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July 2, 2002

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Tallahassee, Florida 32399-0850

VIA HAND DELIVERY

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COMMISSION
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Re: Docket No. 020233-EI

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are an original and seven (7) copies of the Supplemental Post-Workshop Comments of Florida Power Corporation, Florida Power & Light Company and Tampa Electric Company Addressing Market Design. Also included is a high-density diskette containing the Supplemental Post-Workshop Comments Addressing Market Design in MSWord format.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" or "received" and returning the copy to me.

Thank you for your assistance with this filing.

Sincerely,

Kenneth A. Hoffman

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of GridFlorida Regional Transmission Organization Proposal	))	**Docket No. 020233-EI**

SUPPLEMENTAL POST-WORKSHOP COMMENTS OF FLORIDA POWER CORPORATION, FLORIDA POWER & LIGHT COMPANY, AND TAMPA ELECTRIC COMPANY ADDRESSING MARKET DESIGN

In accordance with Order No. PSC-02-0865-PCO-EI, issued June 25, 2002 ("June 25 Order"), and the Commission's directives at its May 29, 2002 workshop addressing the proposal to establish GridFlorida ("Workshop"), Florida Power Corporation, Florida Power & Light Company, and Tampa Electric Company (collectively, the "GridFlorida Companies") hereby file Supplemental Post-Workshop Comments addressing market design issues.

The Commission at the Workshop encouraged all stakeholders to continue working toward resolving differences that remained among the parties at that time. Consistent with this guidance, the GridFlorida Companies in their June 21, 2002 Post-Workshop Comments ("June 21 Comments") addressed a number of stakeholder concerns through amendments to GridFlorida documents and by providing certain requested clarifications. The June 21 Comments did not, however, address any market design issues, as the GridFlorida Companies were continuing to analyze those matters with the goal of reaching further resolution on them. See Motion of Florida Power Corporation, Florida Power & Light Company and Tampa Electric Company for Extension of Time (June 21, 2002). "[I]n the interest of having a consensus filing," the Commission in the June 25 Order approved a motion by the GridFlorida Companies for additional time to address market design.

Since the Workshop, the GridFlorida Companies have engaged in significant additional deliberations, including analyses of stakeholder comments at the Workshop, with the goal of fashioning a market design structure for GridFlorida that will bring the greatest stakeholder consensus possible while also ensuring the greatest benefits and protections to retail customers in Florida. These Supplemental Comments describe the market structure that the GridFlorida Companies believe can best achieve those goals at this time.

Specifically, the GridFlorida Companies propose to amend the GridFlorida market design filed with the Commission on March 20, 2002 (the "March 20 Filing") in the following respects:

- The GridFlorida market design included with the March 20 Filing is a physical rights model with nodal pricing for generators and zonal pricing for loads. The GridFlorida market design proposed herein instead will be a Locational Marginal Pricing ("LMP") model, i.e., a financial rights model with locational (or, "nodal") pricing. Under the LMP approach:
    - Market prices will be established for each node on the system.
    - A customer will not need a transmission right to schedule service.
    - A customer will pay to GridFlorida the congestion costs between its sinks and sources, equal to the difference between the market clearing prices at those nodes. Thus, under a simplified example, if a customer injects power at Point A, which has a market clearing price of $10 per MW, and withdraws power at Point B, which has a market clearing price of $15 per MW, that customer will be responsible for congestion charges equal to $5 per MW of its transaction.
    - Financial rights (often referred to as "FTRs") will be available to hedge against congestion costs. An FTR holder will have a right to receive a payment from the Regional Transmission Organization ("RTO") equal to the difference between the market clearing price at the FTR's sink and the market clearing price at the FTR's source, as determined in the day-ahead market. Thus, in the example above an FTR between Points A and B would entitle the holder to a payment of $5 for each such FTR it owns. As a result, if the customer above transacts 100 MW between Points A and B, and also owns 100 FTRs between those points, it will owe $500 in congestion charges and be entitled to $500 in FTR payments. That customer's FTRs will provide a hedge against congestion for its transaction.

- The holder of a financial right will not need to schedule service between the source and the sink to obtain a payment right. If the customer above did not schedule the 100 MW between points A and B in that hour, it would receive a payment right of $500 and would have no obligation for congestion costs across that path.

- The market design included with the March 20 Filing includes a real-time market only. The GridFlorida market design proposed herein will be a two-settlement system, consisting of both a voluntary day-ahead market and a real-time market. A market participant will not be obligated to buy or sell in the day-ahead market, but will be permitted to offer to sell or purchase as much energy as it desires in that market. A load serving entity ("LSE") thus, instead of being required to schedule its own or contracted resources to serve its load, will be able to serve its load through purchases made in the voluntary, day-ahead market administered by the RTO.
  - The results of the day-ahead market will be financially binding.
  - If a buyer or seller does not produce or purchase according to its day-ahead schedule, its imbalance will settle at the real-time price.
  - Nodal pricing will be used for both the voluntary day-ahead market and the real-time market; i.e., market prices will be established for each node on the system..

- Market clearing prices will be calculated and paid to generators, rather than the "pay what you bid approach" included in the March 20 Filing.

Other aspects of the GridFlorida market design will not change. These include:

- The allocation of rights to existing users and future load growth included in the current GridFlorida market design will be retained, adjusted as necessary to reflect the new financial rights model. LSEs thus will be allocated FTRs based on their use of the GridFlorida transmission system to serve their loads.

- Individual LSEs will be required to satisfy LSE-specific capacity requirements through an Installed Capacity and Energy ("ICE") market established consistent with the GridFlorida ICE proposal included with the March 20 Filing.

- Penalties for imbalances in the real-time market that exceed specified imbalance levels will be retained to provide incentives for LSEs to maintain an appropriate balance between their pre-scheduled resources and their loads, i.e., to avoid an undue reliance on the real-time market. LSEs can participate in the day-ahead market, enter into bilateral contracts prior to real-time operations, or self-supply their generation requirements. However, to the extent they over-rely on the real-time balancing market to serve load, they will be subject to penalties.

In total, this market design is hereinafter referred to as the "Revised GridFlorida Market Design."

The GridFlorida Companies believe that the Revised GridFlorida Market Design will result in significantly greater stakeholder consensus than the market design included with the March 20 Filing. Further, to help build consensus, the GridFlorida Companies on July 1, 2002 notified stakeholders of an additional conference, to be held on July 8, 2002, to discuss the Revised GridFlorida Market design and answer any questions stakeholders may have. The GridFlorida Companies nonetheless expect stakeholders to continue to raise concerns, perhaps even those stakeholders that have been advocates of this basic market design structure. As the GridFlorida Companies explained in their June 21 Comments, when a change is accepted for one stakeholder it often raises issues for another stakeholder. Further, even when a significant concession is made to address a stakeholder concern, that stakeholder rather than accepting the compromise often will continue to argue in favor of its ideal position.

The GridFlorida Companies also believe that the foregoing provides the framework for a workable and efficient design for the Florida market. Of course, the GridFlorida Companies also recognize that a great deal of work is required to go from general principles to the implementation of specific market rules and procedures. The GridFlorida Companies also acknowledge that the particular circumstances and needs of the Florida market may require variation from the market designs that have been adopted or considered elsewhere. Nevertheless, the GridFlorida Companies do believe that the goal of establishing a fair and robust wholesale market predicated on the foregoing premises is achievable. The Commission thus should approve the Revised GridFlorida Market Design. The GridFlorida Companies will develop tariff language to implement

that market design structure and file it at FERC following Commission approval of the Revised GridFlorida Market Design.

I. Changes to the GridFlorida Market Design

In Order No. PSC-01-2489-FOF-EI, issued on December 20, 2001 ("Order"), the Commission made a number of determinations about market design for GridFlorida. Among other things, the Commission determined that the GridFlorida Companies' decision to adopt a physical rights model was reasonable, as that model would provide "for simplicity and additional security for serving retail load[.]" Order at 22. The Commission also required that a "pay as bid" approach replace the "market clearing price" approach for determining energy prices and payments to generators. See id. at 20-22.

The Commission's decision to adopt a physical rights model was, at the time of the Order, appropriate under the circumstances. The GridFlorida Companies believe, however, that subsequent events have overtaken the reasons for doing so. The GridFlorida Companies believe that the Commission's goals described in the Order--ease of implementation and protection of retail customers--now are better served by adopting an LMP structure coupled with a two-settlement system. The GridFlorida Companies also believe that such a model now also will better serve the Commission's goal to maintain GridFlorida as a Florida-specific RTO, see id. at 16, as concerns about seams issues, which are the main impetus for larger RTOs, will be eliminated or minimized. Finally, the GridFlorida Companies believe that the pay as bid approach should be replaced with the payment of market clearing prices to generators. The pay as bid approach will harm, rather than protect, retail customers.

A. Ease of Implementation

As the electric industry has evolved, LMP market designs coupled with two-settlement systems have been implemented or are being considered by many Independent System Operators ("ISOs") and RTOs throughout the country. For example, the Pennsylvania-New Jersey-Maryland Interconnection ISO ("PJM") and the New York ISO ("NY ISO") currently utilize such a market structure, while the SeTrans RTO, Midwest ISO, ISO-New England, and the California ISO are in various stages of considering or implementing such a structure. Further, the Federal Energy Regulatory Commission ("FERC") currently proposes to implement a standard market design ("SMD") across the industry.[1] That standard market design is a two-settlement, LMP model.

As the use and potential use of this model have increased, its ease of implementation also has improved, and as a result the implementation costs have decreased. For example, obtaining and implementing software for an LMP model coupled with a two-settlement system should be relatively straightforward and cost-effective. Software that is being designed on a nation-wide basis can be adapted for GridFlorida, rather than developing specific software from the bottom up for a physical rights model. Further, SeTrans, GridFlorida's neighbor, is among those regions that currently propose to use such a market design; in a petition for declaratory order filed with FERC on June 27, 2002, the sponsors of SeTrans stated that they support such a model. Consistency among the SeTrans and GridFlorida market designs will help minimize, if not eliminate, difficult seams issues, as the transmission rights, pricing, and

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1 On March 15, 2002, FERC issued a paper ("Working Paper") on proposed standardized transmission service and wholesale market design (i.e., SMD). In the Working Paper, FERC stated that it intends to reform public utilities' transmission tariffs to reflect its proposed new transmission service and a standardized wholesale market design. FERC also stated that it intends to issue a notice of proposed rulemaking to receive comments and then issue a final rule on these matters. FERC later issued an options paper, on April 10, 2002, that provided certain options for resolving rate and transition issues.

availability of markets will be consistent. This consistency thus will simplify implementation of the GridFlorida market. Finally, as market participants become more and more familiar with LMP, that approach will become more and more "user friendly," decreasing the need for training and other start-up expenditures, and decreasing the costs associated with human errors that can occur when implementing relatively unknown rules.

Further, in addition to initial implementation, the benefits of utilizing an LMP/two-settlement approach should be on-going. Market designs have evolved over time in operational ISOs, and they likely will continue to evolve in the future. As more experience is gained with the markets, some relatively minor, operational changes to market design software and systems likely will be warranted, as will changes to more basic aspects of the market design structure. Using a market structure that is common in many regions of the country will allow GridFlorida to benefit from the experience gained in other regions, and to utilize software and other systems changes that other regions adopt and that would be appropriate for Florida.

The GridFlorida Companies thus believe that implementation of an LMP/two-settlement model will be greatly simplified now relative to the time the Commission issued the Order. Further, the implementation benefits of such a model should be on-going.

B. Customer Protection

The GridFlorida Companies also believe that the model proposed herein will provide significant customer protections. As events in California and the rest of the western United States have shown, and as has been highlighted by recent investigations of western markets, the risks of market manipulation in new, untested markets are serious. Market manipulation can have significant economic impacts on customers and can raise serious reliability concerns.

As noted above, a market design structure similar to the one discussed herein currently is being utilized by PJM and the NY ISO. The GridFlorida Companies believe that this market structure has helped those ISOs to limit the gaming problems that have been seen in the west. For example, this market design creates significant price transparency through posting of nodal prices, making it easier to monitor the performance of the markets. Indeed, the California ISO, which has experienced and closely studied those problems, currently is considering adopting an LMP/two-settlement model to help resolve the problems, including problems with market manipulation, that it has faced.

It is likely that no market design, especially initially, will be immune from a market participant that might seek to game the market rules to its advantage. That is one reason that a market monitoring unit is being established. However, the GridFlorida Companies believe that for Florida it is best to adopt a market design that has been shown to be effective in limiting gaming opportunities.

C. GridFlorida as a Stand-Alone RTO

An additional goal of the Commission--maintaining GridFlorida as a stand-alone Florida RTO--also should be well served by an LMP/two-settlement model. Concerns about seams issues have been some of the driving forces behind calls to limit the number

of RTOs in the country, including calls for only one RTO for the southeastern United States. By minimizing seams issues between GridFlorida and other regions, the likelihood of retaining the option of keeping GridFlorida as a Florida-only RTO should be increased.

D. Market-Clearing Prices

The Commission in the Order required adoption of a get what you bid approach rather than a market clearing price approach in the real-time market. The Commission concluded that such an approach will "limit the exposure of buyer[s]" in the energy market until such time that "sufficient participants exist" in that market. See Order at 21-22. The GridFlorida Companies do not believe that such an approach should be adopted as part of the Revised GridFlorida Market Design. As discussed below, when addressing market power, it is important to distinguish between changes to the basic market design structure and market power mitigation measures. Under either the pay as bid approach or the market clearing price approach market power mitigation measures will be needed. The question when deciding between these approaches should be which approach provides the most benefits to customers. Because retail customers generally would be harmed, not protected, by a pay as bid approach, that approach should not be adopted. Instead, market clearing prices should be established and paid to suppliers in the markets. Narrowly tailored market power mitigation mechanisms also should be adopted to address market power concerns.

The GridFlorida Companies do not believe that, under a pay as bid approach, a supplier will base its bids on cost. Instead, a supplier's bid under a pay what you bid approach will equal that supplier's estimate, at the time of its bid, of the price at which the relevant market will clear. The results under such bidding behavior normally will

produce an inefficient mix of resources used to serve load, as some suppliers will guess wrong in their bidding strategies. For example, even though a particular supplier is a low cost supplier, it would not be dispatched if its estimate of the market price, and thus its bid, is higher than the actual price at which the market clears.

There may be times, notwithstanding this inefficient mix of resources, when retail customers will see lower prices under a pay as bid approach than they would see under a market clearing price approach. That is, there may be times when the bids for dispatched resources in the aggregate (and thus what suppliers are paid under a pay as bid approach) are below what suppliers would receive and customers would pay under a market clearing price approach. The GridFlorida Companies do not believe, however, that such a result can be expected to occur regularly. The GridFlorida Companies believe that, instead, the inefficiencies in generation dispatch that result under a pay as bid approach ultimately will harm retail customers through higher energy costs. Further, in addition to inefficient dispatch of resources, the distorted price signals under a pay as bid approach will result in inefficient use of the transmission system, inefficient price signals for the development of new generation, and inefficient siting signals, all to the ultimate detriment of retail customers.

This is not to say that market power concerns should be ignored. They should not. However, when addressing market power it is important to distinguish between changes to the basic market design structure and market power mitigation measures. Under either approach—the pay as bid approach or the market clearing price approach—market power mitigation measures will need to be adopted. For example, as noted, it is a false assumption to assume that suppliers under a pay as bid approach will submit bids based on their costs. Thus, even under that approach, a mechanism will need to be

developed to address market power issues under specific circumstances and for specific suppliers. The question when addressing payments to suppliers thus is not one of mitigating market power, as effective market power mitigation strategies can be implemented under either approach. Instead, the choice is a matter of selecting the market design that will lead to the most efficient outcomes and provide the most efficient price signals, to the benefit of customers. As explained above, a pay what you bid approach has serious deficiencies in both of these regards. A market clearing price approach, on the other hand, more likely will lead to efficient outcomes.

It also is important to recognize, when considering customer protection, that a substantial portion of the gain on sales in the real-time market should be allocated to customers, with some small portion allocated to the utilities as an incentive for participation in the market. The GridFlorida Companies support such an allocation of revenues.

Finally, a practical consideration dictates against utilizing a pay what you bid approach. As noted above, LMP requires that an energy price be calculated at each node on the system. The price at a particular node is based on the cost of serving a marginal unit of energy at that node, taking into account actual system conditions and losses. The GridFlorida Companies do not believe that the algorithms to calculate these prices would work with a pay what you bid approach.

The Commission therefore should find that market clearing prices should be established and paid to suppliers, and that narrowly tailored market power mitigation mechanisms should be developed to address market power concerns. The Commission also should find that a substantial portion of the gain on sales in the real-time market should be allocated to customers, with some small portion allocated to the utilities.

II. Market Design Principles That Should Not Change

In addition to the changes to the GridFlorida market design discussed above, it is important to address certain aspects of the GridFlorida market design included in the March 20 Filing that should be retained. First, financial rights should be allocated to existing users in amounts necessary to reliably preserve their existing uses, without the need to participate in an auction process. Second, an LSE-specific capacity requirement should be adopted, based on the current GridFlorida ICE principles. Third, settlements penalties for imbalances in the real-time market above specified thresholds, to provide incentives to maintain an appropriate balance between resources and load and thus limit over-reliance on the real-time market, should be retained.

A. Allocation of Rights

One of the most significant and contentious issues when establishing an RTO is how to treat existing users of the system. The GridFlorida Companies believe that it is imperative that existing users are protected to the extent possible against increased costs for the services they receive today. The GridFlorida proposal included with the March 20 Filing thus provides for an allocation of transmission rights to existing users in amounts necessary to preserve their existing uses, with a re-allocation of rights made on an annual basis. A significant aspect of this proposal is that these rights are allocated to existing users without the need to participate in an auction process. Additional rights, i.e., rights above those allocated for existing uses, are available for auction.

Arguments have been made that all transmission rights should be auctioned, with existing users entitled only to auction revenues. However, markets, especially immature markets, are not perfect, and the auction process for transmission rights can be extremely complicated. This can place undue risks on existing users, and retail customers, if they

are not allocated transmission rights. Further, this risk is not offset by any benefits. Advocates of an auction approach generally argue that auctioning rights associated with existing uses will increase liquidity of the market for these products. At least initially, however, the bids into that market may not accurately reflect the value of those rights, due in part to the fact that there is limited information on which to base auction bids in immature markets. The result would be an auction process with distorted results and distorted price signals. Again, this only can place retail customers at risk.

Reedy Creek Improvement District ("Reedy Creek") expresses a concern that transmission rights are not allocated to customers under existing contracts when those contracts are not converted to GridFlorida transmission service. See Reedy Creek Pre-Workshop Comments at 19. This concern is unwarranted. The company providing transmission service today under an existing contract will, if the contract is not converted to GridFlorida service, be obligated to continue providing the service after GridFlorida is operational, under the same rates, terms, and conditions as provided in the contract. See GridFlorida Tariff, Attachment T, § 6.2(a). The transmission rights in this circumstance thus are allocated to the company providing the transmission service, not the customer. See id., Attachment P, § 3.3.1.1(b). The customer needs no further protection than the rights provided under its contract.

The Commission thus should specifically find that under the GridFlorida market design existing users and future load growth will be allocated financial rights, without the need to participate in an auction process, as necessary to preserve their existing uses. The GridFlorida Companies note in this regard that FERC in its SMD proposal left open how existing transmission uses should be transitioned to its proposed new market structure. A specific finding by the Commission in this regard thus is of particular importance.

B. LSE-Specific Capacity Market

There can be no question that adequate long-term investment in generation capacity is necessary for an electrical system to be reliable and efficient. The lack of long-term investment has been a significant problem in many regions of the country, and has often been identified as one of the major causes of the numerous problems seen in California markets. The GridFlorida proposal thus includes an ICE requirement. While the details of the ICE proposal are still to be developed, some basic requirements are included in the GridFlorida transmission tariff. These include: (i) each LSE will be obligated to demonstrate to GridFlorida that it has adequate rights to generation owned by the LSE, qualified demand resources, and/or qualified purchase contracts; (ii) each LSE will be required to show that it has rights to energy from the generation resources at a specified energy purchase price; and (iii) the generation resource must satisfy deliverability requirements.

Seminole Electric Cooperative, Inc. ("Seminole") argues that the ICE proposal should be eliminated from the GridFlorida tariff because the Commission oversees generation adequacy in the State. See Seminole Pre-Workshop Comments at 15-16; see also Florida Municipal Power Agency Pre-Workshop Comments at 36 (arguing that establishing a capacity reserve requirement "fall[s] within the traditional state domain"). The GridFlorida Companies do not agree with the assertion that a capacity requirement should not be included in the GridFlorida market structure. As the Commission has stated, the ICE proposal is warranted "to ensure that adequate levels of generating reserves are maintained." Request for Technical Conference and Protest of the Florida Public Service Commission, FERC Docket No. RT01-67-000 at 6 (January 30, 2001). The GridFlorida Companies already have agreed that the Commission should develop the

capacity standards for the State. However, GridFlorida then should implement those standards as part of the overall GridFlorida market structure.

Florida Municipal Group ("FMG") argues that installed capacity requirements should not be allocated to each LSE. According to FMG, such an allocation would result in a loss of regional efficiencies, i.e., the RTO would "miss[] the opportunity to balance one entity's excess reserves against another entity's shortage of reserves." FMG Pre-Workshop Comments at 34. This is not true. First, as noted, the Commission will set the capacity requirement for the State, just as it does today. GridFlorida then will allocate a portion of that capacity requirement to each LSE. This procedure thus will not result in any increase in the capacity margin in the State. Further, LSEs will have a full opportunity to balance their reserves. An LSE that does not own adequate generating resources to meet its ICE allocation will be free to contract for ICE with an LSE or other market participant that has rights to excess capacity. The LSE-specific requirement under the GridFlorida model helps ensure that no LSE unduly leans on any other, unduly shifting costs from one group of retail customers to another.

The Commission thus should specifically find that under the GridFlorida market design LSEs will be required to satisfy LSE-specific capacity requirements through an ICE market established consistent with the GridFlorida ICE proposal included with the March 20 Filing. The GridFlorida Companies also note that FERC in its SMD proposal did not include a specific mechanism to ensure generation adequacy, instead requesting additional input as to whether such a mechanism is warranted, and if so what that mechanism should be. Thus, again, a specific finding by the Commission in this regard is of particular importance.

C. Imbalance Penalties

In a real-time balancing market where bids by suppliers are not mitigated, and prices are not otherwise set below competitive levels, an LSE will have a natural incentive to enter into arrangements prior to real-time operations to serve its load. Such arrangements may be for supply from generation owned by the LSE, pursuant to bilateral purchase contracts, or through a voluntary, centralized market operated prior to real-time. This incentive arises because prices in real-time markets, when left unfettered by mitigation and regulation, can fluctuate significantly. By entering into arrangements prior to real-time operations, an LSE can avoid the risks associated with such price fluctuations.

The natural incentive that arises in such markets for individual LSEs to procure adequate resources prior to real-time operations also has a system-wide benefit. It is well recognized that a number of issues can arise when real-time markets are relied on too heavily. For example, the over-reliance on short-term markets, particularly real-time markets, led to disastrous consequences in California. When each individual LSE obtains adequate resources prior to real-time operations, adequate resources are available for the system as a whole, and economic and operational issues more likely will be avoided.

It is uncertain, however, whether real-time prices in new markets will be permitted to rise to levels adequate to provide a dis-incentive to unduly relying on the real-time market. History has shown that bids in to markets often are limited due to market power concerns, or otherwise when prices start to reach levels that are deemed unacceptably high. If bids are limited in the real-time market, the fluctuations in that market also will be limited, and the natural dis-incentive to relying on that market will not exist. The result can be an over-reliance on that market.

It thus is essential, to help ensure reliability, that a mechanism is in place to provide LSEs with adequate incentives to avoid over-reliance on the real-time market. Under the Revised GridFlorida Market Design, an LSE can serve its load through a combination of bilateral arrangements, self-supply of generation, or the RTO-administered, voluntary day-ahead market. An LSE thus will have ample opportunities prior to real-time operations to make adequate arrangements to serve its load. To discourage an LSE from unduly relying on the real-time market to serve its load, rather than using the opportunities available to make arrangements prior to that time, the GridFlorida market design should include penalties for imbalances in the real-time market that exceed certain specified thresholds. Such penalties will provide an appropriate financial dis-incentive to an LSE's over-reliance on the real-time market in a manner similar to price fluctuations in an unmitigated market.

At the same time, it is important that such mechanism will not penalize an LSE that is not over-relying on the real-time market. That is why appropriate imbalance thresholds, similar to the ones for the imbalance penalties included in the March 20 Filing to minimize over-reliance on the real-time market, should be established. See GridFlorida Transmission Tariff, Attachment P, § 13.2.3. This will distinguish, for example, an LSE that is seeking to gamble on relatively low real-time prices from an LSE that missed its load forecast by a reasonable percentage. That is also why, like in the March 20 Filing, a market participant that unexpectedly loses a generation resource should not, as a result of the loss of that resource, be subject to imbalance penalties. That is, if an LSE has entered into arrangements that adequately would have served its load, or a supplier enters into arrangements to supply power, but that market participant

unexpectedly loses its resource, that loss should not result in an imbalance for penalty purposes.[2]

It also is important to ensure that such mechanism will not inhibit an LSE's ability to obtain, or a generator's ability to supply, generation resources. The penalty structure described herein, an after-the-fact settlements payment for certain real-time imbalances, would do neither. A market participant's ability prior to real-time (when ISO operations begin) to enter into the arrangements it desires to serve its load will not be limited by the after-the-fact settlements. Indeed, a market participant will be permitted to adjust its schedule close to real-time, providing maximum flexibility to make such arrangements. The GridFlorida Companies also note that generators will be free to bid in to the real-time market whether or not they have load prior to real-time.

The Commission thus should specifically find that under the GridFlorida market design LSEs that unduly lean on the real-time market will be subject to settlements penalties. Consistent with the Commission's objectives in the Order, see Order at 20, the proposed settlements penalties in conjunction with other aspects of the Revised GridFlorida Market Design will help ensure the reliability of the grid. That is, the ICE requirement will help ensure long-term generation adequacy by helping to ensure that one LSE cannot seek to unduly lean on another. Suppliers and purchases will have flexibility

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[2] In this regard, the GridFlorida Companies note that the Joint Commenters' assertions that under the Filing a market participant would be penalized in this circumstance are contradicted by the clear language of the GridFlorida transmission tariff. Compare Joint Commenters Pre-Workshop Comments at 12 (incorrectly asserting that penalties apply when "real time load exceeds its actual generation by a specified percentage or when the [Scheduling Coordinator's] actual generation exceeds its actual load by a specified percentage") with GridFlorida Transmission Tariff, Attachment P, § 13.2.3 (current GridFlorida penalties are based on the difference between actual load and scheduled load).

in making their long-term and shorter-term supply arrangements, and the voluntary, day-ahead market will provide an additional opportunity for LSEs to enter into short-term supply arrangements. Finally, the imbalance penalties will provide an appropriate dis-incentive against unduly leaning on the real-time market.

III. Conclusion

WHEREFORE, the GridFlorida Companies request the Commission to approve the Revised GridFlorida Market Design. The GridFlorida Companies will develop tariff language to implement that market design structure and file it at FERC following Commission approval of the Revised GridFlorida Market Design.

DATED this 2nd day of July, 2002.

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CERTIFICATE OF SERVICE
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