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May 8, 2002

VIA HAND DELIVERY

Blanca S. Bayo, Director
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Betty Easley Conference Center
4075 Esplanade Way
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COMMISSION
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Re: Docket No.: 020233-EI

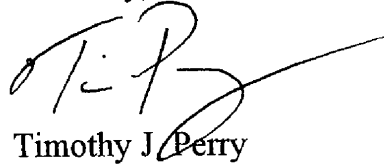
Dear Ms. Bayo:

On behalf of the Florida Industrial Power Users Group, enclosed for filing and distribution are the original and 15 copies of the following:

- ▶ Comments of the Florida Industrial Power Users Group on the GridFlorida Filing.

Please acknowledge receipt of the above on the extra copy of each and return the stamped copies to me. Thank you for your assistance.

Sincerely,


Timothy J. Perry

AUS	---
CAF	---
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DOCUMENT NUMBER-DATE

04992 MAY-8 2002

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of GridFlorida
Regional Transmission
Organization Proposal

Docket No. 020233-EI
Filed: May 8, 2002

**COMMENTS OF THE FLORIDA INDUSTRIAL POWER USERS GROUP
ON THE GRIDFLORIDA FILING**

The Florida Industrial Power Users Group (FIPUG), pursuant to Order Establishing Procedure, Order No. PSC-02-0459-PCO-EI, files its comments on the GridFlorida filing made by the GridFlorida Companies on March 20 and 21, 2002.

Introduction

Participation by the Florida utilities in an RTO is critical if Florida is to have a robust competitive wholesale market. Such a market will ultimately inure to the benefit of Florida consumers. Further, the addition of new efficient supply outside of the rate base should lower costs.

However, in order for retail consumers to reap all of the benefits that an RTO can provide, power plant construction must be open to independent power producers (IPPs). Federal initiatives substituting open access and market or opportunity cost pricing in lieu of actual cost pricing were initial steps toward a competitive market; but these steps alone are not sufficient to accomplish this goal. States must work to complete the foundation for a competitive market by giving IPPs the ability to construct power plants on the same basis as investor-owned utilities.

Open access provided little benefit to Florida because of constrictions on access to the state's transmission grid. The lack of access to suppliers from other states and the inability for IPPs to fully engage in this state have had unintended consequences, and in some instances, have resulted in harm to retail consumers. For instance:

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04992 MAY-88

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1. Market prices have been substituted for "split-the-savings" arrangements, which yielded some small savings to retail ratepayers.
 2. Monopoly utilities have sold their lowest cost power on the wholesale market. Less efficient power plants are then used to serve retail consumers, thus driving up fuel costs.
 3. In some instances, IOUs sold rate based capacity in the wholesale market even though they had asserted the capacity was needed for retail consumers before it was built.
 4. In order to maximize benefits from sales on the wholesale market there is a strong incentive for IOU's to thwart the addition of power supply from new, more efficient IPP generation which could successfully compete with the IOUs on the wholesale market.
-
5. Other unintended results have arisen. Retail capacity shortfalls resulted in the purchase of costly replacement power on the wholesale spot market which was necessary to meet retail demand.

Rather than reducing retail prices, the IOUs' dealings in the wholesale market actually increased prices paid by retail consumers of some utilities. The IOUs were not at risk with these transactions because in the event the transactions resulted in higher fuel prices, retail customers were left in the position of assuming all of the risk incurred by the IOU.¹

In conjunction with the formation of GridFlorida, the Commission should ensure that the benefits of GridFlorida flow to retail ratepayers through lower cost wholesale generation, and the

¹ Some utilities were able to make power sales to reduce fuel costs for their consumers, because constricted supplies resulted in higher prices allowing inefficient generation to operate for sale to the wholesale market. But this, for the most part, is only a transfer of funds at the expense of the customers of other utilities without improving efficiency.

elimination of duplicate services and pancaked rates. These benefits will only occur when there is true competition in the wholesale market; that is, when IPPs can as easily construct capacity as can monopoly providers.

Workshop Topics²

Meetings Should be Open to the Public

All meetings of the GridFlorida, including working groups and subcommittees, should be held in the sunshine. Ratepayers must have confidence that the activities of GridFlorida are open and above board. The only way they can have that assurance is if they are able fully to monitor the meetings and activities of Grid Florida. Further, GridFlorida should have a public power exchange with spot and future prices published and readily accessible by all. This will foster competition and result in lower prices.

Role of the Florida Public Service Commission

The Commission has an important role to play in GridFlorida. While the details of wholesale transmission rates are left to the Federal Energy Regulatory Commission (FERC), this Commission has the statutory responsibility for the adequacy of the Florida grid so that retail ratepayers receive reliable service.

The Commission has the statutory obligation to assure reliable delivery of electricity at the actual cost of service. *See* Chapter 366, Florida Statutes. The Commission is vested with the authority to ensure the reliability and integrity of Florida's transmission system. Pursuant to §366.04(2)(c), the Commission has jurisdiction over utilities to require electric power conservation and reliability within the grid. Under §366.04(5), the Commission is empowered with jurisdiction over the planning, development, and maintenance of a grid to assure adequate

² Via memorandum dated April 12, 2002, the parties were directed to respond to a preliminary list of subjects. Where FIPUG has a position at this time on these topics, it will discuss it herein.

and reliable energy supplies. In addition, the Commission has the power to set rates and issue service rules and regulations to be observed by each utility under §366.05(1). Further, §366.05(1) grants the Commission authority to order a utility to make repairs, improvements or additions to the utility's facilities to promote the convenience and welfare of the public. Section 366.05(8) grants the Commission the authority to order utilities to require the installation or repair of transmission facilities to correct inadequacies in the energy grid. The Grid Bill grants the Commission widespread authority over the reliability of the utilities' transmission facilities and the electric grid. The Commission must be vigilant in the exercise of that authority so that retail ratepayers are protected.

Details of Cost Recovery Mechanism

In Order No. PSC-01-2489-FOF-EI, the Commission said: "participation in an RTO should provide benefits to Peninsular Florida." *Id.* at 8 (emphasis added). Some of the benefits the Commission identified were enhanced competition and substantial savings in generation costs. The Commission said: "we find that the central benefit associated with each utility's participation in an RTO is the facilitation of an improved wholesale electricity market encouraging competition among wholesale generators, by removing transmission access impediments and restrictions." *Id.* at 9.

As noted above, until IPPs are permitted full market access, the benefits of an open transmission grid will not be fully realized. The Commission itself recognized that:

the extent of the savings to be derived from a more competitive wholesale market is limited to incumbent generation companies and to a limited class of independent power producers willing to risk building peaking units which are exempt from the Florida Electrical Power Plant Siting Act in the hope that a Florida competitive wholesale market will develop. A Florida RTO will initially do little to foster further competition in wholesale generation than exists today Moreover, while an effective RTO may be necessary to the efficient workings

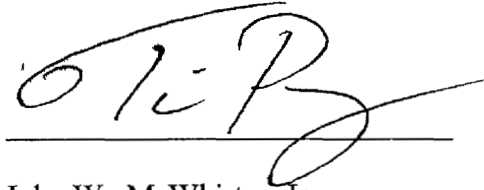
of a competitive wholesale generation market, it alone will not lead to the development of a competitive wholesale generation market.

Id. at 12. Therefore, the Commission should continue to work diligently toward the goal of a fully competitive wholesale market.

As to cost recovery, the Commission should proceed carefully as it considers the type of cost recovery mechanism that might be appropriate for RTO costs. First and foremost, the Commission should not approve an *automatic* pass through of RTO costs. Rather, RTO related costs should be recovered through base rates. This would serve as an incentive for utilities to reduce costs: cost recovery clauses provide no such incentives. Further, the Commission should put a mechanism in place to ensure that any amounts expended are prudent and reasonable and are spent only for purposes that further the goals of the RTO — a fully competitive wholesale market.

Any cost recovery mechanism that the Commission considers for RTO expenses should take into account each utility's net operating income from its entire operations, not just the additional costs attributable to the RTO. In recent years, the greater utilization of cost recovery clauses focusing only on specific costs has resulted in guaranteed full recovery of some costs without consideration of the fact that sales growth and rate base amortization have made base rates sufficient to recover all costs, including a reasonable return, without the necessity of any surcharge. Further, cost recovery mechanisms have discouraged the construction of new, more efficient generation because the higher fuel costs of inefficient generation have been shifted to the retail ratepayer. FIPUG urges the Commission not to follow the cost recovery clause approach in this case. The Commission should not approve an automatic pass-through of costs related to the RTO but should consider whether such costs are already being recovered in the

utility's rates, or whether the utility's current earnings are sufficient to recover such costs without additional recovery from retail ratepayers.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Comments of the Florida Industrial Power Users Group on the GridFlorida Filing has been furnished by (*) hand delivery and U.S. Mail to the following this 8th day of May 2002:

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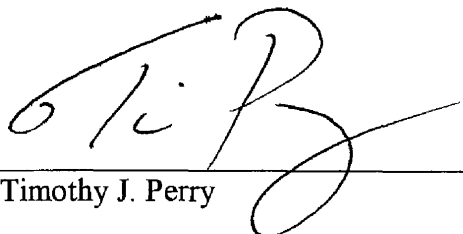
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