

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

REVIEW OF FLORIDA POWER CORPORATION'S EARNINGS, INCLUDING EFFECTS OF PROPOSED ACQUISITION OF FLORIDA POWER CORPORATION BY CAROLINA POWER & LIGHT. DOCKET NO. 000824-EI

REVIEW OF FLORIDA POWER & LIGHT COMPANY'S PROPOSED MERGER WITH ENTERGY CORPORATION, THE FORMATION OF A FLORIDA TRANSCO, AND THEIR EFFECT ON FLORIDA POWER & LIGHT'S RETAIL RATES. DOCKET NO. 001148-EI

REVIEW OF TAMPA ELECTRIC COMPANY AND IMPACT OF ITS PARTICIPATION IN GRIDFLORIDA, A FLORIDA TRANSMISSION COMPANY, ON TECO'S RETAIL RATEPAYERS. DOCKET NO. 010577-EI

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VOLUME 3
Pages 382 through 507

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER E. LEON JACOBS
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA JABER
COMMISSIONER BRAULIO BAEZ
COMMISSIONER MICHAEL A. PALECKI

DATE: Thursday, October 4, 2001

TIME: Recommenced at 8:40 a.m.

PLACE: Betty Easley Conference Center
4075 Esplanade Way, Room 148
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR

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FPSC-COMMISSION CLERK

APPEARANCES: As heretofore stated.

I N D E X

WITNESSES - VOLUME 3

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MIKE NAEVE	
HENRY I. SOUTHWICK	
C. MARTIN MENNES	
GREG RAMON	
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EXHIBITS - VOLUME 3

NUMBER		I.D.	EVD.
8	(Late-filed) GridFlorida Transmission Operation and Control in Peninsular Florida	459	459
9	FERC Order Accepting Amendment, Docket No. ER01-3473,000, Issued August 28, 2001	506	506

P R O C E E D I N G S

(Transcript continues in sequence from
Volume 2.)

CHAIRMAN JACOBS: Good morning. We'll go
back on the record. And I believe we were in the
process of cross-examination for the panel, and I
believe, staff, you're up.

MR. KEATING: Thank you.

Thereupon,

MIKE NAEVE, C. MARTIN MENNES, HENRY I.

SOUTHWICK, and GREG RAMON

continued their testimony under oath from Volume 2 as
follows:

CONTINUED CROSS-EXAMINATION

BY MR. KEATING:

Q Good morning, panelists. I think we left
off last night on the line of questioning concerning
the market monitor in the GridFlorida proposal. I
have a few more questions on that line before I move
on.

I believe Mr. Naeve had made a statement
concerning how the market monitor is funded and
indicated there's some -- that the Commission has some
role in the budget. I guess to be direct, how is the
market monitor funded?

1 A (By Mr. Naeve) The market monitor has the
2 authority to propose its own budget to the FERC.
3 There's the process by which the market monitor
4 submits its budget to be reviewed ahead of time to the
5 Public Service Commission as well as to the RTO and
6 the Advisory Committee. But once they file their
7 budget with the FERC, it's filed as a rate schedule,
8 and FERC has to approve the budget or the rate
9 schedule. It's collected by the RTO as an adder on
10 the RTO transmission rate.

11 Q What staff or resources will the market
12 monitor have?

13 A The market monitor is free to hire whatever
14 staff and whatever resources that it -- and acquire
15 whatever resources that it believes that it needs to
16 carry out its functions, and that will be determined,
17 of course, in its budget.

18 Q So that hasn't been -- that's not decided
19 at this point?

20 A No. And in fact, again, we didn't want --
21 we thought the market monitor was a very important
22 part of this filing, and in the collaborative process
23 there was a tremendous amount of support for a very
24 strong, well-functioning market monitor. None of us
25 felt we were expert enough to know what level of

1 funding they would need, how many resources they would
2 need and so forth, so we left it entirely to the
3 discretion of the market monitor and the board of
4 directors of the market monitor to ascertain what
5 resources they needed and what level of staffing and
6 what facilities they would need.

7 We were a little concerned about the
8 potential for overspending and building an empire
9 without any direct control, because this was an entity
10 that didn't have to file and collect the rates itself,
11 and so we did try to provide for some review of its
12 budget function. But we leave it entirely up to them
13 to determine the level of resources needed to carry
14 out their function, subject to FERC review.

15 Q I had also asked a question yesterday
16 about what type of market power measuring methodology
17 the market monitor might apply, and I believe you
18 stated or the panel indicated that there hasn't been
19 one chosen yet.

20 A Well, the market monitor itself will
21 propose its own methodologies.

22 Q Is the panel aware of any initial
23 discussions as to what type of methodology may be
24 applied?

25 A No, there has been no such discussion,

1 because the market monitor hasn't been selected. The
2 board hasn't been selected, and the market monitor
3 hasn't been selected. That will be entirely up to
4 them.

5 I suspect they will look to some of the
6 existing RTOs and the methodologies that are being
7 applied in New England and PJM and New York and
8 elsewhere for measuring market power and for
9 mitigating market power, and they'll draw some
10 guidance from those methodologies. They will also
11 have the flexibility, though, to adopt different
12 methodologies of their own.

13 CHAIRMAN JACOBS: what will be the protocol
14 for access to information for the market monitor?

15 WITNESS NAEVE: what will -- I'm sorry?

16 CHAIRMAN JACOBS: How will the market
17 monitor gain access to the information that it needs
18 to carry out its function?

19 WITNESS NAEVE: In the market monitor
20 filing, we provide substantial powers to the market
21 monitor to acquire information. We also have an
22 information policy for the RTO that obligates them to
23 provide information to the market monitor about the
24 functionings of the market.

25 CHAIRMAN JACOBS: I'm sorry. who will

1 provide the information to the RTO?

2 WITNESS NAEVE: Well, the RTO will provide
3 information. Also, the market monitor will have the
4 opportunity to get information directly from
5 generators and market participants.

6 CHAIRMAN JACOBS: So independent power
7 producers as well as participants in GridFlorida will
8 have to provide this information to the market
9 monitor?

10 WITNESS NAEVE: That's correct.

11 CHAIRMAN JACOBS: And are there provisions
12 in that agreement also for enforcement of that duty or
13 obligation?

14 WITNESS NAEVE: Yes, they'll have ample
15 enforcement authority.

16 CHAIRMAN JACOBS: Okay. Thank you.

17 BY MR. KEATING:

18 Q Also, yesterday we discussed that the
19 market monitor is required to provide reports and
20 share data with the Florida Public Service Commission.
21 Is that correct?

22 A (By Mr. Naeve) That's correct.

23 Q To date has that requirement been approved
24 by the FERC?

25 A Yes, it has.

1 Q What markets will the market monitor
2 monitor?

3 A It will monitor the wholesale markets
4 served by GridFlorida.

5 Q Will it be involved at all in evaluating
6 retail markets?

7 A I don't think that it will.

8 Q I've asked a few questions so far about
9 specific pieces of the GridFlorida proposal and
10 whether or not they've been approved by FERC to date.
11 What parts of the GridFlorida proposal have been
12 approved by FERC, and which remain for approval?

13 A Well, there are so many components to this
14 proposal, it's -- I'm not sure I could give you a
15 comprehensive inventory off the top of my head. I
16 think, suffice it to say, that FERC has approved the
17 blueprint for GridFlorida that was filed initially,
18 the transmission tariff, the planning protocols, the
19 market design as it has been filed so far, although
20 additional work has been done on that. They've
21 approved essentially everything that has been filed
22 thus far, with a requirement that we make a compliance
23 filing. We have made that compliance filing as
24 directed by FERC, and the compliance filing is still
25 pending before them.

1 There are still some features that have not
2 been developed that will be developed and filed down
3 the road. For example, the contract under which
4 assets will be transferred will be filed someday and
5 approved by FERC. That has not been developed yet.

6 Q Are there any other portions of GridFlorida
7 that would require further -- or would still require
8 some FERC approval?

9 A Offhand, there very well could be, but
10 that's all that comes to mind.

11 Q You mentioned that the asset transfer
12 contract would require FERC approval. When does
13 GridFlorida anticipate seeking that approval?

14 A Well, it would have to be approved before
15 the assets are transferred, and we propose to transfer
16 the assets essentially the day commercial operations
17 begin. We would leave them in the hands of the
18 utilities the day before commercial operations begin,
19 and the day of commercial operations, control would be
20 transferred. So they would have to be -- those
21 agreements would have to be developed, filed, and
22 approved before that could happen. So if one backs
23 up, it would probably have to be at least four or five
24 months before startup.

25 Q When does GridFlorida anticipate the

1 commercial operation date to begin?

2 A Well, at this stage that's hard to say. We
3 were on a track to begin phased commercial operations
4 beginning December 15th, and we have temporarily
5 suspended development of GridFlorida and the board
6 selection process and so forth pending this process.
7 And I think the timing on the commencement of
8 operations again depends a lot on the outcome of this
9 proceeding.

10 Q Did GridFlorida suspend its -- suspend the
11 process as a result of this Commission deciding to
12 have a review of GridFlorida, deciding to conduct this
13 review?

14 A That's correct.

15 Q If the Commission were to state that the
16 utilities' -- were to find as a result of this hearing
17 that the utilities' participation in GridFlorida was
18 prudent, how long would you expect before GridFlorida
19 would become operational? And I realize I'm looking
20 for a ballpark figure here at best.

21 A We haven't discussed how long it would take
22 to restart all of this. We did lose a little bit of
23 momentum. We were very near the end of the board
24 selection process. We'll have to start all over again
25 on that.

1 But one thing I will say, though, there is
2 also this issue of the Southeast RTO, and I think we
3 would be looking to some guidance from this Commission
4 perhaps as to whether we should start up and commence
5 spending significant sums to begin GridFlorida,
6 knowing that we very well could be forced into the
7 Southeast RTO or not. So that's another issue as
8 well.

9 Q Right. And my question assumed that the
10 Commission would approve the utilities' participation
11 in GridFlorida as prudent, and I was trying to get a
12 feel for how far from the original December 2001
13 operational date the commercial operation date would
14 be pushed back.

15 A (By Mr. Southwick) Let me jump in for a
16 second. In my testimony in a different piece of the
17 docket here, in my direct testimony on behalf of the
18 GridFlorida companies, the Q and A is in there on page
19 11, and the answer states that currently all project
20 development activities have been suspended. If and
21 when the project is restarted, it is anticipated that
22 it will take at least nine months for GridFlorida to
23 become operational on a limited basis.

24 Q On page 14 of the panel's testimony, the
25 question beginning at line 8 asks, "What kinds of

1 operational control will GridFlorida exercise over
2 transmission facilities?" And the response indicates
3 three types of control, direct control, indirect
4 control, and security coordinator authority. Who
5 currently has direct control over the transmission
6 facilities that would become part of GridFlorida?

7 A (By Mr. Mennes) The existing transmission
8 owners.

9 Q Does any entity have indirect control over
10 transmission facilities in the state other than the
11 transmission owner?

12 A Yes. Right now the security coordinator in
13 the process that we have set up in Florida gives the
14 security coordinator indirect control. And by that I
15 mean that the security coordinator does have the
16 authorization to request that lines be switched or
17 breakers be closed for reliability purposes.

18 Q Who performs the security coordination
19 function?

20 A The security coordination function is an
21 FRCC process, and it is performed by agents. And
22 there's a couple of processes that are involved, but
23 Florida Power & Light does the real-time operation,
24 and Florida Power Corporation also has
25 responsibilities in reviewing next-day coordination.

1 A (By Mr. Southwick) Excuse me. Could I
2 interrupt? Was the question in the future was this
3 the proposal or as it exists today?

4 Q As it exists today. And that was -- and to
5 be clear for the record, that was your understanding
6 when you answered the question?

7 A (By Mr. Mennes) That was today's -- that's
8 today's process, yes.

9 Q What operation control services will
10 GridFlorida perform that are not currently being
11 performed today?

12 A I can't think of any operational type of
13 services that are not being performed today, so it
14 would just be a different entity performing these
15 services.

16 Q Do you believe that GridFlorida will better
17 perform those services than they are currently
18 performed today?

19 A That's -- you know, I guess if you're
20 asking -- if the question is will GridFlorida do a
21 better job of performing operational and reliability
22 type services than what's being performed today, today
23 I think we're doing a good job. We've got good
24 communications. There's no guarantee going forward in
25 the way that the requirements and activities of the

1 various players will be. Right now the FRCC working
2 with the two agents I think does a very good job.
3 Going forward in this area, if a single RTO has more
4 authority and has more requirements based upon the
5 voluntary type process we have right now, it would be
6 able to do at least as good a job as what's going on
7 right now.

8 A (By Mr. Ramon) I would like to add
9 something to that. When you -- you need to be careful
10 when we talk about operations in the context of an
11 RTO. The security coordination activities that Marty
12 just talked about, if you look at the short-term
13 reliability, you know, the four characteristics of
14 Rule 2000, short-term reliability is a security
15 coordination aspect.

16 But today we don't do market-based
17 congestion management or ancillary services. Those
18 are going to be operations elements too that are not
19 done today that will be done by the RTO.

20 COMMISSIONER JABER: Mr. Naeve, can I ask
21 you a question on something you said earlier? Since
22 the IOUs have a concern with regard to making the
23 investment on GridFlorida because of the fear that the
24 regional approach will come to fruition, what is the
25 overwhelming compelling public policy concern that

1 would require me to allow the going forward of
2 GridFlorida?

3 WITNESS NAEVE: I think there are many good
4 reasons to have a GridFlorida and not a GridSouth. It
5 is quite possible, as I said earlier, that once the
6 Southeast RTO is designed and completed, we would look
7 at the Southeast RTO and we would look at the
8 GridFlorida proposal, and we would conclude that
9 GridFlorida is the better approach, and I think we
10 should preserve the option of being able to choose
11 between those two.

12 There is some risk that FERC would try to
13 compel us to just not go forward with GridFlorida and
14 to join the Southeast RTO. I think in part the
15 willingness of FERC to allow us to continue to have
16 GridFlorida would depend in large part on how strongly
17 all the Florida participants feel about GridFlorida.
18 You know, if each of the Florida participants and the
19 Florida Commission strongly believe that there should
20 be a separate Florida RTO, that's our best chance of
21 having it, and maybe under those circumstances, with
22 that sort of uniform approach, we would have a good
23 chance of retaining it and getting FERC to go along
24 with it. If there was division among the GridFlorida
25 companies, and in particular, if the Florida

1 Commission didn't express strong feelings for
2 GridFlorida, then I think the chance of us being able
3 to go forward with GridFlorida is not very good.

4 COMMISSIONER JABER: I guess what I've
5 struggled with the last couple of days is this fear
6 you have. I don't really know what to do with that
7 information. If you want the Commission to give you
8 some sort of approval on GridFlorida, but you tell me
9 that FERC may not let you do it anyway, first, and
10 two, it's going to take you at least nine months to
11 get back into the momentum, I don't really know how
12 to reconcile all that information. You guys are going
13 to have to help me out a little bit more.

14 WITNESS NAEVE: well, I think it's a
15 difficult choice for all of us, quite frankly. We
16 developed the GridFlorida approach, and we think it's
17 a very good approach. We like that approach. We also
18 recognize that we have this other process going on
19 simultaneously, and it's worthwhile to look at that
20 process and decide is it as beneficial or more
21 beneficial than what we have. But, you know --

22 COMMISSIONER JABER: Would a deadline from
23 this Commission give you that momentum that you need
24 to get back?

25 WITNESS NAEVE: well, I think what would

1 probably be helpful for us is strong support from this
2 Commission for GridFlorida so that we don't foreclose
3 the option with FERC. And I certainly think this
4 Commission -- I'm sorry, that if this Commission were
5 to say, "We find GridFlorida prudent. It's a good
6 program, and we encourage you to go forward with
7 GridFlorida. At the same time, we think it may be
8 appropriate for you to evaluate the Southeast RTO in
9 light of GridFlorida to determine which is better for
10 Florida," under those circumstances, I think you
11 preserve the GridFlorida option, or you have the best
12 chance of preserving the GridFlorida option.

13 Another approach we're --

14 COMMISSIONER JABER: How is that any
15 different from where we are today? You've gotten some
16 sort of conditional approval from FERC on GridFlorida.
17 You are participating and weighing the option of the
18 regional approach. So --

19 WITNESS NAEVE: I think the primary --

20 COMMISSIONER JABER: This is your
21 opportunity to tell me exactly what it is you need
22 this Commission to do, assuming we agree that some
23 form of RTO is appropriate.

24 WITNESS NAEVE: I think the primary
25 difference in where we are today is we don't have the

1 support of the Florida Commission for GridFlorida in
2 dealing with FERC. We have the Florida companies who
3 have developed GridFlorida. We are also -- we
4 accepted the invitation from FERC to participate in
5 the Southeast process. And largely we did that
6 because we recognize that there is some probability we
7 would be forced into that, and we wanted it to be as
8 good a proposal as we could make it if we were to be
9 forced into it.

10 I think if this Commission says, "We like
11 GridFlorida. We encourage you to go forward with
12 GridFlorida. We understand it may be prudent to look
13 at the Southeast RTO, but upon doing a comparison of
14 the two, we want you to do GridFlorida," I think
15 there's a good chance, our best chance that FERC would
16 support it.

17 COMMISSIONER PALECKI: Let me ask you a
18 related question. And I touched on this yesterday
19 with Chairman Hoecker. We have very limited
20 transmission capability from the North. As a matter
21 of fact, it's my understanding that we're maxed out
22 insofar as our import capability. And I'm wondering
23 whether there are any significant benefits to Florida
24 from the GridSoutheast proposal over the GridFlorida
25 proposal, considering this limited transmission

1 capable, and wouldn't we be better off operating under
2 the GridFlorida proposal until we actually have
3 additional transmission ties to the north that would
4 make the southeast proposal beneficial in some
5 manner?

6 WITNESS MENNES: Let me try that one.
7 Basically -- and I think Chairman Hoecker stated that
8 -- I think he said 3,500. We basically have 3,600
9 megawatts worth of import capability in the state and
10 quite a bit of export capability. There have been
11 times when the State of Florida, for example, has sold
12 over 4,000 megawatts outside of the State of Florida.
13 Not this past winter, but severe winters before, we've
14 done quite a good job of helping, if you would, the
15 whole Northeast.

16 There is room on the import, and I think
17 that's one of the things that we really need to face.
18 We have the room, and I just want to, you know, just
19 kind of incite comment on the import. Just because
20 you want to go ahead and do and change stuff in the
21 State of Florida -- you know, let's just say you want
22 to increase the size of the pipe in the State of
23 Florida to bring more electricity in. That doesn't
24 mean that you can go ahead and get it, because the
25 other side also has their own problems. As a matter

1 of fact, they probably have more infrastructure -- I
2 know they have more infrastructure problems on their
3 side to deliver the power than we would have
4 infrastructure problems on our side to receive more.

5 So it's one of those "what do you do to
6 expand it?" It would be a seams issue, and it would
7 be a lot of coordination. To get back to the RTO
8 issue, those type of things, and I think the Chairman
9 was correct, could be handled in seams related type of
10 matters, or it could be handled under one RTO. The
11 results would probably or maybe be the same.

12 What we're facing is we really don't know
13 how the Southeast RTO is going to function. We feel
14 very strongly that we couldn't and cannot stick our
15 heads in the sand and pretend it doesn't exist,
16 because sooner or later, you don't know what the
17 Federal Government is going to do. So we need to
18 continue to monitor. We need to continue to go ahead
19 and give our input to the Southeast RTO to see how its
20 markets do develop.

21 But there is, especially going from south
22 to north, depending on our exports out of the state --
23 I don't want to say it's unlimited, but there are
24 certainly -- there's quite a bit of power that can go
25 that way. And there is over a thousand megawatts

1 worth of noncommitted power into the state, and a
2 thousand megawatts is still a pretty big chunk.

3 So we just need to -- before we can make a
4 decision, we need to figure out how their markets are
5 going to work, how their congestion systems work, and
6 that type of thing.

7 WITNESS RAMON: Commissioner, I would like
8 to add, I think I know where you're going. If you had
9 a Southeast -- one RTO, by virtue of the constraints,
10 you really have a somewhat isolated market here in
11 Florida, regardless of having a single Southeast RTO,
12 because of the constraints. And I agree that -- I
13 think we all agree that starting with GridFlorida
14 makes sense.

15 COMMISSIONER PALECKI: Even if we had a
16 Southeast RTO effectively, and even if we had one
17 entity that was operating it effectively, the Florida
18 section of that RTO would need to be operated -- I
19 don't want to use the word "independently," but it
20 would be like operating a separate system almost,
21 wouldn't it, except for those ties that we've already
22 discussed?

23 WITNESS RAMON: You would have to have the
24 equivalent of the GridFlorida model that we've put
25 forward. You would have to have the operations center

1 down here and all of those sorts of things. I agree.

2 COMMISSIONER PALECKI: I think one of the
3 things we're all worried about is, if we give approval
4 to GridFlorida, that, you know, a couple of years down
5 the line we'll just end up having to spend a whole lot
6 of money for startup costs to switch over to
7 GridSoutheast. But from what I'm hearing you say,
8 they would have to have a separate operations center
9 in Florida anyway.

10 WITNESS RAMON: Well, in the Southeast
11 process, as Mike Naeve was saying earlier, we would
12 have to participate in that. But if there was to be a
13 Southeast with Florida in it, we would insist, and I
14 hope we would prevail, that we would have to have the
15 equivalent of what we've proposed to the FERC here in
16 terms of an operations center close to load-serving
17 entities and generators that are needing service and a
18 strong relationship with the Commission for siting
19 purposes.

20 WITNESS NAEVE: Yours I think is a good
21 question, and that is, if we were to go forward with
22 GridFlorida first and incur the startup costs, are
23 those startup costs which would have been spent and
24 wouldn't be necessary later on if we were to join the
25 Southeast RTO, or are these costs we would have to

1 spend anyway if we were to join the Southeast RTO.

2 If they're costs we could incur anyway,
3 then that would argue for going forward with
4 GridFlorida notwithstanding what they're doing in the
5 Southeast. And I'm not the technical expert on that.
6 I would assume that there are certain startup costs if
7 you had a Southeast RTO that we wouldn't be able to
8 avoid if we did that, but I don't know how large those
9 are as a percentage of the total amount.

10 COMMISSIONER PALECKI: I guess we would
11 like to have a "buy one, get one free," but I don't
12 think --

13 WITNESS NAEVE: There you go.

14 COMMISSIONER PALECKI: -- that's really
15 going to happen.

16 WITNESS MENNES: Commissioner, just let me
17 -- I think you've touched upon something. I'm an
18 operating type of person, so you've touched upon a
19 real sensitive thing as far as I'm concerned. And, of
20 course, Florida Power & Light is going to end up being
21 the largest customer of GridFlorida if there's a
22 GridFlorida, or if we're in the Southeast RTO, one of
23 the bigger customers for sure.

24 And reliability, to me, when it comes into
25 the transmission grid, when we sit down here and look

1 at our ties to the South, which we don't have, and
2 East and West, which we don't have, it is a state that
3 we think we've run pretty good from a reliability
4 standpoint. We keep learning every year. And there
5 should be and there is a real concern about
6 maintaining the reliability here. And we need to
7 bring that real strong into the different FERC forms,
8 whether it's a Southeast RTO form, no matter what
9 happens to us. And I think the three of us all really
10 very strongly agree with it.

11 What Greg was kind of going through was, if
12 they did have something in the Southeast, I just do
13 not see them controlling and worrying about what they
14 call loop flows. You know, with all this, loop flow
15 has been the big issue. And we basically say, look,
16 we do not have loop flows. We're almost like a DC
17 tied to the rest of the world with other folks.

18 Now, we have bought power actually I think
19 from California, a municipality in the state has. And
20 we buy quite a bit of coal power from Ohio and
21 everything else when it's economical, and our
22 marketers get out there and do that type of thing.
23 That creates loop flows in the rest of the universe.
24 It doesn't create loop flows in the State of Florida.

25 But when you do get into the State of

1 Florida, it is a grid, and it is -- I don't think it's
2 extremely complex, but it's not simple, and it needs
3 to be understood.

4 So our push would be to make sure that we
5 had, no matter what kind of an RTO, at least satellite
6 reliability offices or something. I don't know what
7 it would look like or what it would be, but certainly
8 I think the whole Southeast would be too big to
9 operate from one center. They would probably have to
10 take certain orders from this main center, but the
11 reliability and responsibility of keeping the lights
12 on and how it all works I would hope would stay here.
13 I think that's what Greg was talking about.

14 COMMISSIONER PALECKI: And if we instead of
15 looking at it from a Southeast RTO perspective, we
16 look at it from a GridFlorida perspective, would you
17 expect that we would have a great deal of cooperation
18 between the GridFlorida and GridSoutheast in order to
19 maximize the efficiency of the ties that we do have,
20 and do you see any -- I'm not sure I see any negatives
21 really to operating as two separate RTOs.

22 WITNESS MENNES: No, and I don't see any
23 negatives to operating as two separate RTOs right now,
24 and I think that's what -- we need to step back and
25 see what the other one really looks like.

1 And certainly right now when we talk about
2 maximizing the ties, I think we do that. I think we
3 do a pretty good job of maximizing and coordinating
4 the import capability ever since we built the 500 kv
5 ties and other ties into Southern. It's just how the
6 RTO in the Southeast would be structured and what its
7 market design and some other functions would look
8 like.

9 And certainly you could probably build one
10 big market. There would be certain limitations.
11 There's always limitations, whether it be between
12 Florida and Georgia or whether it be between the
13 Carolinas and Georgia, or on the other side going into
14 Entergy, because Entergy would be a player here, and
15 they've got some weaker ties actually coming over into
16 the East than we have here in the South.

17 So there's always going to be a weakest
18 link somewhere, and you'll have some kind of market
19 design, and this is, I think, the big issue, is what
20 does that market design look like, how does it work,
21 how does it treat constraints. And probably -- if it
22 works and it can be designed right, you probably would
23 not put that tie -- and Greg is probably better at
24 this than I am, but I don't think you would put that
25 duplicative type of design in for the State of

1 Florida. You may or may not. And that's kind of what
2 we're faced with. We really don't know.

3 WITNESS NAEVE: It strikes me that there
4 are several issues here, and one set of issues relate
5 to costs. How significant are the avoided costs? How
6 significant are the costs we could save by going into
7 the Southeast RTO with respect to startup costs and
8 infrastructure costs? And you need not only to look
9 at total cost, but cost per customer, because you
10 would be spreading those costs over a much larger
11 base. So we have to ascertain which is the more
12 economical and efficient way to go, considering the
13 fact that we'll probably need special equipment and
14 resources here in Florida because of the uniqueness of
15 Florida market.

16 The other issue would be structure, is it
17 structured in a way that we would find satisfactory,
18 market design, is it compatible with the market design
19 that we would propose for Florida, and so forth.

20 COMMISSIONER PALECKI: I know the four of
21 you have already done a great deal of work in the
22 organization of GridFlorida. Would it be possible to
23 make some changes to GridFlorida in order to design a
24 more or less seamless incorporation into GridSoutheast
25 in the future with that in mind, and if so, what would

1 those changes be?

2 WITNESS RAMON: I think we have to --
3 assuming we got this Commission's affirmative backing
4 of GridFlorida -- and I know we'll have to talk about
5 this later, what that means, some of the questions
6 that Commissioner Jaber has brought up. Assuming we
7 have that backing, then we have the Southeast process
8 that we still have to actively participate in. And
9 with the FERC's predisposition on the core function
10 and the pro forma RTO, we would have to negotiate, if
11 you will, on the design of GridFlorida being
12 compatible with the Southeast. I don't think it's a
13 shoe-in that what we've got filed with the FERC would
14 prevail.

15 WITNESS NAEVE: AS I think about it, there
16 are a couple of issues here. One is, if you want to
17 commence GridFlorida early on and then later merge it
18 into the Southeast, you want to first make certain
19 that the two have compatible structures, market
20 designs, rates, and so forth. If the rates are
21 incompatible and the market designs are incompatible,
22 the structures of the corporations are different, that
23 integration becomes very hard.

24 Another problem you would have is we would
25 create GridFlorida and turn over control of

1 GridFlorida to an independent board. Once that has
2 happened, the companies here have no control over
3 GridFlorida. The board has control over GridFlorida.
4 Likewise, FERC requires that the Southeast RTO be
5 independent and have its independent board. And as
6 much as we would like to try to dictate the terms
7 under which they might combine, it's going to be up to
8 the independent boards themselves to decide if they
9 want to combine and under what terms and conditions.

10 So, frankly, if you want to have that
11 combined operation, you would be better off designing
12 it from the start as opposed to kind of turning it
13 over to independent parties and letting them have to
14 deal with all the differences. You would hopefully
15 minimize those differences if it were designed from
16 the start that way, but it could be somewhat
17 complicated.

18 COMMISSIONER PALECKI: Well, what I'm
19 thinking in terms of it operating as GridFlorida for
20 five or seven years, some indeterminate time, but
21 melding or joining GridSoutheast at some future date,
22 but avoiding all of the startup costs and avoiding
23 having to duplicate a lot of the same expenditures
24 that we would have already made. Is that something
25 that we should be thinking in terms of?

1 WITNESS NAEVE: That's a distinct
2 possibility. I think, for example, if this Commission
3 were to say, "We would like you to go forward with
4 GridFlorida. We believe that GridFlorida should be
5 operated as a separate entity for at least seven or
6 eight years before there's any combination with a
7 Southeast RTO," that would, I think, have persuasive
8 effect with FERC.

9 Now, having said that, you still might have
10 significant differences in the two structures that
11 would make it difficult to combine those operations.

12 Another alternative -- it strikes me there
13 are a couple of alternatives. Another alternative
14 would be to have the GridFlorida companies work with
15 the Southeast RTO at the outset so that the Southeast
16 RTO -- so that Florida has lot of input into the
17 design and structure of the Southeast RTO.

18 The report from the judge in the mediation,
19 you'll notice it has a lot of elements in it that look
20 like GridFlorida, because GridFlorida is a
21 well-designed entity. Now, if the Florida companies
22 don't participate on a going-forward basis, it may not
23 continue to look much like GridFlorida. But having
24 the two look a lot alike is useful to us.

25 But another option might be to have the

1 GridFlorida companies participate in the Southeast
2 process and to see if in that Southeast process we
3 could have GridFlorida a part of the Southeast RTO,
4 but with special controls or special operations for
5 Florida alone ceded to a Florida division of the
6 Southeast RTO or something like that, but where
7 there's compatibility then between the designs of the
8 companies and the rates of the RTOs and the divisions
9 of the RTOs and so forth. I mean, it just strikes me
10 we have lot of options at this stage.

11 WITNESS RAMON: The bottom line of all this
12 is that we need the equivalent of a GridFlorida, even
13 if there's a regional Southeast, from just an
14 operational and reliability -- being close to your
15 customers, grant access, and being close to the
16 Commission for siting purposes.

17 So it's just something -- we have a
18 complication with the Southeast, and as Mike said, we
19 have to be in there early and be able to effectuate
20 what we need here in Florida.

21 COMMISSIONER PALECKI: Thank you.

22 COMMISSIONER JABER: Mr. Mennes, as an
23 operations person, you reminded me of something I
24 asked Chairman Hoecker yesterday. From a storm,
25 natural disaster standpoint, are there problems in

1 terms of dealing with those disasters if you are in a
2 regional RTO versus a GridFlorida RTO?

3 WITNESS MENNES: I think for what we'll
4 call a hurricane -- and certainly Andrew was a major
5 disaster. I think the processes that we have in place
6 to deal with disasters, to coordinate and to help each
7 other's utilities, I think are good today, and they
8 would be just about the same tomorrow. The RTO would
9 be able to respond to them. I think where Greg and I
10 come from, major storms and stuff like that are fine.
11 We see them. We know what's going on. We can
12 assemble people. We can attack them.

13 When you get into the operational mode,
14 what you've got to -- what always -- maybe I'll kick
15 myself for bringing this up. What always scares an
16 operator is the so-called shoulder periods. And what
17 happens in the shoulder periods is the loads go down,
18 and all the generators want to take a holiday and get
19 fixed, and all the transmission people want to take
20 their lines out and work on them. And that's when
21 people need to be very, very alert, especially when
22 you have a spike in the weather. And usually it will
23 be a spike with hot weather early for us in the State
24 of Florida and in the South, which would be sometime
25 around April or May.

1 So those are the type of conditions that
2 you need really good coordination, and you need
3 someone that understands the diversity of the load,
4 whether it's in the Southeast or whether it's just in
5 Florida, to stay on top of those type of things. And
6 that's why we really -- if they go to some kind of
7 Southeast RTO, we need to make our point real strongly
8 that you need some kind of operational center or
9 something like that in the State of Florida. I feel
10 very strongly for that.

11 And, you know, you can say that, and the
12 Southeast RTO can be developed and just say, "Okay.
13 We're just going to have one center, and we're going
14 to put that center" -- wherever it is. It probably
15 won't be south of Tallahassee, and this is the way the
16 Southeast is going to go. And that, I think, would be
17 unacceptable to us in the State of Florida from a
18 reliability standpoint. But we don't know. We don't
19 know how any of that stuff will work.

20 COMMISSIONER JABER: Just to complete the
21 record then, assuming we kind of give some direction
22 or guidance in our ultimate decision if we think an
23 RTO is appropriate, where would you recommend that the
24 Florida operations center be located?

25 WITNESS MENNES: A little bit on the

1 spot.

2 WITNESS RAMON: Say in Florida.

3 WITNESS MENNES: In Florida. Thank you. I
4 got help on that one.

5 We did our best when we started up
6 GridFlorida to make it a smooth transition. And
7 Florida Power & Light, being the largest customer, was
8 very concerned about the costs and all and basically
9 decided that we would move out of our control center.
10 Since it already has a large board, you can develop
11 the transmission maps. The transmission maps and
12 stuff are very important when you have a large storm
13 to see what's in and out, and we thought the Miami
14 area was a pretty good place to do all that. We
15 already had all the infrastructure in place.

16 Now, certainly that type of infrastructure
17 could be relocated somewhere else at a future date.
18 We didn't tie GridFlorida's hands down for any
19 specific period of time. But just the overall way we
20 communicate with the various municipalities and co-ops
21 and the IOUs with our hot lines and everything else,
22 we have that infrastructure in place. If you tried to
23 take that whole thing, the way we operate, and have it
24 done somewhere else, it just -- to me, it's just too
25 big. It's too much.

1 one thing that people sometimes lose track
2 of is we have operators on shift, and we actually
3 operate a power company 24 hours a day, seven days a
4 week. And when something goes wrong, we cannot tell
5 the transmission grid that they're only allowed to
6 have problems at the times when management is there.
7 So we need to make sure we've got the operators
8 trained. And it's a mind-boggling job for them just
9 to take care of the State of Florida, and we do a good
10 job doing that.

11 WITNESS RAMON: Commissioner, trying to go
12 back to your question, the way we left it was that
13 we're going to use the FP&L control center just to get
14 started. Using the existing infrastructure would save
15 us a lot of money, but we were going to leave it to
16 the board on where the headquarters should be and
17 where any future permanent facilities should be. We
18 were going to leave that up to the board.

19 BY MR. KEATING:

20 Q I just have a couple of questions to follow
21 up on the discussion that you had with the
22 Commissioners just now.

23 Besides GridFlorida, are there any RTO
24 proposals from within the Southeastern region that was
25 defined by FERC in July that are pending before FERC?

1 A (By Mr. Naeve) There's GridSouth pending.
2 There is GridFlorida, which is still pending on the
3 compliance filing. The SPP Entergy filing is pending.
4 And then Southern Company made a filing, the so-called
5 SETrans, I believe, which I believe is still pending
6 too.

7 Q So each of those entities have incurred
8 some startup costs to date, or some costs --

9 A To different degrees, yes.

10 Q -- to get the ball rolling.

11 A Yes, to different degrees.

12 Q Would you expect that if FERC were to order
13 a Southeast RTO that included all of these entities
14 that all those startup costs would be recovered in the
15 charge of the Southeast RTO to each of the utilities
16 that took service from it?

17 A I would think so, yes. I would also say
18 that the costs that have been incurred so far would be
19 a relatively small fraction of the total startup costs
20 once you start making investment in infrastructure and
21 facilities.

22 Q And one other follow-up. There was some
23 talk about how to -- I guess how GridFlorida could fit
24 into the Southeastern RTO with minimal -- you know,
25 with as minimal additional costs or difficulties as

1 possible. From your understanding of what the ALJ has
2 recommended to FERC as the form of an RTO for the
3 Southeast region, is there much difference between
4 that form and what's proposed as GridFlorida?

5 A Not significant differences. There are two
6 primary differences, and I in response to the same
7 question yesterday gave them to you.

8 Q So I asked that question yesterday?

9 A Yes, you did.

10 Q I told you yesterday also that my
11 short-term memory was two hours.

12 I left off with some questions about the
13 differences between how GridFlorida would perform
14 operational control services as compared to how it's
15 currently done. Could the same operational control
16 services that will be performed by GridFlorida be
17 performed as effectively by a not-for-profit RTO?

18 A (By Mr. Mennes) For the operational
19 control and reliability of services, I would assume
20 they would be -- you know, the end result would
21 probably be about the same, would be the same.

22 A (By Mr. Ramon) well, I think it has --
23 Marty, I think the transco has the potential to be
24 better on the operations end, because right now we
25 have -- as you all well know, we have coordinated

1 utility operations in Florida. And even if you went
2 to a not-for-profit RTO, it would still be
3 coordinated. There would be a high degree of
4 coordinated operations. But with a transco owning a
5 lot of transmission and owning those very facilities
6 that it operates, it's a less coordinated operation,
7 so I would think it would have the potential to be
8 more efficient.

9 A (By Mr. Mennes) Yes, I think -- I looked
10 at the question just from a "keep the lights on"
11 standpoint. I think the end result of keeping on the
12 lights on, the result would be the same. If you
13 looked at the transco, which would be the
14 owner-operator of the facilities, versus the ISO, I
15 think there would be more efficiencies in the transco
16 model. The ISO model brings in some duplicacies, if
17 you would, and probably inefficiencies.

18 A (By Mr. Naeve) I think we've always felt,
19 and one of the reasons we like the transco model is
20 that there needs to be an alignment between owning
21 assets and operating and maintaining those assets,
22 that companies or individuals naturally will be more
23 thoughtful and careful in establishing operating
24 policies and maintenance policies for assets they have
25 an economic interest in or a stake in than otherwise.

1 In this case, you'll have a for-profit
2 transco that also owns significant assets, and it will
3 therefore, we think, have a strong incentive to
4 develop wise and prudent operating protocols. Those
5 operating and maintenance protocols that they develop
6 will apply to assets not only that they own, but the
7 assets that they manage under contracts. But we think
8 having that alignment between ownership and operation
9 is a good one.

10 Q Okay. And are those -- would those be the
11 efficiencies that you were talking about, Mr. Mennes?

12 A (By Mr. Mennes) Yes.

13 COMMISSIONER DEASON: Is that -- in your
14 opinion, Mr. Naeve, is that a shortcoming in the
15 Southeast proposal in the sense that there is a
16 contractual relationship between the transco and the
17 independent market administrator? Is that a problem
18 in your viewpoint or not?

19 WITNESS NAEVE: No. In the Southeast
20 model, the transco still has the responsibility for
21 O&M. So we wanted -- you know, it's important to
22 maintain that alignment between ownership and O&M
23 responsibility, which was preserved in that Southeast
24 model.

25 COMMISSIONER DEASON: So the

1 responsibility -- even in the Southeast model, the
2 responsibility still rests with the independent
3 transco, whether they contract part of that
4 responsibility away -- not the responsibility, but
5 they contract some of that away, they're still -- the
6 entity which owns is still responsible.

7 WITNESS NAEVE: Yes. They would actually
8 not be contracting that away to the market
9 administrator. They would retain that responsibility.

10 COMMISSIONER DEASON: They would retain the
11 responsibility to operate and maintain?

12 WITNESS NAEVE: That's right. Now, they
13 may contract with some of the transmission owners and
14 the utilities that are under the RTO for some of those
15 O&M services, but they will maintain responsibility.

16 COMMISSIONER DEASON: Okay.

17 CHAIRMAN JACOBS: There was some concern on
18 this issue with the idea of basing the standards for
19 maintenance on the prior three years' measures. And
20 you came back, and -- well, I understand that there's
21 going to be a continuing discussion on that. would
22 you care to elaborate on that?

23 WITNESS MENNES: well, what you're
24 referring to correctly is that in our tariff that we
25 filed -- and we call it Attachment O, which is Exhibit

1 1, volume 6. We have a protocol in there that talks
2 about the responsibilities that GridFlorida would have
3 to maintain the transmission reliability standards.
4 we did a lot of discussion on this matter in the
5 collaborative process and took a lot of input from the
6 municipalities and co-ops in there and tried to look
7 at some realistic things that we thought GridFlorida
8 could be able to do.

9 And the first thing that we asked them to
10 do is -- what we told them they had to do in the long
11 term was to make sure that reliability is no worse for
12 the load-serving entities than it is today, or
13 averaged over the last three years is actually what it
14 says. And we also put a responsibility for
15 GridFlorida on a yearly basis to evaluate systems that
16 had low, if you would, reliability or the worst
17 reliability. And we also looked at different delivery
18 points, and we also said that GridFlorida would have
19 responsibility to go in there and evaluate those with
20 the worst responsibility, get with the load-serving
21 entities and address improvements, transmission
22 improvements to bring this up to date or to bring them
23 so that their problems or whatever they had would be
24 minimized.

25 So we were very concerned, and we took

1 input. We think that what is in here does make
2 GridFlorida responsible to maintain reliability and
3 actually to improve it. What it was was just the
4 load-serving entities that are going to be the
5 customers of GridFlorida to have an assurance that
6 there is a tariff out there that requires GridFlorida
7 to do this work and to get with them and to review the
8 reliability and to track the reliability.

9 CHAIRMAN JACOBS: And if they want to
10 pursue a higher level of reliability, they can, but as
11 I understand it, they would have to incur those costs;
12 is that correct?

13 WITNESS MENNES: That is correct.

14 CHAIRMAN JACOBS: And this goes a little
15 bit beyond me, but let me try it at least. As I
16 understand this idea of looping, there can be some
17 looping done in the system, which I understand
18 enhances reliability for a particular user. Do we --
19 am I to understand then that whatever is done now
20 would stay in place, and anybody who wants to conduct
21 that in the future, anybody, any user of the system,
22 whether they're a load-serving entity or not, they
23 incur the cost of adding that kind of a facility to
24 their --

25 WITNESS MENNES: Well, basically, when you

1 talk about looping, you're --

2 CHAIRMAN JACOBS: And correct me if I'm
3 talking out of turn.

4 WITNESS MENNES: No, you're doing good.
5 When you talk about looping the various stations and
6 how all that works, the way we plan things today and
7 coordinate today to serve load and to bring the
8 transmission into it and to make sure the transmission
9 is coordinated with the generation, those same
10 processes will also continue to take place in a
11 planning process that the GridFlorida is required to
12 do, required by the tariff to do.

13 When GridFlorida -- and I think it's
14 important to note that one thing that we do not have
15 today that GridFlorida does have is, GridFlorida will
16 have an independent -- well, it's not independent.
17 They have a market participant type planning committee
18 that will be able to come back and work with the
19 various planners that GridFlorida has.

20 So GridFlorida is not going to be able to,
21 and I don't think we want it to be able to go out
22 there and do what we call a gold-plated system.
23 They've got to do what's reasonable. They look at
24 long-term plans. A lot of times what you would do,
25 you would build a substation, and you could serve it

1 radially with the long-term plans of as load continues
2 to grow, as your transmission requirements, maybe
3 three years later you would loop it through. That's
4 what Florida Power & Light does now. So all these
5 type of practices would be carefully reviewed by
6 GridFlorida.

7 WITNESS SOUTHWICK: I would add to that,
8 through that normal process, lines will be looped in
9 when the load growth requires it, and that will be
10 picked up through the normal planning process, and
11 that would not be a directly assigned cost to that
12 particular LSE.

13 CHAIRMAN JACOBS: So as I understand it,
14 the concern was that -- the consistency. So your
15 evaluation of load growth and those sorts of issues
16 would occur through this planning process, and
17 consistent standards would apply throughout.

18 WITNESS SOUTHWICK: Yes.

19 WITNESS MENNES: Yes.

20 CHAIRMAN JACOBS: Thank you.

21 COMMISSIONER DEASON: I have a question.
22 Mr. Mennes, I believe you made reference to Attachment
23 O, which is the operating protocol, which is part of
24 volume 6.

25 WITNESS MENNES: Yes, sir. It's actually

1 Volume 6-B.

2 COMMISSIONER DEASON: Okay. Well, I'm
3 looking at page 4074. And you also made reference to
4 the fact, and maybe Mr. Naeve also, that there could
5 be a contractual relationship with a divesting owner,
6 for example, to provide operations and maintenance
7 services. Do you expect that to take place in the
8 case of Florida Power & Light?

9 WITNESS MENNES: Yes.

10 COMMISSIONER DEASON: Now, the personnel
11 that would be actually doing those -- providing those
12 services, conducting the maintenance, for example,
13 those are currently Florida Power & Light employees
14 and would continue to be Florida Power & Light
15 employees?

16 WITNESS MENNES: Yes, to the same -- we do
17 use contractors here and there for, for example, tree
18 clearing and maybe some other things. I'm not sure.
19 But whoever is doing it today, however Florida Power &
20 Light operates the -- really, the maintenance of the
21 transmission facilities would be the same as it is
22 today, and we're going to build that in.

23 It just didn't make -- it was impractical
24 to turn over facilities and turn over those
25 requirements to GridFlorida, so we'll have a contract

1 in place with them which is yet to be developed, but
2 it will have Florida Power & Light maintaining those
3 facilities 24 hours a day, seven days a week,
4 renewable notices type of thing.

5 And we worked real closely with -- and
6 we're planning on working real closely with TECO,
7 because it is a large concern, and we definitely
8 wouldn't turn all that over until we got a warm
9 feeling that GridFlorida could take over those
10 maintenance facilities. Whether GridFlorida would
11 take over the employees or not, we never really got
12 there. So we anticipate, I think, Greg, for five
13 years that we will have that contract in place.

14 COMMISSIONER DEASON: Well, how will you be
15 -- I say you, Florida Power & Light. How will Florida
16 Power & Light be compensated for the use of its
17 employees and the expenditures that you incur in
18 maintaining assets which you have actually turned over
19 to a different entity?

20 WITNESS MENNES: The costs would be
21 identical to the costs it would be today. When we
22 maintain those facilities today, we gather those
23 maintenance costs. And as opposed to being a Florida
24 Power & Light cost, what we would do, we would gather
25 those costs, and we would just send that bill to

1 GridFlorida for cost.

2 COMMISSIONER DEASON: And it's on a
3 cost-based arrangement? Is that what the contract
4 calls for with GridFlorida?

5 WITNESS MENNES: That's what it would call
6 for. We never really finished that contract. That's
7 one of the things we had. We wanted to make sure of a
8 couple things. We didn't want to -- of course,
9 obviously, we didn't want to see any profit involved
10 in here. We wanted to make it look like for the
11 customers, for the ratepayers, that it was the same
12 type of business and the same cost that was being
13 executed today, and we wanted to make sure the service
14 was the same with the same expectations and the same
15 results as today.

16 COMMISSIONER DEASON: Well, you
17 characterize yourself as an operations person, and I
18 respect that. So I'm going to ask you a question, and
19 if you're not comfortable answering it, that's fine.

20 From a cost reporting perspective, can
21 these costs readily be identified and accounted for so
22 that we're sure that those costs are correctly
23 allocated out of Florida Power & Light's retail
24 regulated operations and are properly accounted for by
25 GridFlorida?

1 WITNESS MENNES: I'm 99 percent sure, yes.
2 Just to leave myself that -- I'm sure that -- that was
3 our intention, and it should be able to be done.

4 BY MR. KEATING:

5 Q On page 23 of the panel testimony, there's
6 a discussion of how transmission system planning will
7 take place under GridFlorida, including expansion.
8 Who currently performs the planning function?

9 A (By Mr. Southwick) Each of the utilities
10 performs the planning function, and it's coordinated
11 through the FRCC.

12 COMMISSIONER DEASON: Let me back up for
13 just a moment. I guess the other panelists heard
14 Mr. Mennes answer my question in terms of Florida
15 Power & Light. Do you also agree for your respective
16 companies that it would be the same answer, or do you
17 have anything you wish to add or change as it relates
18 to your companies?

19 WITNESS SOUTHWICK: In the case of Florida
20 Power Corporation, we're not going to be a divesting
21 owner, so that wouldn't apply to us.

22 COMMISSIONER DEASON: I understand that,
23 but the assets still have to be maintained, and you'll
24 just be maintaining them yourself.

25 WITNESS SOUTHWICK: Yes.

1 COMMISSIONER DEASON: Do you -- well, then
2 how do you look for recovery of your maintenance
3 costs? Is it going to be from -- continue to be part
4 of your retail operations?

5 WITNESS SOUTHWICK: No. Actually, all of
6 our transmission revenue requirements will become --
7 will be collected through the FERC-approved revenue
8 requirement, but the actual accounting for it will be
9 exactly same way we do it today.

10 COMMISSIONER DEASON: Okay. So those costs
11 can be identified, but you'll be looking for recovery
12 of those costs from the RTO?

13 WITNESS SOUTHWICK: That's correct.

14 COMMISSIONER DEASON: And then it will be
15 -- in turn, the rate that is established by FERC would
16 include the maintenance costs as part of the costs
17 which have to be recovered in the rate.

18 WITNESS SOUTHWICK: That's correct.

19 COMMISSIONER DEASON: Okay. Mr. Ramon, is
20 that your understanding as well?

21 WITNESS RAMON: We're in the --

22 MR. CHILDS: Commissioner, he can go ahead
23 and answer, but I want to make sure that you're
24 satisfied. I don't know -- this is a little bit
25 beyond his testimony here, and it's an accounting

1 area. I don't know whether the witnesses know, and I
2 want to make sure when they answer you that --

3 COMMISSIONER DEASON: Well, I prefaced the
4 question. I put that question out there and qualified
5 that only if the witnesses were comfortable answering
6 it.

7 MR. CHILDS: Okay.

8 COMMISSIONER DEASON: So you're not under
9 any pressure to answer if you're not comfortable
10 answering. I want to make that clear.

11 WITNESS RAMON: Well, I'm real comfortable
12 in having you ask Bill Ashburn later.

13 COMMISSIONER DEASON: Very well.

14 COMMISSIONER JABER: Mr. Southwick, there
15 has been some conflicting testimony as to whether
16 Florida Power Corporation would do its own
17 maintenance, so once and for all, could you tell us
18 what it was you envisioned Florida Power Corporation
19 maintaining and what services you would be paying the
20 RTO for?

21 WITNESS SOUTHWICK: We would maintain our
22 system as we do today, and the cost of that would go
23 in with all of our other transmission revenue
24 requirements. It in total becomes our transmission
25 revenue requirements. We would file that with FERC,

1 and FERC would approve it, hopefully, and that would
2 be collected for us and paid to us by GridFlorida.
3 Simultaneously, we will be buying from GridFlorida our
4 transmission services for our retail customers, and
5 we'll send a check to GridFlorida for that service,
6 and that's what our retail costs would be.

7 BY MR. KEATING:

8 Q How will the transmission planning function
9 process be different under GridFlorida than it is
10 under the current state of affairs?

11 A (By Mr. Southwick) Well, it will be quite
12 different in the way the process unfolds. GridFlorida
13 itself will be responsible for the planning, and
14 they'll be responsible for the final decisions that
15 get made.

16 To effect those plans, there will be an
17 open and participatory process, which is defined in
18 the planning protocol which is part of our tariff, in
19 which all the stakeholders will participate if they
20 choose to, and I assume they will, including the
21 Florida Public Service Commission. And they will work
22 together through this process, which has a formalized
23 structure with milestones on an annual basis, and the
24 result of that will be the plan.

25 The final decisions will be made by

1 GridFlorida with the input from the stakeholders. If
2 there are disputes about the final plans, there's
3 procedures to handle disputes. But the ultimate
4 difference, in my mind, is that GridFlorida will have
5 the final authority, whereas today the utilities have
6 the final authority.

7 Q So the stakeholders, are those the market
8 participants?

9 A Yes.

10 Q Okay. How do they currently participate in
11 the transmission planning process?

12 A Well, we probably vary from utility to
13 utility, I would think. I know in the case of Florida
14 Power Corporation, we work with our TDUs periodically
15 to work with them to find out what their needs and
16 satisfaction, et cetera, is with the process. At the
17 FRCC, where today all the plans come together for
18 coordination and to ensure that the overall grid is
19 adequate, the stakeholders all sit around that table
20 and take part in those studies.

21 Q And just for clarification, for the record,
22 what is a TDU?

23 A A transmission-dependent utility. I'm
24 referring specifically to FMPA and Seminole.

25 COMMISSIONER PALECKI: Could I jump in with

1 a question here? I think one of the things that's
2 troubling both to our staff as well as to the
3 Commission is our loss of control when we -- if we go
4 ahead and approve an RTO. And we've heard that all of
5 our jurisdiction will go to the federal level and that
6 there will be very little control that this Commission
7 will have. And you've talked about the stakeholders
8 having a voice in the RTO, and I understand that this
9 Commission will not be a stakeholder.

10 Is there something -- other than just
11 saying that we'll give due deference to this
12 Commission, is there some formal role that this
13 Commission could be given as an advisor or as an
14 entity providing some input to the transco that would
15 give us perhaps a little more comfort level than we
16 have right now, that will give us a true voice if we
17 do have concerns on how the operation of the transco
18 is going, that we can not only voice them, but we're
19 confident that they will be heard and given due
20 consideration?

21 WITNESS SOUTHWICK: Commissioner, we've
22 given that a lot of consideration, and today -- and I
23 don't want to get into a legal thing, because I can't
24 -- today the Commission has the authority, as I
25 understand it, to order a utility to build a

1 transmission facility, or anything else, actually, if
2 they decide that that's necessary. And I know there
3 has been a lot of debate, well, they have the
4 authority to order GridFlorida to do that. And I
5 don't know the answer to that, but to protect against
6 the event that maybe it doesn't, we provided for that
7 possibility.

8 And on page 28 of our panel testimony, we
9 address that specifically, and the Q and A starts on
10 page 4. And this refers to Attachment N, the planning
11 protocol of our tariff, where GridFlorida is obligated
12 to act as the agent for the utilities and construct
13 facilities if the PSC orders it. What we did here is,
14 the PSC can still order a utility to build a facility,
15 and if the utility is not in a position to do so, for
16 example, if they have divested, GridFlorida is
17 obligated to step up and perform that role. So our
18 intention is that the same authority the Commission
19 has today they'll still have.

20 COMMISSIONER PALECKI: I was thinking more
21 in terms of some sort of formal liaison between this
22 Commission and GridFlorida, you know, that might allow
23 this Commission to act in some role as an advisor to
24 GridFlorida.

25 WITNESS SOUTHWICK: well, we provided a

1 seat at the table for the Florida Commission, which in
2 my mind again is the same seat at the table they have
3 today at the FRCC.

4 COMMISSIONER PALECKI: Thank you.

5 CHAIRMAN JACOBS: That's the position on
6 the Advisory Committee; right?

7 WITNESS SOUTHWICK: Yes, and also through
8 the planning process, sir.

9 CHAIRMAN JACOBS: I'm sorry?

10 WITNESS SOUTHWICK: And also through the
11 planning process.

12 CHAIRMAN JACOBS: Okay.

13 WITNESS SOUTHWICK: We encourage Commission
14 participation.

15 CHAIRMAN JACOBS: Are you familiar -- it's
16 my understanding that in PJM, there is an MOU with the
17 board of directors of PJM, between the board and the
18 jurisdictional commissions in which PJM offers
19 service. Are you familiar with that?

20 WITNESS SOUTHWICK: No, sir, I'm not.

21 CHAIRMAN JACOBS: Is anyone else?

22 WITNESS RAMON: No.

23 CHAIRMAN JACOBS: Okay. One of the other
24 avenues that is pub -- I should say announced as a way
25 for out interaction, the Commission's interaction with

1 GridFlorida is through the market monitoring function;
2 is that correct?

3 WITNESS NAEVE: Yes.

4 CHAIRMAN JACOBS: I want to kind of get a
5 little bit clearer application on that. And what I'm
6 looking at is the tariff, and this is in volume 3.

7 WITNESS RAMON: volume 3?

8 CHAIRMAN JACOBS: I'll tell you what.
9 while we get that, why don't we go ahead and take a
10 break for the court reporter. She has been going for
11 a little bit. We'll take a break and come back in ten
12 minutes.

13 (Short recess.)

14 CHAIRMAN JACOBS: We're back on the
15 record, and I was going to ask a question on the
16 market monitoring tariff. Specifically, I want to
17 speak to how the market monitor will interact with
18 other governmental agencies and how that -- I kind of
19 want to get a logical view of how this process is
20 anticipated to work.

21 First of all, as a general idea, the
22 interaction is certainly not going to be real-time.
23 We would be dealing -- we, this Commission, will be
24 dealing with any market monitoring activity ex post
25 facto. Is that a fair statement?

1 WITNESS NAEVE: I'm not so sure I would
2 describe it as ex post facto. I do think there will
3 be circumstances where you'll receive from the market
4 monitor reports of market conditions and reports about
5 proposed changes to the market and that sort of
6 stuff. I mean, I guess to the extent that the reports
7 have been prepared, it's not real-time. There's some
8 lag in time in that.

9 I don't know if there's anything that
10 necessarily precludes this Commission from trying to
11 arrange with the market monitor some more real-time
12 access to information. There's nothing in the
13 proposal that precludes that, nor is it required
14 either. They are required to share information with
15 you and share reports with you, but there's no
16 specificity as to manner in which that's done.

17 CHAIRMAN JACOBS: Now, specifically I'm
18 looking at Section 3.45 of the tariff, and this is on
19 page 2079. And here's how I would anticipate this
20 coming up.

21 WITNESS NAEVE: This is Section 3.4.5?

22 CHAIRMAN JACOBS: Correct. You're
23 absolutely right.

24 WITNESS NAEVE: And it's page 3739?

25 CHAIRMAN JACOBS: Oh, I guess that's right.

1 There's two statements of it. I have it on 2079, but
2 you're right, it is on another page.

3 WITNESS NAEVE: Okay. I just wanted to
4 make sure I was looking at the same section.

5 CHAIRMAN JACOBS: I wasn't sure which one
6 was the most current. There's one on 2088, and then
7 one on 2079 in my exhibit package. I assumed the
8 first one is the most current.

9 MR. FAMA: Mr. Chairman, volume 6 of
10 Exhibit 1, which is attached to Mr. Naeve's testimony,
11 is the most recent FERC filing, and I believe that's
12 got the market monitoring tariff in it, and probably
13 that would be the best one to look at.

14 CHAIRMAN JACOBS: Okay. The page number on
15 that one was --

16 WITNESS NAEVE: Okay. So this is -- the
17 2079 is the most updated filing, so we can work from
18 that.

19 CHAIRMAN JACOBS: Okay.

20 WITNESS NAEVE: Oh, I'm sorry. This is
21 August? Okay. Then let's go to 3739. That is the
22 most recent.

23 CHAIRMAN JACOBS: Okay. This seems to be
24 essentially the same language. Well -- okay. Now, it
25 appears here that in some -- there will be the

1 opportunity for this Commission to receive information
2 on market monitoring activity that had to do with
3 market abuses. Is that what this section is intended
4 to do?

5 WITNESS NAEVE: 3.4.5?

6 CHAIRMAN JACOBS: Right. I'm specifically
7 looking at the end of the first sentence that says the
8 market monitor may submit a complaint regarding a
9 specific violation of market rules, excessive market
10 power, or otherwise anticompetitive behavior directly
11 to the Commission, and in parentheses, and as
12 appropriate, to other authorized government agencies
13 to the extent appropriate, or relevant, I should say.

14 WITNESS NAEVE: This section is the section
15 that authorizes the market monitor to file complaints
16 against parties that may be exercising market power or
17 abusing -- or violating tariffs or abusing market
18 rules. It, in effect, authorizes them to file a
19 complaint regarding these violations to the Commission
20 or, as appropriate, other agencies. And the only
21 other agencies are agencies that have the power to
22 remedy that complaint. So, in effect, what it says is
23 if you identify a problem in the marketplace, you're
24 authorized to file a complaint with the agency that
25 has jurisdiction over that particular type of behavior

1 asking -- petitioning that agency to issue a remedy.

2 CHAIRMAN JACOBS: On the prior page, 3738,
3 Section 3.2.3, that says that we can get market
4 performance reports and recommendations if appropriate
5 or required. Do you agree with that?

6 WITNESS NAEVE: That's correct.

7 CHAIRMAN JACOBS: And then in the last
8 sentence there, it says that the market monitor will
9 be obligated to file reports requested by the
10 Commission or the Florida PSC.

11 WITNESS NAEVE: That's right.

12 CHAIRMAN JACOBS: Was that intended to
13 include the information here that's in the other
14 section, 3.4.5, so that -- could we -- my question
15 then is: Could we request a copy of any reports on
16 market abuse or market monitoring activity at all
17 pursuant to 3.4.5 under the authorization here in this
18 prior paragraph?

19 WITNESS NAEVE: I would expect you could.
20 Certainly complaints filed at FERC are public
21 complaints. The only caveat -- and I'm not aware of
22 where this might arise, but there could be
23 circumstances in which if you file a complaint, for
24 example, sometimes complaints filed with the
25 Department of Justice are confidential, and I'm not

1 sure they would necessarily make those available to
2 everybody if they were to do that. But as a general
3 rule, you would have access certainly to any FERC
4 complaint they would file. It would be a publicly
5 filed complaint.

6 CHAIRMAN JACOBS: And here's -- rather than
7 going so much through the technical details, here's
8 kind of how my view of the world is if a transco or a
9 GridFlorida were to exist. This would probably come
10 up in my mind when somebody comes to us when we're
11 looking at the posture of -- because ultimately I
12 think that's what we'll be looking at. We're looking
13 at how retail rates or retail ratepayers should be
14 looking at the recovery of transmission costs.

15 And in my mind, a likely scenario will be
16 that somebody will come in and say that there was some
17 imperfection in the transmission marketplace at the
18 time this transaction occurred, and you should review
19 whether or not those costs are prudent. Then we have
20 to figure out how to investigate that when we're
21 talking about recovery at the retail side. And my
22 thought is that the only way we're going to be able to
23 do that is to go back and assess information of this
24 ilk or this caliber. And so what I --

25 WITNESS NAEVE: I think you can get that

1 information through section 3.2.3.

2 CHAIRMAN JACOBS: Okay.

3 WITNESS NAEVE: Or -- yes, 3.2.3.

4 CHAIRMAN JACOBS: Now, then that goes to --
5 and I got off on this whole tangent from some of the
6 questions that Commissioner Palecki had raised. In
7 the tenor of really facilitating a more active, or I
8 should say a more efficient -- let me put it that way,
9 a more efficient interaction and operation with
10 GridFlorida, it would occur to me that as much
11 preemptive work in this kind of a role would be useful
12 as possible.

13 In other words, we don't want to have to go
14 back and deny costs. We don't want to be in that
15 role. In that kind of a scenario, in my mind, it
16 would be counterproductive and probably hurtful to the
17 companies.

18 How would we, how could we work to ensure
19 that we could do it in a planning process or in a
20 preemptive process more so than an ex post facto kind
21 of review process? Any thoughts on that?

22 WITNESS NAEVE: Well, I have one
23 suggestion. As I mentioned earlier, the market
24 monitors typically have two responsibilities, and one
25 responsibility is monitoring, as one would expect with

1 that name, market monitor. They gather data, they do
2 studies, they evaluate whether the market is
3 functioning well, and if it's not functioning well,
4 why isn't it functioning well, and so forth.

5 And with respect to that function, they
6 have an obligation in their tariff to prepare for you
7 any reports you might request, which, in effect, says
8 you have access to their staff to do studies for you,
9 to do analysis for you. In some ways, they're almost
10 an extension of your staff. They're going to be
11 preparing studies and analysis for you. If you chose
12 to, you could develop an internal staff as well with
13 this function. But they're monitoring the wholesale
14 markets.

15 The second responsibility they have, or at
16 least they have the ability to acquire, they can ask
17 FERC to delegate to them FERC's authority to regulate
18 wholesale markets. And FERC is properly reluctant to
19 delegate its authority to other parties, but in the
20 case of each of the ISOs today, they have delegated to
21 them under very defined circumstances the ability to
22 mitigate market power, to mitigate bids to sell
23 electricity and so forth.

24 And I'm quite confident that this market
25 monitor will ask of FERC to give it similar powers so

1 that when it determines that a particular generator
2 located in, let's say, a load pocket, or a generator
3 located in a situation where because of transmission
4 constraints in a given hour, it may have the authority
5 or the market power, the ability to charge excessive
6 prices. And in those circumstances, they will ask for
7 the authority to mitigate those prices. That is a --
8 you know, a special delegation of power to them.

9 I think by virtue of your working closely
10 with the market monitor on the first half of their
11 responsibilities, that is, gathering information,
12 learning about the market, knowing when things are
13 going wrong and when things are going well, you would
14 be in a position to also work with them and bring to
15 their attention situations where things do not appear
16 to be going well and ask them to use their remedial
17 power under those circumstances to try to mitigate
18 prices so that you don't have a circumstance where
19 after the fact you're looking at prices that were too
20 high, and at that stage you have a difficult question
21 of what do you do with those prices that are too
22 high.

23 This frankly is kind of the trend in
24 general. I think FERC -- one of the reasons FERC
25 wants RTOs is because they would like to have in place

1 institutions like this that can be on-site in the
2 region and monitor the markets real-time and have some
3 real-time ability to intervene in the market when they
4 detect problems.

5 CHAIRMAN JACOBS: Thank you.

6 COMMISSIONER PALECKI: Have you ever
7 considered assigning the role of market monitor to
8 this Commission, and if not, why not?

9 WITNESS NAEVE: We actually did consider
10 that. It was proposed in the stakeholder process, I
11 think, in fact, by the Commission staff, and we
12 thought about it. We frankly didn't think FERC would
13 approve it is why we did not do it. At the time that
14 we were going through the stakeholder process, FERC
15 issued an order in the California case. California
16 had a requirement that all the board members of the
17 RTO be California residents, and FERC struck that down
18 saying this is an interstate function, and you cannot
19 delegate to the residents or the institutions of a
20 single state this responsibility. And we felt that
21 the result of that case was such that if we had
22 proposed that, we wouldn't get it accepted.

23 COMMISSIONER PALECKI: Thank you.

24 COMMISSIONER DEASON: Excuse me. That's
25 interesting, but I don't think there's any requirement

1 that members of this Commission be Florida residents.
2 I think we all are, but we're selected because of
3 expertise within related fields, not because of our
4 residency. How does that relate to that? I mean, I
5 don't understand why that was the decision to exclude
6 -- I'm not saying that we should fill that role. I
7 just don't understand the nexus between that ruling
8 and why this agency was excluded from consideration.

9 WITNESS NAEVE: I think for the same reason
10 that the Commission excluded a requirement that all
11 residents be -- I'm sorry, that all board members be
12 California residents, we felt they would also have
13 excluded a requirement that all market monitor board
14 members be Florida Commissioners. Yet in each case
15 they said that -- in each case, it would be an
16 interstate function from their perspective, being
17 directed to, you know, a state-driven control.

18 COMMISSIONER DEASON: Okay.

19 BY MR. KEATING:

20 Q As a result of the collaborative process,
21 what is each of the panelists' understanding of
22 whether this Commission would have any direct
23 jurisdiction over GridFlorida?

24 MR. CHILDS: I think that calls for a legal
25 view which is not only beyond the scope of the panel,

1 but calls for a legal view, and I would object.

2 MR. KEATING: I guess what I'm trying to
3 get a feel for is, to follow along the lines of the
4 Chairman's questions, could the Commission demand and
5 receive information from GridFlorida or from the
6 market monitor under its grid bill authority. And I
7 realize that it's essentially a legal question, and my
8 question is simply trying to ask what the parties'
9 understanding of that authority might be as they
10 participated in the collaborative process to reach the
11 result that they did.

12 CHAIRMAN JACOBS: There were two points
13 that I considered that we may want to have briefed, if
14 they're not already going to be briefed. One was --
15 and we may not need it, because I think there was
16 pretty sufficient testimony given after I thought
17 about it initially, but how the Federal Power Act
18 authorizes or gives FERC authority to mandate
19 companies to participate in or comply with Order
20 2000. And then the other was that issue, was this
21 issue, and I'm thinking we may just want to have that
22 done.

23 And if you would, do this. Let's draft up
24 -- let me get with you and draft up the wording on
25 those so they're clearer for parties, and then we'll

1 announce what those issues will be so that you'll have
2 a clear understanding what they will be, and then we
3 can get around this problem.

4 BY MR. KEATING:

5 Q I'll go on. Earlier we were discussing the
6 differences in the planning process under GridFlorida
7 versus how it's currently being done. Do you believe
8 that the planning process could be accomplished any
9 more or less effectively under a transco structure
10 that GridFlorida has proposed as opposed to a
11 not-for-profit RTO?

12 MR. CHILDS: I'm sorry. Would you please
13 repeat that?

14 BY MR. KEATING:

15 Q Does the panel believe that the planning
16 process could be accomplished any more or less
17 effectively under GridFlorida as compared to how it's
18 currently being handled?

19 A (By Mr. Naeve) I think -- your first
20 question I thought went to comparing a for-profit
21 transco as opposed to comparing -- as opposed to a
22 not-for-profit ISO. Is that the question, or is the
23 question compared to today?

24 Q I'm sorry. You're correct. I misstated it
25 the second time. The comparison is a not-for-profit

1 RTO versus a transco like GridFlorida.

2 A Let me make a generic statement, and then I
3 think Henry can speak to the specifics. As a generic
4 matter, we felt that there are several advantages to a
5 transco. One advantage, of course, I previously
6 discussed, and that is creating an alignment between
7 the ownership of assets and the responsibility for
8 maintaining and operating those assets. With an ISO
9 you don't have that; with a transco you do.

10 A second advantage is -- I'm going to
11 mention the second, and then I'll get to the planning
12 issue. A second one is creating an alignment between
13 the obligation -- or between investment of capital and
14 establishing rates to recover that capital. And
15 again, with an ISO you don't have that, and with a
16 transco you do.

17 And then a third advantage goes to the
18 planning area, and that is, we think there should be
19 an alignment between planning for expansion and the
20 obligation to invest capital to finance that
21 expansion. So for that reason, we feel where an ISO
22 is running the planning process and it has no
23 obligation to invest its capital in the plans, that an
24 important connection is missing.

25 Henry, do you want to speak more

1 specifically to the planning?

2 A (By Mr. Southwick) No, not really.
3 Number one, I learned during the break that my other
4 mike didn't work, so I apologize for that.

5 No, I think the generic answer is the right
6 answer. As far as the actual process, it could be set
7 up under either organization.

8 COMMISSIONER JABER: Mr. Naeve, then how
9 about the second question that Mr. Keating asked?
10 Since one of the foundation rulings we need to make
11 relates to whether any RTO should be formed, how would
12 planning be improved by any RTO?

13 A (By Mr. Naeve) Well, let me give a generic
14 answer, but again, I should let the planning experts
15 speak to this. On a generic basis, to the extent that
16 you have a single entity evaluating expansion plans
17 and they're looking at it on a statewide basis as
18 opposed to an individual utility basis, one would hope
19 that there would be some economies there looking at
20 which, because expansions in one system have an effect
21 on another system. And if you look at that on an
22 integrated basis, one would expect there would be some
23 economies there.

24 COMMISSIONER JABER: And is that also --
25 are those efficiencies realized regardless of whether

1 the municipalities and the co-ops become part of the
2 RTO?

3 WITNESS RAMON: Yes. No matter where the
4 generators are located or who they belong to, they
5 impact the entire grid.

6 The other point I wanted to make, if you
7 look on page 41 of our testimony, there's a table of
8 non-utility generation. Of course, that's in the
9 OASIS queues and will not all be built, but each of us
10 right now are under Order 888. We have separate
11 pro forma tariffs, and in strict adherence to the
12 pro forma tariffs, those generators would have to go
13 to each of us separately, because each generator
14 interconnected to any one of our systems impacts the
15 other two systems. And so there are some real
16 inefficiencies there, and we try to work through that
17 today through a coordinated approach. But an RTO
18 would be a lot cleaner single-stop shopping for that.

19 COMMISSIONER JABER: Let's say the
20 municipalities and the co-ops do not join
21 GridFlorida. How is it you envisioned GridFlorida
22 would communicate and coordinate with the
23 municipalities and the co-ops? Had you reached that
24 point yet?

25 WITNESS RAMON: Whether they -- let's say

1 they don't join. Their load and their generation is
2 embedded in each of our transmission systems, and so
3 they have to come to the RTO to get service to those
4 points of delivery and have those generators
5 interconnected and studied properly and those sort of
6 things. So whether their transmission is in or out
7 doesn't mean that they're not coming and participating
8 in the planning process particularly.

9 BY MR. KEATING:

10 Q That leads me to another question. What
11 percentage of the total transmission system in the
12 State of Florida, not just peninsular Florida, would
13 be under GridFlorida's control?

14 A (By Mr. Southwick) I don't believe we have
15 that information on hand.

16 COMMISSIONER JABER: You don't know what
17 your collective contribution will be to GridFlorida?
18 You know that; right?

19 BY MR. KEATING:

20 Q Well, maybe if I rephrase the question in
21 terms of the total percentage of peninsular Florida
22 rather than the entire state. Does that help?

23 A (By Mr. Southwick) Well, to give an exact
24 answer, I couldn't do that. I mean, the three
25 utilities collectively are the vast majority of the

1 transmission in the peninsula, but exactly a
2 percentage I don't know. But we're clearly the vast
3 majority.

4 Q Can any of the panelists provide perhaps an
5 estimate of that percentage?

6 A (By Mr. Ramon) We may have to follow up
7 with you. The pricing groups in the past when we were
8 looking at the rate structure for GridFlorida had
9 compiled, I believe, some of that information if you
10 want an exact figure on that.

11 Q Is that something that could be provided as
12 a late-filed hearing exhibit?

13 A Yes.

14 CHAIRMAN JACOBS: Do you want to mark that
15 as a late-filed?

16 MR. KEATING: Yes. I believe that would
17 be -- are we on Exhibit 8?

18 CHAIRMAN JACOBS: Yes.

19 MR. KEATING: Okay. And that would be
20 percentage of total transmission system in peninsular
21 Florida that would be under GridFlorida's control,
22 under its operational control.

23 WITNESS NAEVE: We have to ask you at least
24 one question. You mean if only the three IOUs joined
25 GridFlorida? I mean, it could be 100 percent if

1 everybody joined.

2 MR. KEATING: Based on the three current
3 participants in GridFlorida.

4 WITNESS RAMON: Cochran, I would like to
5 clarify one thing, though. In terms of short-term
6 reliability, FRCC will be contracting with GridFlorida
7 to perform the security coordination function, and
8 that security coordination has authority over all of
9 the bulk system in peninsular Florida, all facilities,
10 for short-term reliability. But in terms of getting
11 transmission service, et cetera, you know, at this
12 moment in time it's just the three utilities that
13 would be putting in their assets either by divesting
14 or transferring control. But in terms of operations,
15 GridFlorida will be operating the entire facilities of
16 peninsular Florida.

17 COMMISSIONER JABER: Mr. Ramon, let me tell
18 you why I would be interested in this exhibit so that
19 to the degree you could incorporate a response to my
20 question in this exhibit, you can.

21 Yesterday Chairman Hoecker acknowledged
22 that to achieve the benefits that you all have
23 articulated in your testimony, the four primary
24 benefits regarding planning and operation efficiencies
25 and eventually lower prices to the end user, that

1 maximum participation in any RTO is critical. And he
2 said from a national perspective he has heard, you
3 know, 67 percent participation in an RTO might be
4 adequate, but he didn't know what Florida would need.

5 So what I would be looking to try to attain
6 from an exhibit like this would be currently what
7 percentage of transmission facilities will be
8 dedicated to this RTO.

9 WITNESS RAMON: Okay. I understand.

10 CHAIRMAN JACOBS: On both tiers, because
11 one is ownership and the other is operation;
12 correct? You want it on both tiers, not just what
13 they own, but what they operate.

14 COMMISSIONER JABER: Well, let's ask the
15 panelists. I don't think you need that, but correct
16 us if we're wrong. I think what I'm looking for is
17 how much participation will be in the RTO to
18 effectively ensure a true competitive market, and I
19 don't know that that needs a separation between
20 ownership and control.

21 WITNESS NAEVE: Let me just add one thing.
22 We will give you the information pertaining to these
23 three companies. We can't give you the information
24 with respect to other parties that may very well
25 participate, but they haven't committed yet. And

1 quite frankly, as I stated yesterday, it's in their
2 interest to not commit right now, because they still
3 want to bargain for more benefits to participate. But
4 I personally think there will be other participants.
5 I think it's to their economic interest to
6 participate, but I also think it's not in their
7 interest to declare that right now, so they haven't.

8 COMMISSIONER JABER: Well, do the best you
9 can. But candidly, let me tell you, if we go down
10 this road of creating an RTO for Florida, I want to
11 make sure that some sort of change in the transmission
12 facilities in the state have a positive effect at the
13 tail end of the formation and implementation. You
14 know, if it's not going to be a true competitive
15 market because you only have 50 percent of the
16 transmission participating in this, well, why do it?

17 WITNESS NAEVE: I would just add a couple
18 other thoughts. One is, in deciding what incentives
19 you offer to bring those other parties into the
20 system, there's a tradeoff between the costs that you
21 incur for providing those incentives and the
22 additional benefit you get from adding those
23 facilities.

24 And sometimes those facilities are
25 important to wholesale transmission service, and

1 sometimes they're much less important to wholesale
2 transmission service. So it's not just a question of
3 total dollar value of facilities, but where they're
4 located, and how critical they are, and whether they
5 really are necessary for wholesale service or not
6 necessary for wholesale service.

7 So there's a cost tradeoff. You could get
8 them all in if you were willing to put enough money on
9 the table to put them in, but you may have put so much
10 money on the table that you lose all your benefits.

11 CHAIRMAN JACOBS: Is there also a -- I got
12 the impression that there was some additive efficiency
13 to the market design to add more of these facilities.
14 Is that -- was that a part of the analysis that the
15 Chairman gave to this? To the extent that you have 33
16 percent outside of the scope of the design of the
17 market, you lose some level of efficiency for the
18 market; is that an accurate statement?

19 WITNESS RAMON: Well, keep in mind, you
20 want -- for a competitive market, you want as many
21 buyers and sellers to reach each other.

22 And I know what Commissioner Jaber wants,
23 and I believe we can get the total transmission in
24 Florida and what percentage the IOU utilities
25 represent of that. I'm sorry we don't have the exact

1 number, but it's large. It's much more than 50
2 percent, and most, if not all, of the market is in the
3 three utilities' systems, predominantly in Power &
4 Light and Power Corp.

5 CHAIRMAN JACOBS: Okay. So we'll mark this
6 as Exhibit 8, late-filed. It will be GridFlorida
7 transmission operation and control in peninsular
8 Florida.

9 (Late-Filed Exhibit 8 identified.)

10 CHAIRMAN JACOBS: You may proceed, staff.

11 COMMISSIONER DEASON: well, let me ask a
12 follow-up question. If an entity has transmission and
13 chooses not to join the RTO, for short-term
14 reliability, that doesn't matter. I understand that.

15 But if there's an entity that has a
16 particular transmission facility that, for example, a
17 generator wants to utilize to sign a particular or
18 make a certain transaction with another entity, then
19 it is incumbent upon that particular generator to go
20 to that transmission owner and coordinate with them
21 outside of the purview of the RTO, or how would that
22 happen?

23 WITNESS RAMON: well, there's where you
24 would get into some inefficiencies. If there's a
25 large amount of generation that's going to be

1 interconnected to transmission providers who are not a
2 part of GridFlorida, then you're dealing with pancaked
3 rates and those sorts of things. But I would think in
4 the peninsular Florida situation that the predominance
5 of even municipal and co-op generation would be added.
6 But still the location of those sites, their points of
7 delivery and points of where the generators would be
8 injecting would be in the Power Corp. and Power &
9 Light system.

10 There may be some, of course, like
11 Jacksonville that wouldn't be, and you would be
12 dealing with pancaked rates there. But other than
13 Jacksonville, I think most buyers and sellers can
14 reach each other just through the three combined
15 systems.

16 COMMISSIONER DEASON: So you think that --
17 well, you just indicated that given the diversity of
18 the assets and the location of the assets that are
19 controlled by the three IOUs, that the vast majority
20 of conceivable transactions that could take place
21 would utilize RTO facilities to facilitate that
22 transaction.

23 WITNESS RAMON: Yes. It won't be 100
24 percent, but I think it would be above the number that
25 Mr. Hoecker or Chairman Hoecker was suggesting. It

1 would be better if they were all in, but I think
2 there's more than enough efficiencies with just -- you
3 know, at least getting started, with the three
4 utilities here.

5 COMMISSIONER DEASON: Well, say there's an
6 entity that has generation and transmission assets in
7 Florida right now that chooses not to join the RTO.
8 They have generation, and they want to sell some of
9 that generation to another entity. How do they go
10 about doing that? Can they go to the RTO and schedule
11 that transaction, or can they try to circumvent the
12 RTO, and what are the economics involved as to why
13 they would choose one or the other?

14 WITNESS MENNES: Okay. If they needed to
15 get out -- let's just say you've got this entity that
16 has the generation and transmission, and they want to
17 go ahead and sell. If they need to flow power across
18 the lines that belong to the RTO, they would then have
19 to go to the RTO to request service, the transmission
20 service -- all that's covered in the tariff; that's
21 the OASIS system -- the same way we do today and pay
22 for that through-flow across the transmission system.

23 COMMISSIONER DEASON: But what rate would
24 they pay?

25 WITNESS MENNES: whatever the FERC-filed

1 rate would be at the time.

2 COMMISSIONER DEASON: But that would be the
3 same rate for anyone; correct? For example, Florida
4 Power & Light is a generator, and you want to make a
5 transaction. You would be paying the same rate as a
6 entity which is not a member of the RTO?

7 WITNESS MENNES: Well, do you want to get
8 into -- Florida Power --

9 MR. WILLIS: Excuse me just a minute. I
10 believe that question may be able to be best addressed
11 to Mr. Ashburn. You're starting to get into --

12 COMMISSIONER DEASON: I don't mind delaying
13 the question. That's fine. Is that okay? It's fine
14 with me, whoever --

15 WITNESS MENNES: Well, it's basically --
16 you have network customers, and Florida Power & Light
17 and Tampa, for example, would be network customers.
18 So anytime that they would buy electricity, they would
19 not have to pay for transmission.

20 COMMISSIONER DEASON: You don't have the
21 incremental, because you're just paying -- it's kind
22 of like a flat rate, except that the more -- I'm going
23 to describe it as a flat rate, but I understand that
24 it's based upon the load that you put on the system in
25 relation to the other network customers and the load

1 they put on the system; correct?

2 WITNESS MENNES: That's correct.

3 COMMISSIONER DEASON: Okay.

4 WITNESS MENNES: But sales made out of the
5 State of Florida would still pay the RTO for
6 out-of-state type sales, if you would. So any
7 generator, even though they're in the RTO, would have
8 to pay for out of the RTO.

9 COMMISSIONER DEASON: Well, what are the
10 advantages of an entity -- you don't have to be
11 specific, but what -- an entity that is considering
12 joining the RTO, what do they consider as to what are
13 the benefits versus the detriments? What are they
14 weighing in making that decision?

15 WITNESS MENNES: Okay. I think that if the
16 entity is sitting there, they, of course, would have
17 to weigh their transmission costs and expenses in what
18 they have right now and the way that we would credit
19 them and roll in their costs over this ten-year plan.

20 They would also have to take into
21 consideration that now that they would be a network
22 customer, if you would, of the RTO, they would pay to
23 use the RTO's transmission on a load ratio share, so
24 that as generation came in that was with the RTO, they
25 would be able to go ahead and receive that generation

1 as a network resource. So they would start paying for
2 it on their load ratio share and have the
3 opportunities to use the grid on the same playing
4 field as everyone else.

5 WITNESS NAEVE: I think you should direct
6 this to the rate panel, because I was trying to
7 remember precisely what we did. Maybe Greg or Henry
8 remember. But there are a couple of advantages. One
9 advantage is that a muni or a co-op that has
10 facilities that they do not receive credit for today,
11 transmission facilities, because those facilities are
12 more radial in nature, if they join the RTO, over a
13 five-year period, those facilities will be transferred
14 to the RTO, and the cost responsibility of those
15 facilities, and that will lower their transmission
16 costs.

17 And a second advantage is that when they
18 use the facilities of the RTO to move power, if
19 they're a member of the RTO, they get the advantage of
20 the depancaking of rates, and if they do not join the
21 RTO, there will be some pancaking of rates. But
22 Mr. Ashburn can better describe how that works.

23 WITNESS RAMON: But I will tell you one of
24 the obvious benefits to a municipal or a co-op would
25 be that their load and generation is geographically

1 separate. Their generation is not located in the
2 general area of their load, so they have to deal with
3 several transmission providers, and so there's a
4 natural incentive to put their facilities in to avoid
5 pancaked rates. I mean, that's one obvious benefit.

6 COMMISSIONER JABER: With regard to the
7 incentives, Mr. Naeve, you said earlier that the
8 municipalities and the co-ops and companies that have
9 not decided to join so far would need incentives.
10 What would those incentives be, and who would give
11 those incentives?

12 WITNESS NAEVE: Well, first I would just
13 point out as a general rule, because FERC does not
14 have jurisdiction over these entities, they can't
15 force them in. So these entities are not going to
16 join an RTO unless they step back and determine that
17 it's in their financial best interests and operational
18 best interests to join. If they could get the benefit
19 of the RTO without putting their facilities into the
20 RTO, they would probably do that. So consequently,
21 one set of incentives to participate would be the
22 incentive to take advantage of the pancaked rates.

23 And again, Mr. Ashburn can speak with more
24 specificity as to how the pancaked proposals work -- I
25 mean how the rate proposals work if you are a member

1 or are not a member, but that creates an incentive to
2 want to participate.

3 And FERC has allowed RTOs to have those
4 types of incentives, because they recognize -- because
5 they too want to encourage what they call
6 nonjurisdictional entities, nonjurisdictional to FERC,
7 to participate, and they can't force them to do it,
8 but they can with financial incentives, both sticks
9 and carrots, to get them to participate. So in terms
10 of a carrot, if you join, you get the advantage of
11 elimination of pancaked rates. That's one of the
12 benefits.

13 Another benefit pertains to this question
14 of crediting for facilities they have. And under the
15 GridFlorida proposal, the facilities currently owned
16 by many of the municipalities that would be at the
17 same voltage level as the facilities contributed by
18 the investor-owned utilities would also be facilities
19 that would be operated by the RTO, and the rate
20 recovery of those facilities would be recovered
21 through the RTO. In the case of the municipalities
22 and co-ops, they would get that in a phased-in
23 five-year period, so that would also be a financial
24 benefit to them.

25 BY MR. KEATING:

1 Q Under the form recommended by the ALJ for a
2 Southeastern Regional RTO, who would order
3 construction of facilities, or who would be able to
4 order construction of facilities?

5 A (By Mr. Southwick) From a regulatory
6 perspective, I don't believe that was discussed in the
7 ALJ's report.

8 A (By Mr. Naeve) I didn't think it went
9 into that level of detail.

10 Q It didn't go into that detail?

11 A Certainly the RTO would, but with respect
12 to governmental agencies, it didn't go into that level
13 of detail.

14 Q Right. So it didn't go into the level of
15 detail to say GridFlorida has -- where, as you
16 mentioned earlier, if this Commission were to order
17 construction, GridFlorida would see that it was
18 constructed?

19 A Right. But issues like that represent why
20 we thought it was important to be a part of that
21 process, to make sure that we can cover issues like
22 that in the process if it goes forward.

23 Q In your testimony at page 30, you discuss
24 congestion management under GridFlorida. Now, it's
25 correct that congestion, transmission congestion

1 currently occurs over the transmission system in
2 Florida; correct?

3 A (By Mr. Ramon) Please repeat the
4 question.

5 Q Yes. Is it correct that congestion
6 currently -- transmission congestion currently occurs
7 over the system in Florida?

8 A At times, yes.

9 Q At times. How is congestion on the
10 transmission system currently managed?

11 A It's handled or managed administratively
12 through back-down procedures that are spelled out in
13 Florida's operating specific procedures and FRCC and
14 NERC on transmission line load relief reductions.
15 When congestion occurs, there's a process by which we
16 back down first non-firm until the loading gets to
17 acceptable levels.

18 Q Who decides when -- who coordinates the
19 process?

20 A The security coordinator.

21 Q The security coordinator. And the security
22 coordinator answers to the FRCC?

23 A Right.

24 Q Is that correct?

25 A Correct.

1 Q How will the way GridFlorida manages
2 congestion differ from the way congestion is currently
3 managed?

4 A GridFlorida will be using a -- it will be
5 managed through a market-based mechanism in the
6 GridFlorida world, the scheduling coordinators, which
7 can be a number of entities, but predominantly would
8 be load-serving entities that would be scheduling on a
9 day-ahead basis and submitting what's called balanced
10 schedules. As a part of those balanced schedules,
11 those resources that make up that schedule and will be
12 injecting power into the grid will be submitting
13 mandatory incremental and decremental bids. And
14 GridFlorida on a region-wide basis will be doing a
15 security constrained dispatch with those incs and decs
16 and will be using that to handle congestion in a
17 market-based method through market clearing price.

18 Q So it will be handled on a market-based --
19 using a market-based method. Under the current
20 process, how is it managed? How is the decision made
21 whether to -- who has the rights to the line when
22 there's congestion?

23 A You're saying today?

24 Q Yes.

25 A When congestion occurs, it's not a

1 market-based methodology like I just described for
2 GridFlorida. It's handled, as I said before,
3 administratively by the security coordinator through
4 back-down procedures.

5 Q And those procedures are spelled out?

6 A Yes.

7 Q Those procedures that the security
8 coordinator follows. Do you have -- and I'm not
9 looking for a great amount of detail, but I'm just
10 trying to understand the difference between when the
11 security coordinator follows those procedures, how
12 that's different from the market-based mechanism
13 that's being used, and what guides his decision.

14 A Well, the security coordinator -- when
15 congestion occurs, under the current back-down
16 procedures, there's not an automatic redispatch, if
17 you will, like under GridFlorida. They will simply be
18 looking at and identifying those transactions that are
19 contributing to the congestion, and those particular
20 transactions will be curtailed, whereas in
21 GridFlorida, if there are generators above and below
22 the constraints that could be redispatched to allow
23 those transactions, economical transaction to flow,
24 that will be done automatically, because day ahead,
25 those incs and decs will be submitted up until real

1 time, so there will be real-time security constrained
2 dispatch in setting up least cost redispatch to
3 eliminate those congestion corridors to allow those
4 economical transactions to flow.

5 CHAIRMAN JACOBS: Can I understand a little
6 bit more about those incs and the decs? As I
7 understand it, one is somebody is bidding capacity --
8 well, actually, all they are is just somebody is
9 bidding on either side of the flowgate; is that
10 correct?

11 WITNESS RAMON: There was some noise. I'm
12 sorry. I didn't hear the question.

13 CHAIRMAN JACOBS: The incs and the decs are
14 basically the bidding in of generation on either side
15 of the flowgate. Is that --

16 WITNESS RAMON: No. The balancing markets
17 and congestion management is more or less one and the
18 same. All generators that will be a part of
19 everyone's balanced schedule for the next day will be
20 submitting incremental and decremental bids for the
21 balancing markets.

22 CHAIRMAN JACOBS: I see.

23 WITNESS RAMON: And when there is no
24 congestion on the system, the market clearing price
25 will be the same throughout the region. But when

1 there is congestion, there will be a locational
2 difference in the balancing price.

3 CHAIRMAN JACOBS: So essentially what will
4 happen is that somebody who is in a -- I think it's a
5 zone; right? -- that is experiencing greater
6 congestion, they'll pay a higher price to get into the
7 marketplace at that time. Is that a fair statement?

8 WITNESS RAMON: Under the physical model
9 that we've put together, you know, we've tried to
10 pre-identify where congestion will occur. And to the
11 extent that we've done that well, then congestion, if
12 it does occur across those flowgates, is socialized.

13 CHAIRMAN JACOBS: Okay.

14 WITNESS RAMON: But when congestion occurs
15 on a corridor that has not been pre-identified as a
16 flowgate, then in that zone -- I'm trying to answer
17 your question here -- that settlement zone, that
18 particular zone would have to pay that congestion cost
19 for congestion that occurs on non-flowgate facilities.

20 CHAIRMAN JACOBS: I don't want to go much
21 further down that road. Let me stick to somewhat safe
22 ground. If I'm in one of those zones and I know that
23 probably there's a reasonable likelihood that I'm
24 going to be incurring that cost, what do I do in
25 GridFlorida? How do I approach that on a

1 going-forward basis to say, "wait a minute. I know
2 I'm that I'm probably incurring a premium at the time
3 of congestion to participate in the marketplace"? So
4 how do I engage the GridFlorida process to address
5 that?

6 WITNESS RAMON: Well, real-time, knowing
7 that you're going to have congestion on a non-flowgate
8 facility, we've put in a provision that's called
9 next-day buy-through allowing you, recognizing there
10 will be congestion, to buy through it, to actually pay
11 the prevailing price for that --

12 CHAIRMAN JACOBS: So I just pay the premium
13 at that point?

14 WITNESS RAMON: Yes, sir. But on a longer
15 term basis, those congested corridors that weren't
16 previously identified as a flowgate would have to be
17 picked up in the planning process and hopefully
18 corrected through expansion.

19 CHAIRMAN JACOBS: So I need to go then to
20 the planning committee, the planning function of
21 GridFlorida and say -- and what do I say then? Do I
22 say -- would I offer to provide enhancements that
23 would remove, or do I go seek to provide some
24 transmission options, or do I --

25 WITNESS RAMON: We have that provision that

1 that can happen.

2 CHAIRMAN JACOBS: Okay.

3 WITNESS RAMON: And it may be solved by
4 just the annual expansion plan process of the RTO.
5 But if it's a corridor that the economics are such
6 that the redispatch option may be more economical and
7 you don't like that, you can come to GridFlorida and
8 pay for the facility to be built and get transmission
9 rights across that corridor.

10 CHAIRMAN JACOBS: And the return on that
11 investment is -- it's a long-term investment to reduce
12 my price, my premium that I pay at congestion?

13 WITNESS RAMON: Right.

14 CHAIRMAN JACOBS: Okay.

15 COMMISSIONER DEASON: Let me ask a
16 question. Go back to the flowgate situation. How is
17 congestion managed through the flowgate situation?

18 WITNESS RAMON: Could we be a little bit
19 more --

20 COMMISSIONER DEASON: well, is there a
21 bidding process for that?

22 WITNESS RAMON: Part of the construct for
23 the flowgate process is that we have identified or are
24 in the process of identifying flowgates for the
25 peninsular Florida system. All load-serving entities

1 will be allocated physical transmission rights for
2 purposes of being able to have their native load
3 served. And so on a scheduling forward basis, the
4 submittal of your balanced schedule, you also submit
5 your PTRs that you have been allocated, and that is
6 your hedge. If congestion occurs, you're hedged
7 against that.

8 COMMISSIONER DEASON: But those can be
9 sold, can they not?

10 WITNESS RAMON: Yes.

11 COMMISSIONER DEASON: Okay. Is there a
12 market for that, or is that just between the two
13 entities involved?

14 WITNESS RAMON: On a day-ahead basis, if
15 there are PTRs that are -- if they're all not used
16 up, then they automatically go to auction.

17 COMMISSIONER DEASON: Okay. Who auctions
18 them?

19 WITNESS RAMON: The RTO.

20 COMMISSIONER DEASON: Okay. And who gets
21 the revenue when they auction those?

22 WITNESS RAMON: They're credited against
23 the transmission charges.

24 COMMISSIONER DEASON: So they just --

25 WITNESS RAMON: The base rates.

1 COMMISSIONER DEASON: They go against the
2 revenue requirements, in the terminology that I'm
3 accustomed to.

4 WITNESS RAMON: Right.

5 COMMISSIONER DEASON: So those are not
6 enhanced earnings. It's just -- they go against the
7 revenue requirements. There's not an incentive for
8 GridFlorida to maintain a lot of congestion, because
9 it enhances their revenues.

10 WITNESS RAMON: No. That's correct.

11 BY MR. KEATING:

12 Q Under the current process for congestion
13 management, how is the cost -- I'm sorry. Let me go
14 back. Under the current system for congestion
15 management, is there a priority system for how and
16 which transactions are curtailed?

17 A (By Mr. Ramon) Well, what will happen and
18 hopefully relieve the congestion is this use of incs
19 and decs and the redispatching in the most economical
20 way. But to the extent that redispatch does not
21 eliminate the congestion, then we'll be back to the
22 NERC back-down procedures using TLR.

23 Q My question went towards the way that
24 congestion management is currently handled --

25 A Oh, today?

1 Q -- rather than under the GridFlorida
2 proposal. Is it correct that there's a priority
3 system for which transactions would get curtailed in
4 the event of --

5 A (By Mr. Mennes) I'll give Greg a rest.

6 Yes. Basically, the way congestion is
7 handled right now, the transmission is sold, and it's
8 sold with a certain priority. And if there is
9 congestion, the transmission provider has in his
10 tariff how they prioritize the cutting or the
11 discontinuation of those transactions that were using
12 that transmission provider's system.

13 There's also another procedure that --
14 usually what we do is that because of the flows and
15 the way the transmission is, we'll turn that
16 responsibility over to the security coordinator to
17 maintain the reliability. And the security
18 coordinator will see that there is a problem on the
19 system, and there is a process just like you said that
20 looks at the priority of the transmission reservations
21 that were made to use the system, and it steps in and
22 cuts the transactions based upon those priorities,
23 also based upon the flows that the transactions are
24 contributing across the flowgate or the system that is
25 having problems.

1 And that's basically -- you've heard the
2 expression, the transmission line loading relief
3 procedure, TLR procedure that is a filed procedure.
4 It was written by a NERC committee and approved by the
5 FERC. And we've adopted that procedure, and we do use
6 that procedure in the State of Florida.

7 Q So essentially the first transaction to go
8 would be the -- perhaps the non-firm or short-term
9 period type transaction?

10 A Yes. For example, non-firm hourly would go
11 before non-firm daily, which would go before non-firm
12 monthly.

13 I think the big key is that -- what I'm
14 telling you now is that we sell the transaction, or we
15 sell the transmission, and we would cut that
16 transaction from a seller to a buyer. We really have
17 no procedures in place formally that can allow the
18 seller and buyer that want to use the transmission
19 system to continue with the transaction. The
20 transaction is curtailed. It is cut.

21 Under the system as Greg explained, we will
22 -- if we see the congestion, we will have generating
23 units that will submit hourly what their price to
24 increase the generation, the inc, and what the price
25 to decrease their generation, the dec. And now the

1 security coordination procedure will have it in a
2 congestion management tool that will allow -- instead
3 of cutting the transaction, will allow those
4 transactions to continue to flow by using the incs and
5 decs provided by the generator under the GridFlorida
6 procedure.

7 Q Under GridFlorida, how is the cost of
8 redispatch handled?

9 A Under GridFlorida?

10 Q Yes.

11 A If the dispatch is across a flowgate, those
12 expenses -- we use the term -- the terminology is
13 "peanut-buttered." It's paid for by all the users.
14 And let me explain why, because it's something the
15 Chairman kind of alluded to, that basically if you
16 have a problem on a flowgate and you're the user, the
17 way to correct that problem is to go out and build.
18 And when you go out and build and you're part of the
19 RTO, the customers will pay for that overall building,
20 if you would, so that you will remove that congestion.

21 Now, you're not going to go out and build
22 for something that maybe only happens a couple of
23 hours or maybe happened because of a transmission line
24 going out. But since all that building is paid for by
25 all the customers, when there is congestion across

1 these flowgates and there is -- if there is a problem,
2 basically it is paid for by all the customers.

3 Q So does that result in cost shifts as
4 compared to the current system?

5 A I don't know the answer to that question.
6 You would have to take each situation and stand back
7 and look at it. It's the way of doing business. What
8 we're looking at is having more transactions.

9 We talked a little bit before of why would
10 an entity want to go ahead and join the RTO, and the
11 reason is so they can go out and have more options to
12 select where to buy their power and not have to worry
13 about paying for the transmission. So when it comes
14 to the question does this result in cost shifts, I
15 think you need to look at the whole big picture, and I
16 don't know that you can answer that easily, or could
17 ever answer it.

18 Q Is it fair to say that under the system
19 that operates today, that only the buyer and the
20 seller are affected and that the retail customer
21 doesn't see an impact?

22 A (By Mr. Naeve) well, the buyer may be a
23 utility that passes its higher costs on to the retail
24 customer. In almost all circumstances, it ultimately
25 will be.

1 So I think if you look at this on a
2 transaction-by-transaction basis, you may find that
3 the costs are shared differently under the new
4 proposal than under the old proposal. But if you look
5 at it in the aggregate, recognizing that there are a
6 lot of buyers out there and a lot of sellers, at one
7 time or another, each of them will be interrupted if
8 there's some event that causes a disruption. On the
9 aggregate, I think there probably should be no overall
10 cost shifts.

11 Q I think I perhaps didn't ask the question
12 as clearly as I could have. Right now, say if TECO is
13 a buyer and FPL is a seller and the transaction is
14 curtailed, only TECO and Florida Power & Light are
15 affected. And under the GridFlorida approach, if the
16 cost of redispatch is socialized among the
17 participants, all three utilities would be affected;
18 correct?

19 A In this example, yes. In another example,
20 it could be only TECO and Corp. are affected, and FP&L
21 picks up a piece. And in another example, it could be
22 Corp. and TECO -- I mean Corp and FP&L. But the net
23 effect is, overall, with hundreds of transactions, one
24 would expect that the cost on an annualized basis
25 would be roughly the same.

1 Q Do you believe that a not-for-profit RTO
2 could perform the congestion management function as
3 effectively as a transco?

4 A (By Mr. Mennes) I think when it comes to
5 performing the function of congestion management, if
6 you look at it in real time, you know, the tools would
7 be there. If you looked at performing -- when you use
8 congestion management over a long-term period of time,
9 as the Chair brought up, I think that the solutions to
10 congestion, the ability to build would be handled much
11 better by the owning and operating transco as opposed
12 to the not-for-profit ISO.

13 Q But in terms of short-term reaction to
14 congestion and handling congestion, do you see any
15 difference?

16 A (By Mr. Ramon) No.

17 CHAIRMAN JACOBS: Do you have much more,
18 Counsel?

19 MR. KEATING: Excuse me?

20 CHAIRMAN JACOBS: Do you have much more?

21 MR. KEATING: I do have more for the panel.
22 And I think there may have been some confusion last
23 night when I said I had 10 to 15 minutes more.

24 WITNESS NAEVE: We would like to answer yes
25 or no, but it just isn't working.

1 MR. KEATING: And I had hoped that I was
2 clear that that was on that particular line of
3 questions, and we have gotten through those. I do
4 have a bit more for the panel.

5 CHAIRMAN JACOBS: All right.

6 I'm sorry. Mr. Childs?

7 MR. CHILDS: Pardon?

8 CHAIRMAN JACOBS: You had a --

9 MR. CHILDS: Did he say he was finished?

10 CHAIRMAN JACOBS: No, no, no.

11 MR. CHILDS: I thought maybe he had a half
12 an hour, but he's been writing more questions.

13 CHAIRMAN JACOBS: He miscalculated his 15
14 minutes, that's all.

15 MR. KEATING: No, no. The 15 was just
16 perhaps not properly clarified that that was on that
17 one particular line of questions.

18 CHAIRMAN JACOBS: I was going to go
19 further.

20 COMMISSIONER JABER: Can we take a
21 ten-minute break?

22 CHAIRMAN JACOBS: A ten-minute break.
23 Before we break, though, let me welcome the former
24 Chairman of FERC, Mr. Curt Hebert, who has joined us.
25 Thank you. We'll come back in ten minutes.

1 (Short recess.)

2 CHAIRMAN JACOBS: We'll go back on the
3 record. And, Mr. Cochran -- Mr. Keating. I've said
4 that twice now. Mr. Keating, you may continue.

5 BY MR. KEATING:

6 Q I'm going to pick back up on the discussion
7 of some of the differences between how GridFlorida
8 will operate compared with the way things currently
9 operate.

10 In particular, how will the way that the
11 companies currently provide ancillary services change
12 under GridFlorida?

13 A (By Mr. Ramon) As it turns out, there
14 will be some similarities on that aspect, but there
15 will be some other significant differences.

16 In the original filings of GridFlorida
17 before FERC, we were going to propose a bid-based
18 market, if you will, for ancillary services. But with
19 some concerns on lack of market data, those sorts of
20 things, we have filed a different approach for a day
21 one start. Some of this we've talked about before.
22 But on day one, it will be set up where GridFlorida is
23 what we call a default provider of ancillary services,
24 and the applicants will be taking care of ancillary
25 services for its native load and for any existing

1 bilateral arrangements on day one of GridFlorida. And
2 the RTO as the default provider would then be
3 providing ancillary services for those who choose to
4 go to the RTO for ancillary services.

5 Today the utilities provide ancillary
6 services for their own native load and for bilateral
7 transactions, and they will be doing that also for the
8 initial operation of GridFlorida. But they will be --
9 the RTO will be the default provider for ancillary
10 services for those parties that want to contract with
11 GridFlorida for those services.

12 Q And is it anticipated that the RTO would
13 ultimately or eventually be the provider of those
14 services?

15 A Eventually, once the market is established
16 and evolving into the Advisory Committee, the board
17 would probably move us to a bid-based market for
18 ancillary services.

19 Q I guess technically GridFlorida wouldn't
20 provide them, but the market participants?

21 A They would administer a bid-based market
22 for those services, where generation would bid in to
23 provide regulation or operating reserves and the other
24 ancillary services.

25 Q Do you believe that the cost of ancillary

1 services will be higher under the GridFlorida proposal
2 compared to the way it's currently handled?

3 A I think conceptually, the potential is that
4 they would be lower.

5 Q And how would they be lowered?

6 A well, let's just take one of the services,
7 say, regulation or AGC. Today Tampa Electric provides
8 regulation for its native load. Just using the
9 principles of diversity, when you look at the total
10 load that would be served by GridFlorida, the
11 regulation requirements would probably be less than
12 looking at the regulation requirements separately for
13 each of the control areas.

14 Q would there be any difference in the
15 provision of ancillary services if a not-for-profit
16 RTO form had been used rather than the transco form?

17 A I don't think so. I think there wouldn't
18 be any difference.

19 Q Do any of the other panel members have an
20 opinion on that?

21 A (By Mr. Southwick) I agree with Greg.

22 Q In your testimony you state that utilities
23 will be compensated if maintenance schedules need to
24 be modified under the GridFlorida proposal; is that
25 correct?

1 A (By Mr. Mennes) That is correct, but I'm
2 trying to --

3 A (By Mr. Southwick) where is that?

4 Q That's page 16, lines 7 through 9. And the
5 response to the question, "What authority does
6 GridFlorida have with respect to maintenance of
7 transmission facilities," and on lines 7 through 9,
8 the answer is, "Such participating" -- or part of the
9 answer is, "Such participating owners also must change
10 previously approved schedules if so directed by
11 GridFlorida, provided that they are reimbursed for the
12 direct costs incurred as a result of such change."

13 A (By Mr. Mennes) Correct.

14 Q And that hasn't changed since filing your
15 testimony?

16 A Correct.

17 Q In the past, under the current system, did
18 utilities -- didn't utilities voluntarily reschedule
19 maintenance in order to maintain reliability without
20 being reimbursed for the costs?

21 A It seldom happens, but if it did, yes, the
22 utilities -- with some of the coordination procedures
23 we had looking at the next day, or if we have outages
24 that are not planned, we've asked people to either get
25 off their facilities early or to, you know, curtail

1 their maintenance, and that cost is not paid for by --

2 A (By Mr. Naeve) I would add one caveat to
3 that, and that is I don't think it's correct to say
4 that they do this without including these costs in
5 their rates, because to the extent that they incur
6 additional maintenance costs and these additional
7 maintenance costs -- or to the extent they incur
8 additional maintenance costs, it affects their total
9 operating costs, and when they file rates, they file
10 rates to recover those total costs. So I think they
11 are recovered today as they would be in the future.

12 Q So they would be recovered -- those costs
13 would be recovered in the current rates today?

14 A That's right.

15 Q Under current practice, do the utilities
16 voluntarily reschedule maintenance of generation in
17 order to maintain reliability?

18 A (By Mr. Mennes) I think if it became an
19 issue we would. It hasn't been. We have a procedure
20 in place with the FRCC. And as a matter of fact, the
21 generation maintenance standards that we have and the
22 way that's done will really not change between what
23 we're doing today and the way the FRCC and their role
24 in the future as far as generation maintenance goes.

25 But to answer your question, if we ever got

1 into -- we have a coordinated plan, let's start with
2 that. And we've never asked a generator to defer
3 maintenance or something like that. We've just never
4 hit it. But it could be done. It could be asked for
5 by the FRCC working with the other people to try to
6 make sure we have enough reserves.

7 Q How will compensation for rescheduling
8 maintenance be collected from GridFlorida customers?

9 A (By Mr. Southwick) would that be better
10 asked of the rate witness?

11 A (By Mr. Mennes) I think so.

12 Q To which witness?

13 A (By Mr. Southwick) The rate witness. I
14 can say this. It would be a cost of doing business to
15 GridFlorida, and they'll have to recover it through
16 their tariff structure. Exactly how that would happen
17 I think we should ask Mr. Ashburn.

18 Q But presumably it would be included in the
19 costs of GridFlorida that would be paid through
20 charges by the utilities that participate or receive
21 services from it?

22 A I would think so.

23 Q And the way that -- you've indicated that
24 there are costs involved in rescheduling maintenance
25 now, although it may be voluntary, and that those

1 costs are just recovered in the current rates;
2 correct?

3 A (By Mr. Naeve) I would say those costs
4 make up part of the revenue requirement of the
5 utility, and when they file for rates, they would
6 probably include those costs in their rates.

7 Q And absent a rate case, though, the
8 ratepayers -- at least the ratepayers wouldn't see any
9 additional costs on the bill?

10 A Well, I assume these types of costs have
11 been incurred for some time, as long as the utility
12 has been operating, so I would think historically
13 they're always in rates.

14 Q Let me refer to pages 27 and 28 of the
15 testimony. There's a question starting at page 9,
16 "what happens if one of the GridFlorida companies or
17 another transmission customer wants to build
18 facilities that GridFlorida does not believe are
19 necessary?" Could you explain -- without me going
20 back through and reading it, could you just briefly
21 explain what would happen in that circumstance?

22 A (By Mr. Southwick) well, briefly, without
23 going back to read it, the intention is to allow
24 utilities who want to build what we call enhanced
25 facilities to be able to do so. The only caveat is

1 that GridFlorida has the right to say no if there's a
2 reliability reason why they should not build it, which
3 isn't likely, but they have that right. And other
4 than that, the utility can proceed to build it at
5 their own expense.

6 Q They would build it at their own expense?

7 A Yes.

8 Q And those costs would not be rolled into
9 the GridFlorida costs, into the GridFlorida tariff?

10 A That's correct.

11 Q Okay. In the testimony at page 34, the
12 panel indicates that market participants are required
13 to submit balanced schedules for the day-ahead
14 market. Could you just briefly explain what is meant
15 by a balanced schedule?

16 A (By Mr. Ramon) Let's take a simple example
17 of your load-serving entity, your scheduling
18 coordinator, and you have a thousand megawatts of load
19 that need to be served on a day-ahead basis. On a
20 day-ahead basis, as scheduling coordinator, you submit
21 what's called a balanced schedule. You must
22 demonstrate a thousand megawatts of resources to match
23 the thousand megawatts of load on a day-ahead basis.
24 That's the so-called balanced schedule.

25 A number of other things will be submitted

1 with that balanced schedule. As we mentioned earlier,
2 for the balancing market purposes, those resources
3 that are part of your balanced schedule, you must
4 submit an incremental and decremental bid for all of
5 those generation resources that make up your schedule,
6 and you must address the necessary ancillary services
7 associated with that load, whether you self-provide
8 the generation for that or you go to the RTO as the
9 default provider to secure those ancillary services.

10 Q And in the event that there's not balance,
11 that's what the balancing energy market is designed to
12 cover?

13 A You need to submit a balanced schedule,
14 period. To the extent the actual turns out to be
15 different than the schedule, you'll be settling for
16 those imbalances through the balancing market.

17 Q Okay. So should the balancing energy
18 market represent a relatively small amount of the
19 total energy transactions?

20 A Yes. I can't give you a number, but it
21 would be small compared to, let's say, a full spot
22 market.

23 Q If GridFlorida were to use, rather than a
24 balanced -- rather than to require submission of
25 balanced schedules for the day-ahead market, if it

1 allowed an unbalanced schedule, is it correct that
2 that means the resources are not fully committed or
3 reserved to meet all the expected loads?

4 A What's the question?

5 Q With an unbalanced schedule, is it correct
6 that the resources are not fully committed or reserved
7 to meet all expected loads?

8 A No. But, you know, GridFlorida's position
9 is that, you know, we're dealing with balanced
10 schedules, not unbalanced schedules. Other RTOs, you
11 know, provide for submittal of unbalanced schedules,
12 and they deal with the reliability aspect of that in
13 different ways, through balanced resources and those
14 sorts of things, but the model for GridFlorida is
15 balanced schedules.

16 Q And I guess to get to my point, could
17 GridFlorida move to an unbalanced schedule?

18 A Only through a process that involves the
19 board, the advisory committee, the market monitor, and
20 a filing with the FERC.

21 Q Okay. So it would require a decision of
22 the board and then approval by FERC?

23 A Yes.

24 Q And it wouldn't require any approvals from
25 this Commission?

1 A Only through the market monitoring
2 discussion that we had earlier. You know, there's
3 provisions for working with the Florida Public Service
4 Commission through the market monitor.

5 COMMISSIONER JABER: Mr. Keating, are you
6 about to leave that point?

7 MR. KEATING: I am.

8 COMMISSIONER JABER: Mr. Ramon, back on
9 page 27 of your testimony when you were talking about
10 how a company could construct facilities even if
11 GridFlorida did not agree to construct the facilities
12 on behalf of the company's need, it seems to me that
13 that's inefficient. And as -- I would imagine that it
14 would be the load-serving entity that would construct
15 the facilities, and that would be in the IOU's rate
16 base, so you would have new facilities that are added
17 into the rate base, and you would have the GridFlorida
18 part in the rate base. It seems to me that we would
19 want to put in some sort of structure that does not
20 make it easy for the load-serving entity to do that
21 when it's inefficient. Have you thought about that?

22 WITNESS RAMON: Yes. The intent of the
23 ability for load-serving entities to do this -- a
24 simple example might be helpful. Let's say Tampa
25 Electric wants to put in added reliability for a

1 substation in the downtown area, that the consequences
2 of that substation going out are quite dramatic, you
3 have high-rise buildings and elevators and those sorts
4 of things. And so the standard for GridFlorida would
5 be using the FRCC and the NERC planning standards
6 criteria, the so-called N minus 1. I don't want to
7 get too complicated, but that single contingency
8 planning.

9 If we wanted a second looped circuit in the
10 downtown area for what we believe is needed because of
11 the consequences of losing that much of a dense load,
12 then this is a provision that would allow Tampa
13 Electric or Orlando or any load-serving entity to be
14 able to do that. It would be at our own nickel. And
15 as long as those are transmission facilities, you
16 know, they would be most likely given over to
17 GridFlorida.

18 COMMISSIONER JABER: It seems to me,
19 though, in a prudency review, if it came back to the
20 Commission as it relates to that load-serving entity,
21 it puts us in a position of seeking from GridFlorida
22 its opinion as to whether those facilities were
23 prudently constructed. It strikes me that if there's
24 a need for additional facilities, whether it be
25 something as simple as a loop or more than that, that

1 GridFlorida would do it.

2 WITNESS RAMON: Well, GridFlorida is trying
3 to, you know, do things at least cost and a standard
4 way. They will have to develop standards. I think we
5 would all appreciate that it would have to be carried
6 out in an equitable manner in terms of the
7 transmission additions that are put in place that all
8 load under GridFlorida has to pay for. So if there's
9 additional transmission that a particular load-serving
10 entity wants, like the example that I just provided,
11 we need to somehow make a provision for that.

12 I understand where you're coming from,
13 though, you know, if that's something that GridFlorida
14 wouldn't do on their own, and the load-serving entity,
15 Tampa Electric, you know, feels it's necessary, so it
16 would involve this Commission on that expense, because
17 it would be an expense that Tampa Electric would be
18 paying for additional transmission service more than
19 what GridFlorida would provide.

20 COMMISSIONER PALECKI: And under our
21 current statutory scheme, I think that this Commission
22 would still have some say as to whether either
23 GridFlorida or the individual utility made that
24 transmission addition. Wouldn't that be correct?

25 WITNESS RAMON: I believe so.

1 WITNESS NAEVE: No, they would have to
2 come to you for -- I'm not an expert on your siting
3 statute, so I probably shouldn't opine on this, but I
4 expect they would have to come to you for siting
5 authority to make that addition, and --

6 COMMISSIONER PALECKI: What I'm thinking is
7 that if we saw that it wasn't in the public's best
8 interests, we could see to it that it was built by the
9 entity that could do it in the most cost-effective
10 manner. And if we saw it was not something that
11 needed to be built, I think we could deny a
12 determination of need for that facility.

13 WITNESS NAEVE: I think in some ways this
14 standard was put in there to actually achieve
15 efficient results, because the expectation is not that
16 GridFlorida will have low standards; the expectation
17 is that they'll have very high standards, high
18 standards and uniformly applied to everybody.

19 But hypothetically, you may have one entity
20 out there that says, "Notwithstanding those high
21 standards, I want to have reliability that's even
22 better than that, and consequently, I want to add in
23 facilities that exceed the GridFlorida standards."
24 And if they had the ability to do that and force
25 everybody else in the state to pay for it, it would be

1 an easy decision, because they don't have to pay for
2 it themselves. But if they have to pay for it
3 themselves, then they're going to make a more economic
4 decision as to whether it's really worth it. So I
5 think it probably does produce more economic choices.

6 WITNESS SOUTHWICK: Another example of what
7 we were intending to cover here would be, for example,
8 a beautification project, or if a line could be built
9 overhead perfectly adequately, but for some reason the
10 LSE wanted to build it underground with a cost
11 differential, the intention here was that we could do
12 that, but they would have to pay the differential.
13 That's just another example of how this could apply.

14 BY MR. KEATING:

15 Q Starting at page 35 of the panel testimony,
16 you discuss how market power will be addressed and the
17 pricing of balancing energy, and in your testimony you
18 state that there are two alternatives that GridFlorida
19 has put before FERC as proposals to address that
20 issue. Is it correct under Alternative A that
21 utilities -- that Florida Power & Light -- I'm sorry.
22 That utilities that do not currently have market-based
23 rate authority would bid and receive no more than
24 their costs for balancing services?

25 A (By Mr. Mennes) That's correct.

1 Q Okay. And those two utilities of the three
2 that are participating in GridFlorida are Florida
3 Power & Light and Florida Power Corporation; is that
4 correct?

5 A (By Mr. Ramon) Are they the -- I'm sorry.
6 I didn't hear.

7 Q The two utilities that currently do not
8 have market-based rate authority, that is, in-state,
9 in the State of Florida, are Florida Power & Light and
10 Florida Power Corporation?

11 A Correct.

12 Q Okay. Under Alternative A, though, TECO,
13 because it has market-based rate authority within the
14 state, could bid a market-based rate for energy and
15 receive the market clearing price; correct?

16 A Today we have market-based rate authority.
17 You have to realize that the balancing energy, the
18 balancing market, which is what Alternative A and B
19 addresses, are under what FERC calls ancillary
20 services, so we would have to file for market-based
21 rate authority for providing this service.

22 Q Do any of the three participants currently
23 have -- have they currently received market-based rate
24 authority for these types of balancing energy
25 services?

1 A (By Mr. Mennes) Not in the State of
2 Florida.

3 A (By Mr. Ramon) And again, we have it in
4 general for power sales. But for this ancillary
5 service, we would have to file for it.

6 Q With respect to Florida Power Corporation,
7 are you in the same situation as Florida Power & Light
8 on that issue?

9 A (By Mr. Southwick) Yes.

10 Q Would it be correct to say that the energy
11 balancing market is typically an hour-by-hour market?

12 A (By Mr. Ramon) Yes.

13 Q And is that similar to the economy and the
14 emergency energy markets in that respect?

15 A No. You know, the balancing market is
16 intrahour, and I would think the -- I think what
17 you're moving to is the so-called Schedule A and B,
18 and those are typically interhour.

19 Q And by interhour you mean less than an
20 hour?

21 A No.

22 Q Hourly?

23 A Hourly.

24 Q Specifically hourly, and economy and
25 emergency would not necessarily be hourly?

1 A (By Mr. Ramon) No, emergency would be
2 hourly.

3 A (By Mr. Mennes) Emergency would be?

4 A (By Mr. Ramon) Yes.

5 A (By Mr. Mennes) The balancing would be
6 done just within the hour, where the others would be
7 more of a schedule that would last a longer period of
8 time as opposed to a --

9 Q Under Alternative A, would Florida Power &
10 Light and Florida Power Corporation be able to file
11 for approval of a new rate for energy balancing that
12 recovers some fixed costs as well as variable costs?

13 A (By Mr. Southwick) Did you say would we
14 have to?

15 Q Would you be able to?

16 A (By Mr. Naeve) We would be able to file;
17 that's correct.

18 Q If Florida Power & Light and Florida Power
19 Corporation did make such a filing, would it be their
20 intent to seek recovery of some fixed costs?

21 A (By Mr. Southwick) I would say so, yes.

22 Q Is it correct that under Alternative A, all
23 suppliers with market-based rate authority would be
24 paid the market clearing price, while suppliers
25 without market-based rate authority would be capped at

1 the new cost-based rate?

2 A (By Mr. Ramon) Yes.

3 Q Would the buyer of balancing energy pay an
4 average price?

5 A (By Mr. Southwick) Yes.

6 A (By Mr. Ramon) Yes.

7 Q So to provide an example, if Florida Power
8 & Light's price is capped at \$50 per megawatt-hour
9 under Alternative A, and TECO bid \$60 per
10 megawatt-hour, and the clearing price is \$100 per
11 megawatt-hour, TECO would get the clearing price, \$100
12 per megawatt-hour, but Florida Power & Light would
13 only get \$50 per megawatt-hour; is that correct?

14 A (By Mr. Naeve) I think you've assumed that
15 they've applied for and received market-based rate
16 authority, TECO has.

17 Q Yes, that is an assumption in the question.

18 A If that assumption were correct, then your
19 response is correct.

20 Q Okay. But regardless of that differential,
21 the buyer receives some sort of average price?

22 A That's right.

23 A (By Mr. Ramon) Remember, imbalance is a
24 settlement after the fact, so it's based on the
25 average of those clearing prices.

1 Q Under Alternative B, which starts on page
2 36, each participant would be paid what they bid;
3 correct?

4 A (By Mr. Mennes) No. Just the participants
5 that have market-based power, I mean, that are not --

6 Q I'm just going to ask, instead of trying to
7 sit here and sort this out myself --

8 A We're talking here to see if we need to
9 clarify that. The entities without market power, I
10 answered no, would everybody, you know, receive what
11 they bid, and the answer is no. The entities without
12 market-based power would. Any other entity that is
13 participating in the market would receive the cap
14 price.

15 A (By Mr. Ramon) You're paid what you bid,
16 but those who do not have market-based rate authority
17 are subject to a cap.

18 MR. CHILDS: Isn't that on lines 2 and 3 of
19 page 37?

20 MR. KEATING: I believe so. And that's
21 part of my confusion, and I'm not sure if the answer
22 is consistent with that line.

23 WITNESS MENNES: So, in other words, no
24 market clearing price is calculated.

25 COMMISSIONER DEASON: They get paid what

1 they bid unless they're subject to a cap, and then
2 they can't charge more than the cap. Is that correct?

3 WITNESS NAEVE: Well, I think the correct
4 way to phrase this is, everybody gets paid what they
5 bid. However, entities that do not have authorization
6 to collect market clearing prices are capped in what
7 they can bid. So if their cap is \$40 and they bid
8 \$40, that's what they get. If their cap is \$40 and
9 they bid \$30, they only get \$30. So they pay what
10 they bid, but some people are restrained in what they
11 can bid.

12 BY MR. KEATING:

13 Q Okay. So there's just no market clearing
14 price? Is that the distinction with Alternatives A
15 and B?

16 A (By Mr. Mennes) Correct.

17 Q Does the method of determining the
18 balancing price of energy require any further approval
19 by FERC once GridFlorida has been approved?

20 A (By Mr. Naeve) Yes. We've submitted two
21 alternatives, and the Commission is going to have to
22 approve one of those alternatives.

23 Q Once one of those is approved, if
24 GridFlorida wished to use a different method, would it
25 require FERC approval?

1 A Yes, it would.

2 Q Okay. And would that first require
3 approval of the board of GridFlorida?

4 A Well, again, under the independence
5 requirement of Order 2000, an RTO has to have control
6 over its tariffs. So consequently, before the RTO
7 were to make a tariff change, it would have to have
8 consent of its management. And if the management
9 consented to that, then they would make the filing,
10 and then FERC would have to agree to it.

11 Q Would a change in that approach require any
12 approval by this Commission?

13 A I don't think so.

14 Q Do you agree that there can be instances of
15 localized market power? In other words, could market
16 power crop up essentially at any time.

17 A I think you may have mixed your metaphors
18 there. One went to place, and one went to time.
19 Localized market power goes to location. And in most
20 markets, and I suspect in Florida, there are
21 situations where you can have localized market power.

22 Q And could both take place at the same
23 time? I'm sorry. Could you have both -- strike
24 that. Lunch will go a long way towards getting the
25 blood going back through --

1 COMMISSIONER DEASON: We were hoping to
2 finish your cross-examination before lunch.

3 MR. KEATING: I understand. That's the
4 downside. I am getting very close.

5 COMMISSIONER DEASON: Good.

6 BY MR. KEATING:

7 Q I referenced a FERC order in the deposition
8 of the panel, and I don't know if you all have had a
9 chance to look at that since the deposition. I think
10 we didn't go into much detail in the order. I have it
11 available to hand out as an exhibit, but if you would
12 like to --

13 A (By Mr. Ramon) I have a copy.

14 A (By Mr. Naeve) I've read the order, but I
15 don't have a copy with me, so if you wouldn't mind
16 giving me a copy, I would appreciate it.

17 MR. KEATING: Okay. Let me go ahead and
18 have that distributed. And we would like to have that
19 marked as the next exhibit number, which I believe may
20 be 9.

21 COMMISSIONER DEASON: Exhibit 9.

22 (Exhibit 9 was marked for identification
23 and received into evidence.)

24 (Transcript continues in sequence in
25 volume 4.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 382 through 506 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 4th day of October, 2001.


MARY ALLEN NEEL, RPR
100 Salem Court
Tallahassee, Florida 32301
(850) 878-2221