borders. Providers are reluctant to expand and pay for new facilities unless the costs can be justified based solely on their own needs.

Solutions: The FPSC study task force should explore a regional planning process, which could yield the following; (1) local area planning efforts, led by each transmission provider conducted in an open process with all load-serving entities in each local area, and (2) the regional planning of the bulk transmission grid.

Both local area and bulk transmission planning should be an agreed upon regional process subject to regional organization review by the FPSC. There would need to be some mechanism to determine which provider must build regionally justified transmission as well as to ensure cost recovery. The FPSC should participate in the development and execution of such a regional planning process.

(e) What information should be shared regarding transmission planning and with whom should this information be shared?

Existing Situation: In order to plan the Peninsular Florida grid, models of the regional system are required. The FRCC builds such models by aggregating the plans of the individual utilities.

Complaints: In an increasingly competitive wholesale market, some utilities may be concerned about releasing commercially-sensitive information to the public which may, nevertheless, be needed for regional planning, and there is no accountability for changes in plans that may impact regional transmission needs.

Solutions: Ultimately, all Load-Serving Entities (LSE's) within Florida should be required to submit specific load forecasts and resource plans for a defined period of years. Approaches should be explored regarding deviation from submitted LSE forecasts of loads and resources

once the bulk grid has been planned based on the information previously provided. While plans do change, LSE's should have an incentive to submit their best estimate of future loads and resources. A regional process should create an incentive for timely declaration of forecasts to ensure transmission capacity.

The regional process should also require all LSE's, to submit wholesale and retail load forecasts, resources and associated requests for transmission service through an OASIS system

(f) What does optimization of transmission planning for Peninsular Florida entail? Is it needed?

See answer to (d) above.

(g) Should there be central dispatch of generation and transmission facilities in Peninsular Florida?

Existing Situation: There is no central dispatch. Each of 12 control areas in Peninsular Florida dispatch generation and control transmission facilities within their respective areas.

Complaints: Tampa Electric has not heard any complaints suggesting the need for a central dispatch or power pool solution for Peninsular Florida.

Solutions: The benefits of central dispatch for the Peninsular Florida grid are unknown, and a cost/benefit study would be necessary to quantify any savings. Years ago a central dispatch study was done by the FCG/FPSC that led to the establishment of the Energy Broker instead of a centrally dispatched system. Central dispatch at that time was not deemed as cost effective as the creation of the Energy Broker.

The Energy Broker and other market-based economy energy interchange transactions have served Peninsular Florida well in increasing the utilization of lower incremental cost generation. However, there may be some functions that could be performed more efficiently with centralization, such as administration of OASIS, ATC calculation and processing of open access requests. The FPSC study task force should address these functions.

(h) What are the appropriate boundaries for regional transmission planning?

Existing Situation: The FRCC creates models of the Peninsular Florida grid that can be used for regional planning. These models include grid facilities as well as facilities in the Southern Company system so as to study import and export capabilities.

Complaints: Tampa Electric agrees with the FPSC's position that the appropriate boundary for regional transmission planning is the Peninsular Florida grid.

Solutions: The Peninsular Florida grid has historically and appropriately been planned as a separate, unique region. It is now a separate reliability region under NERC. The FPSC study task

force should develop a planning process that focuses on Peninsular Florida as a separate region.

(i) Please comment on each of the following FERC ISO Principles:

Tampa Electric believes that resolution of each of the issues raised by the FERC ISO Principles set forth below do not require the formation of an ISO and that there are more cost-effective ways to improve the efficiencies and reliability of the Peninsular Florida grid.

Tampa Electric submits, however, that the Florida solution at a minimum must address these ISO Principles in order to meet FERC's threshold for positive consideration of regional transmission organizational (RTO) approaches that address Peninsular Florida's transmission matters. While these legitimate issues raise state and federal jurisdictional questions, it is clear to Tampa Electric that they must be addressed here and now if the FPSC is to have the opportunity to craft a Peninsular Florida solution without total preemption by FERC.

1. The ISO's governance should be structured in a fair and non-discriminatory manner.

Existing Situation: The existing regional organization is the FRCC, a NERC regional reliability council. The governance of the FRCC is weighted by load, transmission facility ownership and generation ownership. This governance has been appropriate for reliability functions to date.

Complaints: The governance of a reliability organization may not be appropriate for matters regarding fair access to the bulk grid. For example, the NERC governance is changing as NERC delves into access and "fairness" matters. There are perceptions that there may be fairness issues relating not only to short and long-term access, but also to security protocols.

Solutions: Any regional transmission organization must be sensitive to fairness issues. Accordingly, a different type of more inclusive governance than the FRCC version may be required.

2. An ISO and its employees should have no financial interest in the economic performance of any power market participant. An ISO should adopt and enforce strict conflict of interest standards.

Existing Situation: FRCC members each have a financial interest in the economic performance of their own merchant functions. The transmission providers with open access tariffs adhere to strict codes of conduct which separate their grid operations function from their wholesale merchant function.

Complaints: There are no complaints as to the current codes of conduct.

Solutions: The FERC codes of conduct set acceptable standards, but implementation and fairness issues have been raised. See comments elsewhere on access, security and governance issues.

3. An ISO should provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner.

Existing Situation: Each FERC-jurisdictional transmission provider in Florida has its own open access tariff that provides open access to the grid facilities that it owns and/or operates. There is no Peninsular Florida grid-wide transmission tariff and rates are pancaked.

Complaints: FERC non-jurisdictional utilities are not required to file open access tariffs, and there is a "trust" concern on the part of some parties that the open access provisions of existing tariffs might not be fairly administered. Pancaked rates further contribute to the inefficiency of the Florida Peninsular wholesale market.

Solutions: The FPSC study task force should evaluate the need for a Peninsular Florida grid-wide transmission tariff for wholesale transactions and the desirability of a related centralized administrative function. There should also be addressed the issue of whether a centralized administrative function is an appropriate response to fairness concerns regarding open access. (Also see comments on pancaked rates issue II.c.)

4. An ISO should have the primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well defined and comply with applicable standards set by NERC and the regional reliability council.

Existing Situation: Under the FRCC, short-term reliability of the regional grid is the primary responsibility of the Operations Planning Coordinator and Security Coordinator. These roles are currently filled by Florida Power Corporation and Florida Power & Light Company, respectively.

Complaints: No complaints, except that some parties have raised a "trust" issue regarding fair implementation of security protocols.

Solutions: If added assurances are desired, the FPSC could actively participate in monitoring the operation of the Peninsular Florida grid.

5. An ISO should have control over the operation of interconnected transmission facilities within its region.

Existing Situation: There are currently 12 separate control areas in Peninsular Florida.

Complaints: No complaints,

Solutions: There is no need to eliminate or duplicate the functions of the existing control areas.

6. An ISO should identify constraints on the system and be able to take operational actions to relieve those constraints within the trading rules established by the governing body. These rules

should promote efficient trading.

Existing Situation: NERC and the FRCC are already working to resolve this issue through the recent FERC order on Transmission Loading Relief (TLR) procedures.

Complaints: Because of retail impacts from TLR, the FPSC should be more involved in this issue.

Solutions: The FPSC study task force should address this issue. Regional TLR, redispatch and congestion management procedures that promote efficient trading are necessary for the Peninsular Florida grid. It should be possible to establish and implement such procedures without the necessity of creating an entity with direct operating control.

7. The ISO should have appropriate incentives for efficient management and administration and should procure the services needed for such management and administration in an open competitive market.

No response is given because there is no need for a separate entity with separate incentives to perform all the functions that could be assigned to an ISO. As identified in other responses, there are more cost-effective ways to assure the efficient, fair and reliable functioning of the Peninsular Florida grid wholesale market.

8. An ISO's transmission and ancillary services pricing policies should promote the efficient use of and investment in generation, transmission, and consumption. An ISO or an RTG of which the ISO is a member should conduct such studies as may be necessary to identify operational problems and appropriate expansions.

Existing Situation: Each FERC jurisdictional utility offers open access under the FERC pro forma transmission tariff. There is no region-wide transmission pricing or planning, and rates are pancaked.

Complaints: The absence of region-wide pricing and planning and the existence of pancaked rates negatively affects the efficiency of the Peninsular Florida grid and wholesale market.

Solutions: Different transmission pricing approaches to eliminate pancaked rates should be explored. See other comments under pricing issue Category II.c. below. In addition, a regional planning process should be developed and implemented. See comments in Category I.a-h above.

9. An ISO should make transmission system information publicly available on a timely basis via an electronic information network consistent with the Commission's requirements.

Existing Situation: Currently, six utilities provide transmission access information on the Florida Open Access Same-Time Information System (FLOASIS). Another utility posts such information on an independent web page. Others post no information.

Complaints: The availability and accuracy of transmission system information is not completely

uniform within the Peninsular Florida region.

Solutions: There may be efficiencies to be gained with centralized administration of certain open access functions, such as operation of the FLOASIS, calculation of ATC and processing of requests. All peninsular Florida utilities should participate in any centralized approach.

10. An ISO should develop mechanisms to coordinate with neighboring control areas.

Existing Situation: Existing control areas and the FRCC already coordinate" with neighboring control areas and regional reliability councils. More specifically, the transmission interconnections between Peninsular Florida and the Southern Company (the only other neighboring control area with which Peninsular Florida is interconnected) are controlled to ensure reliability in both of the regions and the FRCC coordinates this effort.

Complaints: No complaints.

Solutions: There is no need to make any changes with respect to coordination with neighboring control areas.

Category II - Pricing Issues

(a) Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?

Existing Situation: Multiple transmission rates impact all wholesale market participants, including transmission dependent utilities, for interchange transactions. When utilities trade power, they use point-to-point transmission services, which often must be scheduled across multiple transmission owners' systems, such that multiple charges for transmission apply. (Also see comments under pancake rates issue c.)

Complaints: Paying multiple transmission rates within the Peninsular Florida grid results in economic inefficiency because economic transactions may not go forward due to multiple transmission charges.

Solutions: This issue creates problems for transmission dependent utilities and other market participants and needs to be addressed. See comments under pancake rates, issue c below.

(b) Is wholesale/retail transmission comparability a desirable goal? If so, how can it be achieved?

Existing Situation: Some retail ratepayers' energy is received as a result of transmission at wholesale across another utility's bulk grid using the FERC transmission tariff rates for ultimate

delivery by the retail ratepayer's utility. Other retail ratepayers are served directly by the "other utility" and that energy is considered retail by such utility with the transmission cost bundled within retail rates that are regulated by the FPSC.

Complaints: While both groups of retail ratepayers make use of the "other utility's" bulk transmission system, access to the grid is different for wholesale and retail purposes. In addition, there is a mix of regulation over transmission; some is subjected to regulation by FERC, some to the FPSC, some to neither.

Solutions: While the FERC has mandated that there should be wholesale/retail transmission comparability, and while this is a desirable goal, there are complex jurisdictional and implementation issues. This matter should be considered in the context of eliminating pancaked rates, which will at least mitigate discrepancies between wholesale and retail transmission service. See comments under pancake rates, issue c below.

(c) Does pancaking of transmission rates (defined as additive transmission wheeling rates from control area to control area) exist in Florida? Should pancaking be eliminated and, if so, how?

Existing Situation: Yes, it exists. There are two forms of rate pancaking in Florida. One form is for point-to-point services, where a power sale whose contract path traverses multiple control areas incurs a transmission charge to each owner, regardless of the distance traversed on any particular line, or whether any real power flows on the line at all. Another form of rate pancaking occurs for network service. Some utilities have non-contiguous systems such that their resources are not directly connected to their loads. These utilities have some local transmission systems that they own, but mostly they rely on the owners of the bulk grid to transmit their energy to their isolated, local distribution systems. These utilities pay the cost of their own transmission systems, plus a load ratio share of the cost of whatever bulk grid systems they use on a network basis. In addition, they pay any point-to-point charges incurred to transmit energy across any other utilities' transmission systems.

Complaints: Pancaked rates for point-to-point service are not economically efficient. Nor are additive rates involving combinations of point-to-point and network services. Lastly, rates for network service may not appropriately separate or credit local and bulk grid facilities. Transmission rate proceedings at FERC are very expensive and take many years (e.g. parties are still waiting for a FERC order regarding FPL's 1993 transmission rate filing). Although FERC sets protested rates for hearing "subject to refund," refund protection of a rate that remains in place for many years does not protect market structure or market transactions subject to such rates.

Solutions: Rate pancaking should be eliminated in Peninsular Florida if cost subsidy issues can be resolved. As a general matter, this elimination of pancaked rates should positively affect the efficiency of the wholesale generation market for the benefit of all retail ratepayers. The elimination of pancaked rates does not imply the establishment of a single postage stamp rate for the Peninsular Florida grid. There are other rate models which can be utilized which address both increased efficiency in the wholesale market while providing appropriate price signals for

siting new generation. The issues are complex and the study task force, under the leadership of the FPSC, should address potential economic solutions in working toward a comprehensive Peninsular Florida grid solution.

(d) **Should a cost-benefit analysis be performed on any proposed changes to the current regime? If so, generally speaking, how would such an analysis be performed?**

Existing Situation: Generally, cost-benefit analysis is used in evaluating any changes considered by the FPSC.

Complaints: No cost/benefit analyses have been done at a regional level of any proposed changes. Additionally, not all issues can be resolved through cost-benefit analyses. Some involve issues of discrimination, fairness, law, etc., that require solutions that may not be the most cost effective to companies or ratepayers.

Solutions: A cost-benefit analysis should be performed on any proposed changes, however, it should be recognized that such analyses are only one of the factors to be used to assess any need for change.

(e) **Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?**

Existing Situation: Transmission congestion pricing is an issue which is currently being addressed by FERC and NERC. This issue is in the Transmission Loading Relief (TLR) dockets at FERC and in a NERC pilot study to be conducted this summer.

Complaints: No complaints, except that some parties have raised a "trust" issue regarding security protocol procedures.

Solutions: The FPSC study task force should include this issue in its scope of work. Regional TLR, redispatch and congestion management procedures that promote efficient trading are currently the subject of discussion at the FRCC, and the FPSC's active participation would be constructive and important.

Category III - Governance Issues

(a) **Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida? What governmental and private agencies should be involved and to what extent?**

Existing Situation: The FRCC currently conducts activities relating to regional reliability. The governance of the FRCC is established and has so far served the parties well.

Complaints: The governance of a reliability organization may not be appropriate for matters

regarding fair access to the bulk grid. For example, the NERC governance is changing as NERC delves into access and "fairness" matters. There are perceptions on the part of some parties that there may be fairness issues relating not only to short and long-term access, but also to security protocols.

Solutions: Any regional transmission organization must be sensitive to fairness issues. Accordingly, a different type of more inclusive governance than the FRCC version may be required.

(b) What is the FPSC role in transmission dispute resolution?

Existing Situation: Alternative Dispute Resolution (ADR) procedures are included in open access tariffs. NERC and the FRCC also have ADR procedures for operational disputes. Transmission rate disputes are subject to FERC jurisdiction. Although disputes dealing with uneconomic duplication of facilities are decided by the FPSC, there is little attention to unfulfilled expansion needs.

Complaints: The areas where transmission disputes arise are: (1) operational disputes, (2) tariff/rate disputes, and (3) transmission expansion disputes.

(1) Operational: No serious complaints have arisen because the existing procedures have been sufficient in a regime where the rules have not been mandatory. Under this non-mandatory regime, the NERC and FRCC ADR procedures have been little used. In the future world of mandatory rules, the NERC and FRCC operating standards will be backed up with commensurate penalties to ensure compliance. National legislation is being proposed to facilitate this. This future mandatory regime will bring about an increased need for the use of effective ADR processes at the regional level.

(2) Tariffs/Rates: The FERC process for resolving tariff and rate filings is time-consuming and expensive. Pricing issues often are left unresolved after many years. Wholesale transmission rates will continue to be regulated and thus will be subject to rate proceedings.

(3) Transmission Expansion: In the past, the absence of regional planning has resulted in a failure to develop a consensus on what transmission expansion is necessary for wholesale market efficiency purposes, in contrast to reliability purposes.

Solutions: Proper regional planning will result in the identification of needed transmission expansion or other fixes necessary for economic or reliability purposes that will raise cost responsibility issues. FPSC involvement after ADR proceedings could be helpful in resolving these in a timely manner in furtherance of the Grid Law objectives. The FPSC study task force should include transmission expansion, (3) above, in its scope of work. In addition, the FPSC study task force should explore involvement by the FPSC after any unsuccessful ADR proceedings relating to operational matters, (1) above, and tariffs/rates, (2) above. For example, many of the disputes subject to FERC jurisdiction might be avoided or their resolution expedited if there was a "statewide settlement" on the application of transmission rates to all users.

(c) Does undue market power exist in Florida? What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?

Existing Situation: Functional unbundling, properly administered under FERC Order 888 and 889, together with evolving rules under NERC's leadership relating to the security of the transmission system, should effectively mitigate market power concerns as these relate to the Security Coordinator.

Complaints: No complaints, except that some parties have raised a "trust" issue regarding the independence of the Security Coordinator.

Solutions: If added assurances are desired, the FPSC could increase their participation in monitoring the operation of the Peninsular Florida grid.

(d) Is functional unbundling working in Florida? Can it work in Florida?

Functional unbundling can work in Peninsular Florida with the implementation of a regional planning process, resolution of trust issues relating to open access and security, elimination of pancaked rates and increased FPSC participation in monitoring the operation of the Peninsular Florida grid.

Joint Response
of
Seminole Electric Cooperative, Inc
and
Florida Municipal Power Agency

FPSC RTO Workshop
Problems

A. Planning Issues - Need for Regional Planning

Sub-Optimization in Planning - The Florida utilities do not currently conduct regional integrated planning of bulk transmission system; rather, they plan for their own needs and attempt to coordinate their individual plans with each other on an after-the-fact basis. This leads to system inefficiencies which take shape in many forms when looked at from the broader perspective of the State's collective need. A few examples are shown below:

- Poor timing of facility additions
- Redundancy in facility additions
- Planning gaps where problems which require new facilities are simply left unattended.
- Inefficient siting decisions for new transmission and generation facilities
- Lack of design flexibility for future expansion
- Voltage design based on single entity conformance as opposed to regional optimization
- Placement of terminals driven only by owner needs
- Conductor size not optimized with an eye towards minimizing State losses

Dealing with the Resulting Problems - Once transmission facilities are integrated into the Florida electric system and problems occur, there is not a practical way to resolve the problem through system improvements since disagreement usually exists as to whose problem it is. A properly formed RTO would establish the regional planning process; there would necessarily be a regional solution to problems that occur. The following is a list of some of the types of problems which have resulted in Florida and are likely to become more prevalent in the future in the absence of regional planning:

- The current balkanized approach to transmission planning has led to operational (and planning) bottlenecks, causing sub-optimum operation affecting many utilities. The owning utility can defer correcting the problems for many years, unless the upgrade is seen as advantageous from its singular perspective.

- Transmission improvements in certain regions of Florida have been deferred to the point where the system is inadequate to serve present loads.

- Needed improvements are held hostage to disagreement over cost responsibility.

TDUs Are Marginalized

Transmission dominant utilities currently have an inherent competitive incentive to treat any user of "their" system as the marginal user from a cost and quality of service perspective. The monopoly status of transmission dominant utilities, coupled with the competitive relationship that exists at the generation level with users of the system, has resulted in a hostile business environment where the public interest is sacrificed on the altar of competitive self interest. Shown below are a few examples to illustrate the concern.

- Transmission dominant utilities are given the incentive to "assign" longstanding transmission weak spot problems to parties requesting transmission service as if they were the party causing the problem.

- Network transmission users with loads and resources in multiple control areas are forced to artificially allocate (split) individual resources among each of the control areas in which customer load is located. This obligatory "rationing" of generation resources between multiple transmission owners has the effect of placing restrictions on customer resources which do not similarly restrict the resources of the transmission dominant utility. Such restrictions reduce reliability of service and increase the cost of service.

- Requests for new delivery points to improve local area reliability are met with resistance and stonewalling by transmission dominant utilities. Often times it takes months to negotiate a study agreement to even have the request analyzed.

- TDUs are required to pay (i.e., are directly assigned) costs associated with adding generation or load to a transmission network. Concurrently, the transmission owner would consider similar costs associated with its own loads and resources to be "network" upgrades, and assign the costs to all transmission users.

B. Operations Issues

Transmission Security

One of the primary objectives of establishing an RTO is to improve transmission security. An effective transmission security function must be proactive, as opposed to only reactive. It must act as a security net which provides equitable coverage over the entire region. A successful security function relies on close cooperation among utilities to ensure the adequacy of the real-time system information that the security model uses. The FRCC transmission security function has been mostly reactive, leaving voids in its coverage, deficiencies in its response once problems were detected, and inadequacies in inter-utility coordination. Reliability of the Florida electric system has been adversely affected as the result of these deficiencies. A few examples follow:

- Regional Blackout

  A regional blackout occurred when a security breach went undetected by the FRCC security analysis system, causing outages and voltage instability over an extended period.

- Regional Disturbance

  A disturbance on one system cascaded into the surrounding systems, interrupting firm load and depressing voltages over a widespread area. One of the findings from the study of the event was that the electrical problems could have been confined to the system on which it started.

- Regional Electrical Separation

  The central region of the Florida grid suffered a disturbance which caused it to separate from the remaining electric grid. The separation of the generation-deficient central Florida region caused under frequency relays to interrupt firm load over a broad area. The event resulted from inadequacies in the security process: (1) security violations went undetected in a timely fashion; (2) security coordinator lacked adequate information to assess system security, (3) once problem was detected, requests for action were not heeded by those responsible; and (4) un-coordinated (de-centralized) switching of major transmission lines led to cascading transmission outages due to overloads, and the subsequent electrical separation of the central Florida region.

- Regional Overload and Line Failure

  During a period marked by heavy sales by Florida utilities to out-of-state buyers, significant overloads were virtually ignored and resulted in the burn down of one line and subsequent loss of firm load. The state security coordination apparatus was inadequate to resolve the problem and the utilities selling the power were unresponsive in the time frame needed to prevent the loss of customer load.

Available Transfer Capability (ATC) Calculations

The determination of transfer limits on the bulk transmission system is critical to the proper functioning of the energy marketplace. The transfer limit between two systems is referred to as the Available Transfer Capability ("ATC"). Transmission dominant utilities have a competitive incentive to restrict access to their systems by their competitors. This makes ATC calculation a ripe area for "gaming" the system.

In addition to the potential for gaming (discussed further under Unfair Competitive Practices), the current system is inadequate for another reason. The current system has a number of

individual companies calculating ATCs in relative isolation and without any guarantee that their individual models truly reflect all pertinent transmission and generation information. Because of the integrated nature of the system, ATC calculations (if expected to be accurate) must consider the electrical system in its entirety. Examples of typical problems with the current system are as follows:

- Some transmission owners either do not routinely update their ATCs or simply default to the showing of zero transfer capability. It is typical for a customer to see information that shows "space available" but then, upon attempting to consummate a specific transaction, the capacity is said to be not available.

- Another practice is for the transmission dominant utility to claim exclusive access to all (or a major portion) of the available capacity for the purpose of serving its native loads. Users might see short term non-firm capacity available in some volume but firm capacity is withheld from the marketplace.

No Consistent Reliability Standards

The current system suffers from lack of consistency in reliability standards for transmission planning, maintenance, and operation. Examples of associated problems and the fertile ground it creates for discriminatory treatment of users of the system are as follows:

- Transmission customers suffer from inferior interconnection facilities relative to transmission owner's load service points

- Transmission dominant utilities will not share their own customer reliability information to allow benchmark comparisons to ensure comparable treatment.

- Transmission dominant utilities allocate maintenance support and infrastructure based on optimizing service to their own customers.

C. Unfair Competitive Practices

Despite the good intentions of the Energy Policy Act of 1992 and FERC's open access rules, a competitive marketplace is still being subverted by a range of unfair competitive practices. These practices, which take the form of what has been referred to as "malicious compliance" with open access rules, have the effect of reducing reliability and increasing costs for service to wholesale competitors. RTOs are necessary in order to make such practices impossible, or at a minimum, to remove the incentive to game the system.

Examples of some of the problems experienced in Florida by transmission dependent utilities are as follows:

- Transmission dominant utilities impose more severe operational standards (e.g., power factor, etc.) than the standards imposed on the transmission owners' own native load customers.

- Transmission dominant utilities are attempting to obligate wholesale customers to install regional load shed schemes which are neither uniformly implemented across their systems nor are they required by the FRCC. Such schemes provide the tools a transmission provider could use to enhance its generation business' access to the market by reducing reliability to selected customer groups.

- Transmission maintenance is being rationed in ways that favor the transmission provider's own native load customers. This historical bias in transmission provider's commitment to reliability has taken the form of regional personnel reductions and reorganization of field personnel, equipment, and stores.

- It is believed that out-of-state economy sales are not being immediately terminated by transmission dominant utilities during times when these same utilities are requesting other users of the system to curtail loads in response to a system emergency. In some cases, the out-of-state sales contributed to the system emergency.

- Transmission dominant utilities have attempted to dictate the type of transmission service which must be contracted for certain transactions, primarily insisting that firm transmission was required instead of non-firm.

- Transmission dominant utilities attempt to deny flexibility relating to changes in network resources.

- Transmission dominant utilities may obstruct the use of future generating resources if the generating plant that is the source of the power contains an unsubscribed "merchant" component.

- A number of instances have demonstrated what should be patently obvious - that is, in a competitive environment, Chinese walls will not suffice in order to ensure that there is no commingling of generation and transmission interests by transmission dominant systems. The following examples illustrate the concern:

  (a) On at least one occasion, a transmission dominant utility exhibited an apparent violation of the FERC code of conduct when it used its operations personnel to assist in continuing non-firm sales out of the state while claiming it was in a

capacity emergency, and therefore eligible for emergency purchases.

(b) On at least one occasion, it appeared that a transmission dominant utility denied transmission service to a utility that desired to purchase power from a third party; and then the transmission company consummated a sale of its own to the same utility that had been denied transmission service (i.e., a sale that would not have been economical had the transmission request been granted).

(c) One transmission provider contends that its merchant staff needs to know details of a competitor's third party sales, because they must input the information into the computer system for System Operator implementation. If true, this would be an apparent violation of the conduct code regarding merchant function separation from the transmission function.

- Transmission dominant utilities have routinely presented ultimatums to customers which are intended to force agreement out of the the customer under the threat of denying critical services when needed. A few examples follow:

(a) Threats made that a System Impact Study will not be performed without the customer first agreeing to precedential language concerning the ultimate cost responsibility for specified facilities.

(b) Threats made that service will not be established to new delivery points unless all language has been resolved.

(c) Initial results of a recent system impact study in response to a request for network service resulted in a claim there were transmission problems on the provider's system and also on two neighboring systems. The transmission provider's initial position was that the entity requesting service must first resolve all such third party problems before it would consider granting network service.

(d) A transmission provider attempts to force wholesale customers to install specific transmission facilities on the customers' side of the delivery point at the customers' costs even in circumstances where the requirement is not imposed on the transmission provider's own system, and the customer does not agree that the facilities are necessary.

D. Pricing Issues

Pancaked Rates

Peninsular Florida is a compact energy market. Each owner of transmission charges a separate

transmission rate to move power across its system (e.g., each of the electric utilities in Peninsular Florida owning transmission facilities could at some point be a viable wholesale wheeling link). If power is moved across multiple systems in Florida, these transmission charges are additive. These are, by definition, pancaked wheeling rates. Within the Florida market, there is no cost basis for pancaked transmission rates. A properly formed RTO would establish a non-pancaked regional rate structure which would yield a more representative cost basis for use of the transmission system.

The attached table shows the extent of the impact of pancaked rates on the Florida energy market.

Pancaked rates create three major problems in a market that seeks to promote economic efficiency. Pancaked rates:

- Cause market participants to make generation siting decisions that are not necessarily in the best interests of the region as a whole.

- Give market participants an economic incentive to build transmission facilities which might not otherwise be the most optimal from a regional perspective.

- Distort the generation pricing signal and thereby cause poor economic decisions to be made when examining power supply alternatives.

PANCAKED RATES WITHIN FLORIDA

REQUIRED WHEELING TRANSACTIONS

Buyer

Seller

	FPL	FPC	TEC	JEA	SEC OWN	SEC FPC	SEC FPL	FMP FPC	FMP FPL	OUC	LAK	TAL	GRU	HST	LWU	KIS	RCI	NSB
FPL	.....	1	1	1	1	2	1	2	1	1	2	2	1	1	1	2	2	1
FPC	1	.....	1	2	1	1	2	1	2	1	1	1	1	2	2	1	1	1
TEC	1	1	.....	2	2	2	2	3	2	1	1	2	2	2	3	2	1	2
JEA	1	2	2	.....	1	2	2	3	2	2	3	3	2	2	2	3	3	2
SEC	1	1	2	1	.....	2	2	2	2	2	2	2	2	2	2	2	2	2
FMP	1	1	2	2	2	2	2	2	2	1	2	2	2	2	2	1	1	2
OUC	1	1	1	2	2	2	2	2	2	.....	1	2	2	2	2	2	2	2
LAK	2	1	1	3	2	2	3	2	3	1	.....	2	2	3	3	2	2	2
TAL	2	1	2	3	2	2	3	2	3	2	2	.....	2	3	3	2	2	2
GRU	1	1	2	2	2	2	2	2	2	2	2	2	.....	2	2	2	2	2
HST	1	2	2	2	2	2	2	3	2	2	3	3	2	.....	3	3	3	2
LWU	1	2	2	2	2	2	2	3	2	2	3	3	2	2	.....	3	3	2
KIS	2	1	2	3	2	2	3	2	3	1	2	2	2	3	3	.....	2	2
RCI	2	1	1	3	2	2	3	2	3	2	2	2	2	3	3	2	.....	2

Notes:

(1) The buyer will be responsible for the costs of transmission and losses for the selling system and any other systems in the contract path

(2) Each application of wheeling and losses costs the buyer approximately 5mills/kwh (i.e., a one wheel transaction is burdened by 5 mills/kwh, a two wheel transaction by 10 mills/kwh, and a three wheel by 15 mills/kwh

(3) For reference purposes, full-service wholesale rates are generally in the range of 40-55 mills/kwh, wholesale spot transactions in the 15-100 mills/kwh range and retail rates are in the 70-80 mills/kwh range

City of Lakeland, Electric Department
Response to the FPSC List of Florida-Specific RTO and Related Issues

Category I. Planning & Operations Issues

a) What is the proper role of the FPSC in transmission planning?

To date, the FPSC has not taken a progressive role in transmission planning in Florida. The role that they have taken has been limited to inquiries at the time of permitting new generation projects as required by the Power Plant Siting Act and those transmission projects that trigger the Transmission Line Siting Act. The FPSC has also provided cursory review annually through the Ten Year Site Plan review process.

To this point in time, transmission capacity, access and reliability have not been a major issue in Florida. Transmission was built as necessary to deliver power from the generators to the load centers. As the electric industry is evolving with deregulation and competition taking hold, the need for more and better coordinated transmission planning is here. We need to understand the effect of new or different resources supplying power to existing load centers and the effect these new flows will have on existing constraints. One of the effects of competition is to wait, postpone or even forgo capital intensive construction projects which include electric transmission. This has the potential to affect the reliability of the electric grid. Those utilities that desire to build transmission have found it to be increasingly difficult to do so because of the "Not In My Backyard - Nimby" response from customers. The day is close at hand when the utilities will need the help of Regulators such as the FPSC to get projects built. As part of the FPSC's powers and responsibilities through the Grid Bill, the FPSC needs to take a more progressive role in transmission planning.

b). What is the proper role of the FPSC in transmission siting?

The proper role of the FPSC in transmission siting should be to meet the requirements of the Transmission Line Siting Act for reliability purposes and to assist utilities in siting and building transmission as needed or deemed necessary. It is Lakeland's opinion that the FPSC has been meeting those needs and fulfilling its role in transmission siting.

c). What is the proper role of the FPSC in transmission reliability and operations?

The FPSC should monitor the operations of the ISO and be an observer on any operating policy decisions the ISO develops. The FPSC should also observe any investigations of operating or reliability problems that occur.

d). Do/should transmission providers plan their transmission additions based on their needs (for generation and load) or do/should they plan their transmission additions based on their own needs and the needs of the transmission dependent utilities?

Historically, transmission providers have planned their transmission additions based on their native load needs. When electric utilities first began their operation, each was an island unto itself. As population and load grew, synergies began to evolve that made it beneficial to establish ties with neighboring utilities. Even though those ties began to appear, each utility was still responsible for its own reliability needs and thus continued to build generation and transmission facilities to meet their respective needs. It wasn't until the 1960's that all of Florida's utilities were interconnected with at least one other utility. In the 1970's Florida utilities took a very progressive step in establishing what is now called the Energy Broker Network (EBN) to begin the economic exchange of energy when it was mutually beneficial. Utilities began establishing longer term power sales and purchases for a variety of reasons, but all related to one single underlying theme, economics. A number of smaller systems have gotten out of the generation business along the way which requires power to be shipped in to serve local load, and others have grown without adding generation and/or transmission facilities necessitating the need to depend on other systems, but again because of economics. Transmission owning utilities with surplus generation have entered into long term arrangements to provide power to those systems that left the generation business, again for economic reasons. Other transmission owning utilities have found themselves caught in the middle becoming a transportation company without any choice as power flows across their system from supplier to recipient. Those utilities with long term contracts that act as suppliers have included the loads of their respective wholesale customers in planning their respective transmission systems to get the power out. These transmission suppliers have planned and built their transmission systems based on the long-term contracts that they are serving along with the needs of their native customers. Those that have become transporters often times find their systems strained because of throughflow.

Transmission systems have not been planned for the large short term/non-firm transactions or the unplanned throughflows that we are seeing in today's market. Transmission is not free, nor should it be in an economic driven environment. It would be unreasonable to expect any company to invest in physical plant without the expectation of a revenue stream to pay for that investment. In our business that equates to a contract for transmission service that is sufficient to cover the investment cost for a given period of time. Lakeland is more than willing to build transmission if there is a customer willing to commit to purchase transmission service. Lakeland is not willing to build transmission on a speculative basis, nor do we suspect that other utilities would build on speculation either.

e). What information should be shared regarding transmission planning and with whom should this information be shared?

Anyone owning or planning for transmission facilities must have knowledge of loads and the resources to meet those loads. A transmission owning utility must forecast substation loads and have knowledge of generation resources that will serve those loads of its native customers. A transmission owning utility that is providing transmission service for another utility must be provided with that same information for those loads that are located within its geographic service territory boundaries. If a transmission owning utility is supplying transmission service for the export of power from its system, it must know quantities being supplied and whose service territory is ultimately receiving the power. The modeling of the movement of power requires knowledge of the source of the power and the destination along with the quantity and timing of the transaction. TDU's and marketers must be willing to provide this information in order for their transactions to be modeled. Only when those transactions are modeled can the future needs of any transmission system be determined. Because Florida utilities are linked together electrically, transmission owning utilities must also be willing to pool or share their data in order to assess the impacts that power flows have on each others system due to flow through or what is also referred to as parallel flows. The geography of Florida significantly limits the effects of parallel flows. Flow through power is however an occasional problem due to some utilities being surrounded by one or two larger utilities.

The requirements of FERC Order 888 along with the pressures of competition have actually hurt the process of transmission planning. As mentioned earlier, a key ingredient to modeling the movement of power is knowing the source. As FERC has pushed functional unbundling, the generation side of today's utilities are reluctant to talk to the transmission side. As a result the transmission planner many times does not have accurate information about what generators will actually be supplying a particular transaction. An incorrect assumption about the generation dispatch can have a dramatic impact on the result and ultimate need and / or solution for the transmission system. Again, as a result of

competitive pressures, data beyond 5 years is becoming more and more questionable. With ever increasing siting and construction times for new transmission it is becoming increasingly difficult to get solutions to transmission problems implemented.

f). What does optimization of transmission planning for Peninsular Florida entail? Is it needed?

The obvious thought that comes to mind when talking about "optimized" transmission planning is "least cost". This could imply that transmission built in Florida to date has not been the least cost alternative to meeting load. The idea for the need for optimization of transmission could also imply that there is excess transmission in Florida. That scenario does not seem to fit either as Florida has limited import capability. As transmission appears to be somewhat limited in Florida, it would seem that the transmission system has been optimized based on the available set of data from which to plan with.

g). Should there be central dispatch of generation and transmission facilities in Peninsular Florida?

No. The combined central dispatch of both generation and transmission would not be in compliance with FERC Rule 888. Central dispatch of generation is not conducive to maximizing competition, especially in a cost based dispatch environment. Attempts are currently being made via RTO's and ISO's to centrally dispatch transmission in several parts of the country with limited success. Access, availability and gaming complaints are still being lodged even in some of these so called ISO's.

h). What are the appropriate boundaries for regional transmission planning?

The appropriate boundaries for regional transmission planning should be that geographic area determined by natural boundaries such as mountains or rivers but must also take into account the effects of any adjacent regions as well.

i). Please comment on each of the following FERC ISO Principles:

The following responses by no means endorse an ISO, RTO or similar organization. These responses are based on the premise that if an ISO, RTO or similar organization did exist, the following principles would or would not be appropriate. The entire concept of an ISO, RTO or similar organization does not compliment the intents of FERC Rule 888 and / or the Energy Policy Act of 1992. An ISO or other similar organization imposes a cost to the participants which is

counter to the desires of FERC and Congress to lower costs to consumers. The need for an ISO presumes that open and non-discriminatory access cannot be achieved by any other means. ISO's should not be formed or used to solve rate issues. The Florida Legislature has given the FPSC the power through the Grid Bill to ensure reliable and cost effective electric service for all Florida consumers. The need for an ISO can be completely negated through the active participation and oversight of the FPSC. This combined with continued and enhanced cooperation of Peninsular Florida's utilities individually and through the FRCC can provide an electric system that is both reliable and robust in today's market as well as being accessible to all.

1) **The ISO's governance should be structured in a fair and non-discriminatory manner.**

The governance of an ISO, RTO or any other similar organization should be structured in a fair and non-discriminatory manner for all members and participants.

2) **An ISO and its employees should have no financial interest in the economic performance of any power market participant. An ISO should adopt and enforce strict conflict of interest standards.**

An ISO and its employees should have no financial interest in any member or power market participant. Operating without such a policy or safeguard invites criticism of favored status or discriminatory practices.

3) **An ISO should provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner.**

An ISO should provide open access to the transmission system and all services under its control. A single non-pancaked rate is not necessarily in the best interest of all members or participants. A single postage stamp tariff is only acceptable in instances where all grid facilities are owned by the same entity. In multi-owner systems or regions, each owner has different costs that must be allowed to be recovered. A single postage stamp rate will not cover every owners cost. Transactions that cross multiple systems certainly will not recover the costs of all member systems used. A single postage stamp system-wide rate subsidizes costs for one at the expense of others. A MW-Mile rate could be

a possible solution that would give credit for any system crossed by a transaction.

4) **An ISO should have the primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well-defined and comply with applicable standards set by NERC and the regional reliability council.**

An ISO or similar grid operator should have day to day responsibility for ensuring reliability just as control area operators do today. Long term reliability should be the responsibility of the control area owners of the region and should comply with regional and NERC planning and operating standards.

5) **An ISO should have control over the operation of interconnected transmission facilities within its region.**

An ISO should have operational control of the interconnected transmission facilities within its defined area.

6) **An ISO should identify constraints on the system and be able to take operational actions to relieve those constraints within the trading rules established by the governing body. These rules should promote efficient trading.**

An ISO will be able to identify system constraints as they occur. Constraint relief takes place in two ways, generation shift or re-dispatch and construction of additional transmission capacity. There will always be constraints if a system is pushed beyond its design. Constraint relief via generation shift should not be arbitrarily performed. As generation is normally dispatched on an economic, least cost basis, the shifting of generation to relieve constraints moves the system from least cost generation to a higher cost. The generating utilities customers should not be forced to bear higher costs to benefit another utility. Market forces should be allowed to work to relieve constraints either through cost compensation for generation shift or investment in additional transmission capacity.

7) **The ISO should have appropriate incentives for efficient management and administration and should procure the services needed for such management and administration in an open competitive market.**

Incentives for ISO management and administration, again seems to fly in face of the intent of 888 and EPAct. An ISO has a cost which must be recovered from the consumers which is counter to lowering costs. This ISO concept/principle seems to invite increased costs. A minimum cost ISO could be accomplished by employees of the ISO reporting to a Board made up of all customers of the ISO.

8) **An ISO's transmission and ancillary services pricing policies should promote the efficient use of and investment in generation, transmission, and consumption. An ISO or an RTG of which the ISO is a member should conduct such studies as may be necessary to identify operational problems of appropriate expansions.**

An ISO should not be involved in pricing issues. Rates and tariffs for transmission and ancillary services should be based on individual member systems costs. An ISO is only needed if open and non-discriminatory access cannot be achieved by any other means and should be confined to transmission dispatch and reliability functions.

9) **An ISO should make transmission system information publicly available on a timely basis via an electronic information network consistent with the Commission's requirements.**

An ISO should only make transmission system information publicly available if all transmission is owned by the ISO. ISO members retaining ownership of their transmission facilities should provide transmission system information available as prescribed by FERC through Orders 888 and 889.

10) **An ISO should develop mechanisms to coordinate with neighboring control areas.**

An ISO must develop mechanisms to coordinate with neighboring control areas just as Peninsular Florida's utilities have operated in a coordinated manner with each other and with Southern Co. utilities.

Category II. Pricing Issues

a) Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?

The Pro-forma tariff structure of FERC 888 is intended to eliminate multiple terms and conditions for all utilities, not just transmission dependant utilities. One of the underlying premises or concepts of 888 was to have a standard tariff with standard terms and conditions so as to help facilitate open access. All 888 Pro-forma tariffs have firm and non-firm point-to-point service, network service and at minimum the five basic ancillary services that FERC described and associated with transmission service in general. Rates will vary by utility as their respective costs vary. The question of whether multiple rates are a problem is a matter of opinion. Lakeland feels it is appropriate for each transmission provider to be able recover their respective costs of operating their transmission systems. As costs are different, rates will likewise be different. Transmission owning utilities pay the same rates for moving power across other systems as do Transmission dependant utilities thus making the playing field level in that regard.

b) Is wholesale/retail transmission comparability a desirable goal? If so, how can it be achieved? [Note: this issue is also properly in category III]

Wholesale transmission comparability as discussed in FERC Order 888 and 889 refers to providing the same transmission services and products to others as you provide to yourself, such as for serving native load. To that extent, transmission comparability is a desirable goal. Those utilities that have filed pro-forma tariffs should be following comparability principles already. Some municipal (non-jurisdictional) utilities are not required to file pro-forma tariffs under 888. FERC has stated though that the comparability principle should still apply. Those non-jurisdictional utilities must be willing to provide open access to their systems in order to receive open access from other utilities.

c) Does pancaking of transmission rates (defined as additive transmission wheeling from control area to control area) exist in Florida? Should pancaking be eliminated and, if so how?

Yes, pancaking of transmission rates exists in Florida. No, pancaking should not be eliminated at present. As stated earlier, rates are different because they reflect the cost of operating each particular systems transmission network. Even if all transmission owners had identical costs, a single postage stamp rate as we think of it today would result in those revenues being shared with each system

owner whose system was used for a particular transaction. Shared revenues will not cover costs unless the single rate is the summation of all the system rates involved in each transaction. Single rate structure does not lend itself to networks that have multiple owners that were built based on the basis of serving native load. A single rate is applicable only when the system is designed, built and paid for by all parties involved. A MW-Mile rate might also be a possible solution. Transactions would be charged based on distance flowed thereby compensating each system owner that the transaction encounters. The rate would be distance sensitive but would still have to be sufficient to cover costs.

d) Should a cost-benefit analysis be performed on any proposed changes to the current regime? If so, generally speaking, how would such an analysis be performed? [Note: this issue is also properly in category I and category III]

Yes. The economic impact of any proposed changes must be looked at. If it is determined an ISO, RTO or similar organization is needed, that said organization does not come without a price. The cost of that organization must be weighed against the benefits gained. The costs of an ISO must be carefully looked at as there will be more than just direct costs. There certainly is the possibility of indirect costs such as negative economic impacts to some participants.

In general, specific access issues must be identified and brought to the table. From that list, it must be determined as to why the access problem exists and from that solutions can be designed. Are the access problems due to capacity, communication, discrimination or some combination of these? The cost of the solution should then be weighed against the savings gained from the transmission access gained.

e) Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?

Lakeland is not aware of congestion pricing being used in Florida. One method to accommodate the concept of congestion pricing would be to handle congestion pricing on the secondary market. For example, transmission is reserved ahead of time via the OASIS. If transmission capacity for a specific transaction is no longer available, the buyer seeking capacity would be able to go to the first (original reserving) buyer who had already secured capacity and offer to purchase that capacity for a premium. If agreed to, the first buyer would receive the premium above the standard rate as compensation for not being able to complete its transaction, the seller would get its standard rate and the final

buyer would have its requested transmission capacity, paid for at a "congested" price. Congestion pricing should be negotiated between competing buyers. The selling utility should stay out of the mix to avoid any possibility or perception of discriminatory practices. It could be argued that this could promote the excess purchase of transmission capacity for the sole purpose of re-sale on the secondary market or to block competitors from access. That risk exists in today's market but does not appear to be a problem. The market in general should do a fairly good job of policing itself. It is highly unlikely that a market participant can afford to game the system for any length of time. When prices become high enough, either investment in transmission will take place or alternate sources of power will be acquired through purchase or direct building of new generation that replaces the need for transmission transactions.

Category III. Governance Issues

a) Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida? What governmental and private agencies should be involved and to what extent?

Governance can take on many forms depending on the structure of the organization. If the RTO / ISO does not take ownership of the transmission facilities, then there should be representation of the owners along with other market participants. This governance should be fair and equitable to all participants, owners and non-owners alike. If the organization does have ownership, then independent representation would be in order. Representation should in all cases contain some technical expertise in the subject matter. It would also be appropriate for the FPSC to be participants in all governance structures.

b) What is the FPSC role in transmission dispute resolution?

An appropriate role for FPSC in transmission dispute resolution would be that of an arbitrator.

c) Does undue market power exist in Florida? What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?

Lakeland does not feel that undue market power of transmission exists in Florida. Lakeland has not experienced difficulties in obtaining transmission service for the purchase or sale of power. The rare instances of curtailment or unavailability that have affected Lakeland have been legitimate.

Lakeland has only encountered one instance of a problem caused by the fact that the security coordinator is not fully independent from its Florida utility. It is our understanding that in that instance, the utility acknowledged that an error was made and no further instances have been noted. This function has worked extremely well for Florida as a whole and with reasonable oversight can continue to do so well into the future.

d) Is functional unbundling working in Florida? Can it work in Florida?

Lakeland has not seen any evidence that it is not working in Florida.

Orlando Utilities Commission
Response to the FPSC List of Florida-Specific RTO and Related Issues

Category I. Planning & Operations Issues

a) What is the proper role of the FPSC in transmission planning?

OUC – The FPSC is responsible for the reliable delivery of power to the customer. As the generation market opens up in Florida, carrying out this responsible will require a more coordinated effort. This means that transmission planning will need to be done on a coordinated regional (FRCC) basis. The FPSC should take an oversight role to ensure that the coordinated planning happens. Relating to regional transmission planning, the NERC IMIC is recommending to the NERC Board of Trustees that the calculation of ATC be done on a regional basis. Even though the calculation of ATC is not transmission planning, this recommendation does show the push for more regional coordination and regional processes relating to the use of transmission by the market.

b). What is the proper role of the FPSC in transmission siting?

OUC – The FPSC should continue to meet the requirements of the Transmission Line Siting Act for reliability purposes and to assist utilities in siting and building transmission as determined by the coordinated planning.

c). What is the proper role of the FPSC in transmission reliability and operations?

OUC – The FPSC is responsible for the reliable delivery of power to the customer. This includes planning and operating.

d). Do/should transmission providers plan their transmission additions based on their needs (for generation and load) or do/should they plan their transmission additions based on their own needs and the needs of the transmission dependent utilities?

OUC – transmission providers should plan (build) transmission for any customer that is going to pay for it. All retail customers of a transmission system (no matter who is supplying the generation) should be treated the same and pay the same.

e). What information should be shared regarding transmission planning and with whom should this information be shared?

OUC – all information necessary for transmission planning – location and size of load, generation, and transmission – should be shared with all transmission providers by other transmission providers and by all sources of generation. For the calculation of ATC, all transmission providers are required to share all data - generation, transmission, load, transmission reservations, and schedules – with all other transmission providers.

f). What does optimization of transmission planning for Peninsular Florida entail? Is it needed?

OUC - Optimal bulk transmission planning would be done completely coordinated.

g). Should there be central dispatch of generation and transmission facilities in Peninsular Florida?

OUC - As generation becomes more and more deregulated, this decision should be made by the generation market participants.

h). What are the appropriate boundaries for regional transmission planning?

OUC – Regional transmission planning should be on geographic and electrical boundaries.

i). Please comment on each of the following FERC ISO Principles:

1) The ISO's governance should be structured in a fair and non-discriminatory manner.

OUC - The governance of any independent organization that controls assets for the public good should be structured in a fair and non-discriminatory manner for all stakeholders.

2) An ISO and its employees should have no financial interest in the economic performance of any power market participant. An ISO should adopt and enforce strict conflict of interest standards.

OUC – There should be no conflict of interest in the ISO or its employees, but there needs to be a reasonableness to this requirement or many qualified people will not be able to work for the ISO. The Midwest ISO requirements on financial interest are an example of what not to do.

3) **An ISO should provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner.**

OUC – Agree. However, a single postage stamp (non-flow based) rate is not the only way to have non-pancaked rates. For example, a MW-Mile rate would be non-pancaked, but would recognize the distance-sensitive nature of cost of transmission. The key is to recognize the actual use of the transmission system by flow not contract path. A non-pancaked rate would be a single tariff that would be charged to all users of the transmission system in relationship to their use not in relationship to what transmission that they own. From all of these charges the transmission owners would receive the appropriate amount to cover their investment in transmission and their transmission operating costs

4) **An ISO should have the primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well defined and comply with applicable standards set by NERC and the regional reliability council.**

OUC - Agree

5) **An ISO should have control over the operation of interconnected transmission facilities within its region.**

OUC – Agree, within its defined area of control. This control may be direct or indirect, but the ISO has ultimate control/ responsibility.

6) **An ISO should identify constraints on the system and be able to take operational actions to relieve those constraints within the trading rules established by the governing body. These rules should promote efficient trading.**

OUC – Agree, the parties benefiting from these operational actions should pay the costs.

7) **The ISO should have appropriate incentives for efficient management and administration and should procure the services needed for such management and administration in an open competitive market.**

OUC – The ISO needs to protect and balance the interests of all stakeholder groups and must be a suitable vehicle to promote the public interest of open access in the wholesale power market. The ISO must serve the public interest in

the transmission system, which will remain a natural monopoly, while generation will not. The governing board of the ISO, which would be made up of all of the stakeholders, should set the appropriate incentives for efficient management and administration. This way the balance of the interests of all stakeholders will be met.

8) **An ISO's transmission and ancillary services pricing policies should promote the efficient use of and investment in generation, transmission, and consumption. An ISO or an RTG of which the ISO is a member should conduct such studies as may be necessary to identify operational problems of appropriate expansions.**

OUC – Since the transmission system is a monopoly, any pricing policies should reflect costs, both imbedded and marginal. The coordinated regional planning should identify problems of appropriate expansions.

9) **An ISO should make transmission system information publicly available on a timely basis via an electronic information network consistent with the Commission's requirements.**

OUC – Agree

10) **An ISO should develop mechanisms to coordinate with neighboring control areas.**

OUC - Agree

Category II. Pricing Issues

a) **Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?**

OUC – The current postage stamp (non-flow based) rate methodology is being used because it is simple to calculate, but it does not reflect the true cost of all of the different uses of the transmission system. Multiple postage stamp rates can just multiply this inaccuracy.

b) **Is wholesale/retail transmission comparability a desirable goal? If so, how can it be achieved? [Note: this issue is also properly in category III]**

OUC – The issue is not wholesale versus retail, but the goal should be comparable charges for comparable use. The postage stamp (non-flow based) rate does not charge according to actual flows on the transmission system.

c) **Does pancaking of transmission rates (defined as additive transmission wheeling from control area to control area) exist in Florida? Should pancaking be eliminated and, if so how?**

OUC - Yes, pancaking of transmission rates exists in Florida. A usage or flow based rate should take the place of the postage stamp rate.

d) **Should a cost-benefit analysis be performed on any proposed changes to the current regime? If so, generally speaking, how would such an analysis be performed? [Note: this issue is also properly in category I and category III]**

OUC – Yes, the higher the cost, the more the need for a cost-benefit analysis. This analysis should take into consideration all of the costs and benefits. Some of the benefits may be difficult to quantify. All of the stakeholders should identify the costs and benefits and be involved in the cost-benefit analysis.

e) **Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?**

OUC – Florida does not have congestion pricing. If the question is should Florida have congestion pricing, the answer is not until there is flow-based transmission charges.

Category III. Governance Issues

a) **Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida? What governmental and private agencies should be involved and to what extent?**

OUC - The governance of any independent organization that controls assets for the public good should be structured in a fair and non-discriminatory manner for all stakeholders. The ISO needs to protect and balance the interests of all stakeholder groups and must be a suitable vehicle to promote the public interest of open access in the wholesale power market. Governmental and private agencies should be involved to the extent that they have a stake in the operation of the transmission system.

b) **What is the FPSC role in transmission dispute resolution?**

OUC – I assume the question is what role should the FPSC take in transmission dispute resolution? Assuming that there is no change in the current way that things are done in transmission, that is no formal coordinated transmission planning and no ISO, the FPSC should be an arbitrator. With an ISO, the ISO board would do the dispute resolution. A formal coordinated transmission planning process would include a dispute resolution process in which the FPSC could play a part.

c) **Does undue market power exist in Florida? What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?**

OUC – The issue is not just market power in generation, but monopoly control of a transmission system without the checks and balances of other stakeholders to ensure the non-discriminatory and comparable use of the monopoly transmission system. Right now all of those checks and balance are done by litigation.

d) **Is functional unbundling working in Florida? Can it work in Florida?**

OUC – Recently, a transmission provider denied the use of their transmission system by OUC, and then they turned around and used their transmission system for their profit. That transmission provider privately admitted that it was a mistake, but would not want to put it in writing or pay for their mistake.

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REGISTERED PATENT ATTORNEY

COGENERATION & ALTERNATIVE ENERGY
ENERGY REGULATORY LAW

MEMORANDUM
February 24, 1999

TO: Mr. Joseph D. Jenkins, Director
Division of Electric and Gas
Florida Public Service Commission

via email toFPSC-ISG@frcc.com

FROM: Rich Zambo

RE: Response of The Florida Industrial Cogeneration Association (FICA) **Request for Response to Florida-Specific RTO Issue List**

Attached find the Florida Industrial Cogeneration Association's (FICA) response to your February 8th memo requesting responses to the "Florida-Specific RTO Issue List". FICA's comments will not, at this juncture, address all issues listed but rather focus on those issues of particular concern to FICA, and attempt to articulate the industrial cogenerator's view of the Florida transmission world. Accordingly, FICA reserves the right to expand upon or otherwise modify this response.

FICA members own and/or operate cogeneration facilities in conjunction with various industrial operations at locations throughout the State. FICA's members internally consume electricity produced by such cogeneration facilities, and/or sell such electricity to utilities. FICA's members have long been constrained in marketing their cogenerated electricity by, among other things, the availability, cost, terms and conditions of transmission services. The cost of transmission and ancillary services, in conjunction with "line loss" assessments imposed by each transmission utility, severely impact the economics of selling cogenerated power to any but the "native" or directly interconnected utility. Similarly, transmission 'bottlenecks" have impacted on the siting/development of additional cogeneration facilities.

Florida's peninsular geography presents a situation which appears to require an independent RTO, if transmission services are to provided in an efficient, economical and non-discriminatory manner. Based on comments filed in this proceeding, it appears that the Florida Municipal Power Agency and Seminole Electric Cooperative, Inc., who are also severely constrained by the current regime, share some of FICA's interests and concerns.

We trust FICA's comments will be of use to the Commission in its deliberations regarding RTO's and the Florida electric grid. Please call if you wish to discuss.

COMMENTS
OF
THE FLORIDA INDUSTRIAL COGENERATION ASSOCIATION

RE: LIST OF FLORIDA-SPECIFIC RTO AND RELATED ISSUES

CATEGORY I. Planning & Operations Issues

(a) **What is the proper role of the FPSC in transmission planning?**
FICA: To assure, to extent consistent with applicable law, that transmission planning will foster competition in the state from generation resources located both within and outside of the state of Florida.

(b) **What is the proper role of the FPSC in transmission siting?**
FICA: No position at this time.

(c) **What is the proper role of the FPSC in transmission reliability and operations?**
FICA: The FPSC should assure, to the extent of its jurisdiction, that Florida's electric utilities maintain and operate a reliable, efficient transmission system which promotes competition among electricity suppliers

(d) **Do/should transmission providers plan their transmission additions based on their own needs for generation and load) or do/should they plan their transmission additions based on their own needs and the needs of the transmission dependent utilities?**
FICA: Transmission providers should plan their transmission additions based on (i) their own needs; plus (ii) the needs of transmission dependent utilities (TDU); plus (iii) the needs of cogenerators and other non-utility generators (NUG); plus (iv) the need to import substantial amounts of electricity from outside the state; plus (v) the development, maintenance and operation of an efficient, reliable, abundant supply of transmission capacity to serve the needs of all utilities, TDU's and NUG's within the state.

(e) **What information should be shared regarding transmission planning and with whom should this information be shared?**
FICA: All information regarding transmission planning should be shared with anyone interested in such information. Transmission planning impacts on all Florida electric customers, both wholesale and retail, and as such, it is in the public interest to make such information available to the general public.

(f-1) **What does optimization of transmission planning for Peninsula Florida entail?**
FICA: In FICA's view, optimization of transmission planning should include the following fundamental goals:

(i) development of a transmission grid fully capable of moving and/or distributing electricity from many generating resources - both in and out of the state - to customers throughout the state;

(ii) providing high levels of efficiency, reliability and pervasiveness so as to approximate the functioning of a single utility;

(iii) creating a system where the distinction from one utility to another - in terms of cost of delivered kWh's - becomes blurred;

(iv) assuring the ability of low-cost generators to compete on a nondiscriminatory basis with high-cost generators so that the cost of delivered kWh's tends to become homogeneous across the state.

(f-2) Is it needed?

FICA: Yes, transmission optimization is needed. There are questions as to whether the present system is capable of handling new generating capacity proposed to be constructed by NUG's (Duke/New Smyrna, Constellation, and there appear to be "bottlenecks" in the system which deter construction of generating capacity north of Orlando, and which limit imports from the north. By virtue of its peninsular geography, it is critical that Florida optimize its transmission planning in a manner with approximates the functioning of a singe utility. Moreover, our peninsular geography indicates additions to "interface" capacity with the Southern Company - or others - to increase Florida's ability to import electricity from out of state suppliers.

(g) **Should there be central dispatch of generation and transmission facilities in Peninsula Florida?**

FICA: No position at this time

(h) **What are the appropriate boundaries for regional transmission planning?**

FICA: Initially, the entire state of Florida, including the panhandle area. Subsequently, following the development of an adequate transmission system, and based on experience gained, it may be desirable to join with states to the north.

(i) **Please comment on each of the following FERC ISO Principles:**

(1) The ISO's governance should be structured in a fair, non-discriminatory manner.

FICA: Agree

(2) An ISO and its employees should have no financial interest in the economic performance of any power market participant. An ISO should adopt and enforce strict conflict of interest

standards.
FICA: Agree

(3) An ISO should provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner.
FICA: Agree

(4) An ISO should have the primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well-defined and comply with applicable standards set by NERC and the regional reliability council.
FICA: Agree

(5) An ISO should have control over the operation of interconnected transmission facilities within its region.
FICA: Agree

(6) An ISO should identify constraints on the system and be able to take operational actions to relieve those constraints within the trading rules established by the governing body. These rules should promote efficient trading.
FICA: Agree

(7) The ISO should have appropriate incentives for efficient management and administration and should procure the services needed for such management and administration in an open competitive market.
FICA: Agree

(8) An ISO's transmission and ancillary services pricing policies should promote the efficient use of and investment in generation, transmission, and consumption. An ISO, or an RTO of which the ISO is a member, should conduct such studies as may be necessary to identify operational problems or appropriate expansions.
FICA: Agree

(9) An ISO should make transmission system information publicly available on a timely basis via an electronic information network consistent with the Commission's requirements.
FICA: Agree

(10) An ISO should develop mechanisms to coordinate with neighboring control areas.
FICA: Agree

CATEGORY II. Pricing Issues

(a) Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?

FICA: It would appear so, assuming the TDU's experiences are similar to those of FICA. FICA's members have been and are constrained in marketing their cogenerated electricity by these factors The cost of transmission and ancillary services, plus "line loss" assessments, severely impact the economic benefit of selling cogenerated power to any but the "native" or directly interconnected utility.

(b) Is wholesale/retail transmission comparability a desirable goal? If so, how can it be achieved? [Note: this issue is also properly in category III]

FICA: Yes, it is a desirable goal if the ultimate objective is nondiscriminatory access to the transmission system by all generation providers, TDUs and NUGs. Without comparability, an integrated utility - controlling transmission and generation assets - will have the ability to discriminate and chill competition in the electricity supply markets, in favor of its own generation. The ability and/or the incentive of the transmission owner/operator to act in a such a discriminatory manner must be eliminated. This can be accomplished by the "divestiture' of transmission assets from the generation utility. A secondary, but less effective approach would be through the functional unbundling of services.

(c-1) Does pancaking of transmission rates (defined as additive transmission wheeling rates from control area to control area) exist in Florida?

FICA: Yes, pancaking does exist in Florida.

(c-2) Should pancaking be eliminated and, if so, how?

FICA: Yes, pancaking should be eliminated. [See also FICA's responses to Category I (c) - (f)] Under the guidance of the FPSC or other appropriate agency or organization, the Florida transmission grid should be "reconfigured" or optimized to simulate the operation of a single, unified transmission system.

Such a system should be designed with the objectives of (i) being able to efficiently move electricity from many generating resources within the state and outside the state to the areas of need; (ii) providing such levels of efficiency, reliability and pervasiveness so as to exhibit the functional equivalent of a single utility; (iii) blurring the distinction from one utility to another - in terms of cost of delivered kWh's; and (iv) assuring the ability of low-cost generators to compete on a nondiscriminatory basis with high-cost generators so that the cost of delivered kWh's tends to become homogeneous across the state.

Hypothetically, assume all electric utilities owning transmission facilities in Florida "contributed" them to a transmission pool, under the administrative and operating authority of - for lack of a better term - an ISO which is chartered to operate the transmission facilities as a single, integrated network. Each utility's contribution to the system would be quantified in dollar terms, and statewide (ie non-pancacked) rates would be implemented which (1)

assured that each utility would be reimbursed for the value of their contribution to the system; (2) produced sufficient cash flow for the operation, maintenance, and planning of the system; (3) provided reserves for system expansions and reconfiguration. Admittedly, this hypothetical raises a number of issues, but it is a reasonable example of how one might begin the defining a blueprint for creating single, integrated, statewide transmission system.

(d-1) **Should a cost-benefit analysis be performed on any proposed changes to the current regime?**

FICA: Not necessarily. EPAct, FERC Order 888 and other relevant law simply mandate certain actions by the utilities. The cost-benefit of such changes are not specifically addressed, perhaps because of the inability to universally define costs and benefits. If changes in the current regime are necessary to comply with the law, then they should be viewed as necessary. (FICA would note cost-benefit was not the test in implementing PURPA and the related FERC rules - rather it was a mandate that QF's be encouraged. Had the implementation of PURPA been conditioned upon a cost-benefit analysis to be performed by utilities or their regulators, it is unlikely PURPA would have been universally implemented.)

(d-2) **If so, generally speaking, how would such an analysis be performed? [Note: this issue is also properly in category I and category III]**

FICA: If such an analysis were to be performed, it must take into account all potential generation assets which would be encouraged by the change in regime, all benefits associated with competitive pressures on the price of electricity, and all other identifiable potential benefits which likely would be precipitated by the changes.

(e) **Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?**

FICA: No position at this time.

CATEGORY III. Governance Issues

(a-1) **Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida?**

FICA: The RTO/ISO's governance should be structured in a fair and non-discriminatory manner and should include, but not be limited to the following characteristics: (i) an RTO/ISO and its employees would have no financial interest in the economic performance of any power market participant; (ii) an RTO/ISO would adopt and enforce strict conflict of interest standards; (iii) an RTO/ISO would provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner; (iv) an RTO/ISO would have primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well-defined and comply with applicable standards; an RTO/ISO should have control over the operation of interconnected transmission facilities within as large a region as practicable; (v) an RTO/ISO would identify constraints

on the system and be able to take operational actions to relieve those constraints within the trading rules established by the governing body to promote efficient trading; and (vi) an RTO/ISO would have appropriate incentives for efficient management and administration and should procure the services needed for such management and administration in an open competitive market.

(a-2) **What governmental and private agencies should be involved and to what extent?**

FICA: Because an RTO/ISO would be engaged in the interstate transmission of electricity, it would be subject to applicable Federal law, including the Federal Power Act. Accordingly, although the state could play a role in the formation of an RTO/ISO, the ultimate structure, governance and control will be beyond the purview of the state.

Moreover, because the ultimate purpose of the laws requiring implementation of RTO/ISO's is to promote competition and economic efficiency in the supply of electricity, it is important that TDU', QF's, NUG's and other potential system users and stakeholders be involved in the RTO/ISO's. This could occur by providing seats representing such interests on the RTO/ISO board, advisory committees, and the like. Care must be taken however to prevent any board or committee member from being in a position to pressure the RTO/ISO to act in a particular way.

(b) **What is the FPSC role in transmission dispute resolution?**

FICA: FICA is not knowledgeable of any FPSC involvement in transmission dispute resolution. This may be due to Federal pre-emption. [see (a-2) above]

(c-1) **Does undue market power exist in Florida?**

FICA: It appears that undue market power exists in Florida.

(c-2) **What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?**

FICA: FICA is, because of its limited involvement up to this juncture, in Florida transmission matters unable to point out any specific problems which arise due to the lack of independence. However, unless strict, published and enforceable standard of conduct are in place to prevent such problems, along with a means of imposing swift, commensurate punishment, such problem could occur. Many professional codes of conduct prohibit even the "appearance" of a conflict of interest. The fact that the current coordinator is not fully independent, clearly gives rise to a potential "appearance" of a conflict of interest.

(d-1) **Is functional unbundling working in Florida?**

FICA: No position at this time

(d-2) **Can it work in Florida?**

FICA: Functional unbundling could work in Florida if adequate and sufficient safeguards are in place to prevent and discourage discriminatory behavior, or "gaming" of the system, by integrated utilities. Such safeguards would include but not be limited to: (i)

a swift and decisive dispute resolution process where the burden of proof is on the transmission provider; (ii) the imposition of harsh fines/penalties on transmission providers for improper behavior; and (iii) a mechanism to financially restore or make-whole "victims" of such improper behavior.

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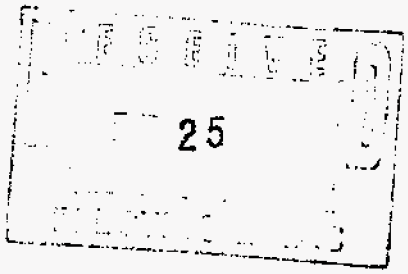
February 25, 1999



BY HAND DELIVERY

Mr. Joe Jenkins
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Independent System Operator Workshop

Dear Joe:

This firm represents and provides these comments on behalf of U.S. Generating Company ("USGen"), the unregulated generation affiliate of PG&E Corporation. USGen appreciates this opportunity to address issues concerning the need for an Independent System Operator ("ISO"), or some other independent entity, to control the Florida Transmission system. We applaud the staff of the Florida Public Service Commission for taking this important step to ensure an adequate supply of competitively priced generation, while also ensuring the transmission system is operated reliably. Because this is an issue that is topical around the country, USGen would like to first discuss the development of ISOs and other regional transmission organizations ("RTO"s) elsewhere. This context will then be used to briefly discuss how ISO formation encourages a robust wholesale market while, at the same time, maintaining the reliability of the transmission system.

Background

As you are aware, the passage by Congress of the 1992 Energy Policy created a new generation entity, the Exempt Wholesale Generator (EWG). This federal legislation served, in part, to prompt the serious discussion of a nationally restructured market for electricity. In 1995, the Federal Energy Regulatory Commission ("FERC") issued a Notice of Proposed Rulemaking (NOPR) in 1995 on open access to the transmission grid. These activities made many regulated owners of generation realize that the continuation of the "cost of service" paradigm for the generation of electricity was open to question. Consequently, many regulated utilities became reluctant to make long-term investments in generation – whether built or purchased. Soon, the

industry began to hear of a new concept; a "merchant plant," a facility whose output would not be committed to a specific load or long-term contract, but would be built at the owner's risk and financed based on the developer's and lender's view of the regional electric market.

The direction of a restructured market for generation began to take serious shape when FERC followed its open access NOPR of 1995 with its open access orders 888 and 889 in 1996. FERC issued these orders to further the national development of a wholesale market of electricity. It required *open, non-discriminatory access* to the transmission grid to encourage the building of new generation and to facilitate the sale of bulk or wholesale electricity. Importantly, as a further attempt to encourage the development of a robust wholesale market, FERC also encouraged the development of ISOs.

Shortly after the issuance of the FERC clarifying orders mentioned above, several ISOs were established around the country – Texas, California, and in Pennsylvania, New Jersey and Maryland ("PJM"), New York and New England. Recently FERC has approved an ISO in the Midwest that aims to encompass the NERC regions of ECAR and MAIN. Various states in the Southwest and mid-continent (SPP and MAPP) are also working toward some kind of independent RTO. All these ISOs have in common the following elements: 1) independence of transmission operation; 2) elimination of multiple or "pancaked" rates within a transmission area; and 3) market based approaches designed to manage possible congestion.

USGen understands that the encouragement of the wholesale competition goes hand in glove with ensuring continued reliability. As a consequence, we wish to briefly discuss how ISOs, or similar entities, encourage wholesale competition, which, in turn, enhance reliability for the customers of electricity in Florida.

Encouraging Wholesale Competition & Adequate Generation

Many parts of the country are in need of new generation capacity. In many of these areas new "merchant plants," power plants that are being built that are not rate based and therefore impose no risk to the local electric customer, are underway. It is not a coincidence that the regions where the most new generation is being built are those that have restructured their regulatory rules to encourage the wholesale market and developed ISOs. New England, New York, Texas, California and the mid-Atlantic areas of the country have all established ISOs and now find themselves the beneficiaries of a large number of new generation sources under construction or in development.

These areas became attractive to wholesale suppliers of generation because ISOs, and the conditions they created, help provide confidence that new generation assets will have access to the

grid and that there will be multiple buyers and sellers ("liquidity") of the output. Liquidity is a "win-win" for suppliers and customers. The wholesale customer benefits because it is being given a choice between multiple suppliers, which gives the wholesale customer some leverage to obtain the best price. The more a wholesale customer is free to exercise choice, the better the climate for investment in generation by multiple suppliers.

ISOs also provide incentives and confidence for development of new generation by eliminating multiple transmission costs. This is important when considering possible investment in new generation since eliminating "pancaking," or the costs of moving power through more than one control area, offers a generator additional areas in which to economically sell its output. This spreads its risks of the capital invested, and thus, provides an incentive to locate in an ISO controlled area. This also facilitates a wholesale customer's choices by providing additional economic sources of generation from which to choose.

Creating the conditions in which a non-incumbent power supplier can make a well-reasoned investment in new generation assets has direct implications for reliability by helping to ensure adequate generation sources. Today's environment for generation, with the possible phase-out of rate based return on investment, does not provide incentives for incumbent utilities to make investments in new capacity since it is unclear whether and how they will be able to recover their costs. If the conditions in the current market do not provide confidence that the utility can make an investment in new capacity, regulators and wholesale customers of electricity should want to create the conditions under which non-regulated or "merchant" investment in generation are attractive. ISOs, while not the entire solution, go a long way towards creating these conditions by ensuring open, non-discriminatory operation of the transmission "highway". Without these conditions, it will be difficult to sustain adequate levels of generation supply.

Transmission Reliability

The reliability of the transmission system is also enhanced by independent operation in the wholesale environment. ISOs or other RTOs manage congestion of the transmission system over a wider area than the normal utility control area. As a consequence, they are able to provide pricing incentives for generators to re-dispatch based on the value of transmission at a given time. As constraints or congestion often affect a wide area of transmission service, the most efficient ISO is as large as possible. This is necessary even in areas that are not as affected by "loop-flows" from contiguous transmission regions like FRCC. Congestion that does occur in FRCC from power flows in SERC would best be handled by an ISO that incorporates at least part of SERC. We recognize

this may not be immediately feasible in Florida[1].

An independent system operator or owner (e.g., an "entity" that has no financial interest in any generation in the grid) would also enhance reliability by being in charge of transmission planning over the entire area, not just a control area. We realize the FRCC currently is involved in this function. However, as long as this responsibility is performed by an organization that is predominately made up of vertically integrated utilities entities, questions will arise as to whether the planning is being done for the benefit of generation that is owned by FRCC members. This "mixed incentive," which is a natural temptation, should be eliminated.

Similarly, an ISO or RTO would enhance the reliability of the system by providing rules for the interconnection of new generation over the entire area. If an ISO is successful in creating the incentives for development of new generation, the ISO will also be in a position to assess the impact of proposed new generation on the system and provide incentives for generation to locate where it is most beneficial to the transmission system. These incentives could be assessing the impacts of new generation and the costs, if any, to upgrade the entire transmission system. By providing an unbiased assessment and cost determination for interconnection, the ISO would set the rules by which a robust wholesale market could enhance reliability of the transmission system[2].

Conclusion

USGen believes Florida should pursue a properly structured ISO as soon as possible in order to facilitate a robust wholesale market that will simultaneously enhance reliability[3]. It is clear from the recent activities at FERC (which may result in some rulemaking later this year or early next), a strong desire exists to encourage the development of RTOs. While a Florida only ISO or RTO may

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[1] As it would require a desire on the part of regulators and transmission owners in SERC, this more efficient ISO approach may have to wait developments north of the Florida line.

[2] A generator would of course pay all costs associated with "safe interconnection" to the grid. The generator could also be required to pay some or all costs of larger, system upgrades to eliminate general congestion. This will provide for rational location of generation and enhance the reliability of the system.

[3] USGen recognizes that it has not addressed a related issue – Power Exchanges, which are often favored for purposes of providing price clarity. This issue can be discussed later in the workshop.

not be optimally sized from the FERC perspective, we believe that if Florida proposes a truly independent RTO it would be a welcome development at the FERC. We urge the Florida Public Service Commission and staff to work cooperatively with all parties to develop an ISO, which will benefit all customers in Florida.

Sincerely,

Jon C. Moyle, Jr.

JCM/jd

From: JOHN-MEY @ SMTP {john-meyer@reliantenergy.com}
To: FPSC-ISG @ SMTP {FPSC-ISG@frcc.com}
Subject: Response to Florida RTO Issues

RELIANT ENERGY POWER GEN.

===NOTE==========2/24/99==4:34pm==========
Return-Path: <FPSC-ISG-request@frcc.com>
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by mail.psc.state.fl.us (Connect2-SMTP 4.30A.1000128);
Wed, 24 Feb 1999 16:58:22 -0500
Received: from news.houind.com ([204.254.32.79]) by mail.ktek.com
(Post.Office MTA v3.5.3 release 223 ID# 35-55250U400L100S0V35)
with SMTP id com for <FPSC-ISG@frcc.com>;
Wed, 24 Feb 1999 16:50:26 -0500
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86256722.0076D6B6 ; Wed, 24 Feb 1999 15:38:02 -0600
X-Lotus-FromDomain: HOUIND
Return-Receipt-To: john-meyer@reliantenergy.com
From: john-meyer@reliantenergy.com
To: FPSC-ISG@frcc.com
Message-ID: <86256722.0076D3C3.00@MTA001.hlp.com>
Date: Wed, 24 Feb 1999 15:34:01 -0600
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Content-Disposition: inline

To: Joe Jenkins

From: F. John Meyer
Vice President, Commercial Development
Reliant Energy Power Generation, Inc.
john-meyer@reliantenergy.com

Attached is the response of Reliant Energy Power Generation Inc. to the Florida specific RTO issues. We appreciate the opportunity to provide these thoughts on these issues and plan to participate in the discussion on March 15, 1999.

If you have any questions, please feel free to call me at 713/207-6000.

(See attached file: Florida.wpd)

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State of Florida
Florida Public Service Commission (FPSC)
Memorandum of February 8, 1999
RE: Request for Response to Florida-Specific RTO Issue List

Below is a list of issues that was developed at the February 4, 1999, FPSC Staff Workshop on RTO's (Regional Transmission Organization). We would appreciate your response to each of these issues by Thursday, February 25, 1999. For each issue listed, please identify:

(1) the existing situation
(2) any complaints with the existing situation
(3) any solutions to these complaints

All responses should be electronically mailed to FPSC-ISG@frcc.com

LIST OF FLORIDA-SPECIFIC RTO AND RELATED ISSUES

Category I. Planning & Operations Issues

(a) What is the proper role of the FPSC is transmission planning?

(1) Currently, transmission owners plan for replacements and additions to the transmission system based upon Company specific criteria associated with the known and/or perceived needs of their native loads.

(2) The current method of system planning does not take into account the evolution of the electric utility industry from a monopoly serving a certificated geographic area to a competitive, functionally unbundled industry where regulated transmission owners provide service to all legitimate market participants on behalf of all loads within a region.

(3) The FPSC should strive to create an environment which allows for transmission system planning on a coordinated regional basis taking into consideration the needs of the developing market to conduct transactions of economic significance. These transactions will be driven by the decisions made by load entities based upon those load entities' judgement of what energy solution works best for their individual situations. Regional planning can best be accomplished by an objective regional entity empowered by the FPSC and staffed with the technical expertise to accomplish their objective working in close coordination with existing and future transmission owners. This entity might take the form of an ISO, a RTO, or a 'gridco'.

(b) What is the proper role of the FPSC in transmission siting?

(1) Currently the FPSC provides input to transmission siting decisions by the transmission owners by way of the CCN process.

(2) The CCN process is time consuming and may not be flexible enough to deal with the dynamic needs of the market as it relates to transmission adequacy.

(3) The FPSC should seek to give deference to whatever entity it sanctions with the responsibility of regional transmission planning by developing expedited procedures for the necessary regulatory oversight via the CCN process. Individual owners will still be required to gain approval of transmission additions and replacements through this process but they will have the added benefit of the regional planner's perspective and recommendations associated with all projects of this nature. The regional planner's input should have significant weight in the

FPSC's deliberations during the CCN process.

(c) What is the proper role of the FPSC in transmission reliability and operations?

(1) Currently the FPSC defers to NERC and its regional councils regarding the establishment of standards and policies associated with reliability and operations. FPSC has the authority to sanction Commission regulated utilities for sub-standard service which might be a product of poor reliability or operations.

(2) The current focus by the FPSC on fostering competition and monitoring the commercial and market structure issues associated with the industry while allowing NERC/FRCC/SERC to establish and monitor compliance with reliability and operating policies is appropriate.

(3) In the future the FPSC should continue to recognize the important role of the NERC and its regional councils and resist any temptation to involve itself in the technical workings of reliability and operations aside from its appropriate concerns for incenting acceptable customer service standards within the State.

(d) Do / should transmission providers plan their transmission additions based on their own needs (for generation and load) or do / should they plan their transmission additions based on their own needs and the needs of the transmission dependent utilities?

(1), (2), & (3) Same as question (a) above.

(e) What information should be shared regarding transmission planning and with whom should this information be shared?

(3) If transmission planning is coordinated by an objective third party within the region, then all planning data and information not subject to proven claims of proprietary individual company commercial or technical concerns should be retained in the public domain for access by all market participants on a comparable basis. This would aid in the proper economic signals being sent to those considering generation siting decisions in the future.

(f) What does optimization of transmission planning for Peninsula Florida entail? Is it needed?

(3) One must consider what is intended by the use of the term "optimization". In an open competitive market, optimization should mean approaching a state in which all economically efficient and viable transactions are capable of flowing given a normal state of operations (i.e. no generation or transmission emergencies). The best possible way to achieve this optimized state is by allowing a regional planning coordinator the flexibility to observe the evolving market and, in conjunction with a market solution to congestion management, determine where constraints exist and plan for an orderly elimination of those constraints where the solution is economically preferable to ongoing congestion management techniques. Centralized planning without the necessary input from market forces and without any objective evaluation of cost benefit relationships is not needed or desirable.

(g) Should there be central dispatch of generation and transmission facilities in Peninsula Florida?

(1) Today owners of generation and transmission are responsible for the dispatch and switching of their respective systems in accordance with their immediate customers' requirements and reliability standards and policies. These systems are coordinated by the Control Area utilities so as to balance the grid for reliability.

(2) The current method of dispatching systems does not take into consideration the overall needs of all market participants and cannot accommodate the changes being experienced as the electric industry opens itself to greater levels of competition.

(3) While there are legitimate arguments against a central dispatch for generation and transmission, there can be no denying that a regional approach to grid utilization is preferable to the current system of individual companies' acting without any serious requirement to recognize the needs of the market and all its participants. With a strong regional approach to grid operations for transmission in place, generation dispatch could be left to traditional market forces brought about by competition. The exceptions would be the need to establish requirements for cooperation for things such as voltage support by "must run" units, etc. Regional grid operations may still take advantage of existing technology and infrastructure by using up-to-date communications tools to direct the switching of the various owners' transmission systems in a regionally coordinated manner.

(h) What are the appropriate boundaries for regional transmission planning?

(3) Regional transmission planning will work best if the region being planned has rational boundaries which support existing system modeling techniques. Generally this means that the region should have as its boundaries with contiguous regions, electrical boundaries that either have or will support the installation of accurate tie line metering and protective devices that will act to "isolate" the region for modeling purposes; or, the electrical boundary is coordinated as a region-to-region interface with the adjacent planning regions. In Florida, these boundaries could be established as the existing NERC region.

(I) Please comment on each of the following FERC ISO Principles:

(3) Of the ten principles listed, only numbers (5) and (8) may prove somewhat controversial. Principle 5 suggests an ISO should have operational control over the interconnected transmission facilities within its region. As mentioned in our previous responses, direct switching of the grid is normally best left with the current transmission owners as long as that switching activity is closely coordinated and monitored by the independent regional authority. If this accommodation is made, then principle 5 may be acceptable.

Principle 8 suggests that the ISO will have some pricing policies associated with ancillary services. It is recommended that ancillary service, much like generation which forms the basis for most ancillary services, should be developed as part of an efficient competitive market and should not be initially vested in one entity as a new or continued monopoly. As an option, the ISO could coordinate an ISO auction process for obtaining all ancillary services.

Category II. Pricing Issues

(a) Do multiple transmission rates, terms and conditions create problems for transmission dependent utilities?

(3) Multiple transmission rates will tend to complicate and increase the underlying cost of transactions which cross system boundaries. It would always be preferable from a market standpoint in a region to have "postage stamp" type rates that are not compounded across systems ("pancaked"). Multiple rates have the same complicating effect on all transmission customers whether they are transmission dependent utilities, load entities or marketers. In addition, FERC strongly supports elimination of pancaked rates.

(b) Is wholesale / retail transmission comparability a desirable goal? If so, how can it be achieved?

(3) Comparability is not only a desirable goal, it is required at the wholesale level by FERC under "Open Access" Rules 888 & 889. It is predictable that the concept embodied by these rules will be retained as the various states make the necessary decisions concerning retail transactions. The achievement of this concept at the retail level will be based upon the successful transfer of the tools used at the wholesale level to bring about comparability for those customers.

(c) Does pancaking of transmission rates (defined as additive transmission wheeling rates from control area to control area) exist in Florida? Should pancaking be eliminated and, if so, how?

(1) Currently each transmission owner charges for transmission and related losses in accordance with their individual tariffs. The result is that transactions which cross control area boundaries are burdened with unique and compounded transmission charges.

(2) The result of the pancaking effect caused by the current situation is to make the costs of many transactions difficult to quantify in advance and the settlement process after the fact complex and unwieldy to manage. These problems work to thwart wholesale transactions and hinder the further growth of a competitive market within the State.

(3) Pancaking of transmission rates must be eliminated in order to fully benefit from the opportunities afforded by open access. Some sort of uniform (single) rate for the State's transmission providers and owners is the best way to achieve an efficient, effective market while insuring the fair and proper compensation to the owners and providers of transmission. There are several models to look at in other regions of the country that could serve as a jumping off point for the State to develop a single rate such as a postage stamp method that would work in Florida.

(d) Should a cost-benefit analysis be performed on any proposed changes to the current regime? If so, generally speaking, how would such an analysis be performed?

(3) It is important that an analysis of any changes in transmission pricing being considered include a quantification of the delta impact on transmission owners as well as load entities within the State. The objective of any pricing system is to retain the balance currently existing between the burden to be borne by the loads in the form of costs and the benefits to be derived by the transmission owners for their investment in assets. No new system should cause the undesirable result of unintentional cost shifting from loads to shareholders or vice versa.

(e) Is transmission congestion pricing a problem in Florida? What is the appropriate methodology to be used to determine congestion pricing in Florida?

(3) If congestion pricing is not a problem currently in the State, with competition, it soon will be! The appropriate methodology to be used will attempt to balance simplicity with accuracy in terms of the tenet "he who benefits, pays". The best way to achieve this balance objectively is to develop a truly workable market solution to congestion management. Allow for the market to "price" congestion rights and then those transactions that warrant the use of constrained interfaces will purchase them.

Category III. Governance Issues

(a) Comment in general on the proper governance of any RTO or ISO that may be implemented in Florida? What governmental and private agencies should be involved and to what extent?

(3) The desired governance for any RTO or ISO should incorporate many of the principles for ISO's delineated by the FERC and commented on here in Category I, question (I).

The role of government is to mandate to the market participants the establishment of such an entity and to allow the market to reach consensus on the details within prescribed limits. The RTO or ISO should be a non-governmental not-for-profit entity with no financial interest in transmission, generation , or related products and/or services. We believe that a balanced stakeholder board with no stakeholder group able to control the outcome of the board action is necessary to establish an independent group which defines the market's needs.

(b) What is the FPSC role in transmission dispute resolution?

(3) The FPSC should mandate that the RTO / ISO be developed to include a reasonable alternative dispute resolution (ADR) mechanism. There should be a method by which any party to a dispute could petition the Commission for involvement of decision in the case of a situation that requires immediate resolution. There should also be a basis for ultimate appeal of the ADR process to the Commission once is has worked.

(c) Does undue market power exist in Florida? What problems are caused by the fact that the security coordinator as currently structured is not fully independent from a Florida utility?

(1) It is undeniable that market power is a real problem in the State. The FPSC has the authority and the ability to mitigate this problem by creating and enforcing strict guidelines that remove both the fact and the perception that large integrated utilities continue to exert control by administering something less than complete comparability when it comes to open access issues. The fact that unaffiliated transmission customers are treated differently than affiliated customers when seeking and receiving various transmission services can be documented. It will take an initiative of the FPSC to objectively document anecdotal evidence of market power and develop workable solutions to the problems so documented. Those solutions should be measured and reasonable and intended only to cure the problem without being punitive.

The administration of the function of Security Coordinator by these same entities who are believed to have market power simply works to aggravate an already difficult situation. Since this is an issue common to most if not all regions within the Eastern Interconnect of NERC, it would be advisable for the FPSC to lend its support to the ongoing efforts within NERC to resolve some of the more disturbing issues associated with real or perceived conflicts of interest within the ranks of Security Coordinators. If a RTO or ISO is developed, to role of security coordination can be transferred to this entity where one would expect objectivity would not be in question.

(d) Is functional unbundling working in Florida? Can it work in Florida?

(1) The results of functional unbundling today is a mixed bag. While some entities have taken appropriate steps to implement both the letter and spirit of unbundling, there are some companies who have selected "window dressing" over real substantive unbundling.

(3) Functional unbundling can work, but only if there is FPSC review, evaluation, and sanctions for companies' poor implementation of the unbundling concept. More directed oversight in this area is both warranted and desirable.