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July 12, 2002

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Division of Commission Clerk and  
Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0800

Re: Docket No. 020233-EI - Review of GridFlorida Regional Transmission  
Organization (RTO) Proposal.

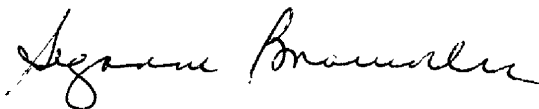
Dear Ms. Bayo:

Attached please find the original and fifteen copies of JEA's Response to Applicant's Market Design Comments to be filed in the above-styled docket. Also attached is a copy to be stamped and returned to our office.

Should you have questions or need any additional information, please contact me.

Thank you for your assistance in this matter.

Very truly yours,



Suzanne Brownless  
Attorney for JEA

/smh  
Bayo-ltr wpd

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Review of GridFlorida  
Regional Transmission  
Organization (RTO) Proposal.

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DOCKET No. 020233-EI  
Filed: July 12, 2002

JEA'S RESPONSE TO APPLICANTS'  
MARKET DESIGN COMMENTS

Pursuant to Order No. PSC-02-0865-PCO-EI, issued on June 25, 2002, JEA, through its undersigned counsel, submits its Response to Applicant's Market Design Comments in the above-styled docket and states as follows:

LOCATIONAL MARGINAL PRICING MODEL

The Applicants originally submitted both to the Federal Energy Regulatory Commission (FERC) and to this Commission a market model based upon physical transmission rights (PTRs) allocated to each Load Serving Entity (LSE) based on historic load and projected load growth reallocated on an annual basis. Applicants are now proposing a Locational Marginal Pricing (LMP) model, referred to by the Applicants as the Revised GridFlorida Market Design (RMD), in which financial transmission rights (FTRs) are allocated to each LSE based on historic load and projected load growth.<sup>1</sup>

[Applicants' Comments at 3]

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<sup>1</sup> During the July 8 teleconference Applicants stated that FTRs would be reallocated annually as in the original proposal. However, in the July 2d filing reallocation is not specifically provided for. This is of some concern since it is JEA's understanding that Applicants have completely abandoned the original market design proposed in the March 20th filing and that only the provisions specifically stated in the Supplemental Post-Workshop Comments submitted on July 2 are now being proposed.

In general JEA supports this modification to LMP, agreeing with the Applicants that it will reduce the number of "seams" issues to be negotiated between GridFlorida and SeTrans. However, Applicants have only filed a very short, summary document and have not developed details or tariff language to support the RMD. Further, Applicants have stated that the details and this tariff language will be developed "following Commission approval of the Revised GridFlorida Market Design." [Applicants' Comments at 4-5]

Applicants further state that "a great deal of work is required to go from general principles to the implementation of specific market rules and procedures." [Applicants' Comments at 4] JEA concurs with this statement and suggests that the devil is in the very details which have yet to be developed. Wholesale market design is an area which is inherently complex and is literally being created from scratch. Under these circumstances, the Commission should both require Applicants to develop and file revised tariff language supporting its RMD proposal and hold an evidentiary hearing on the filing.

JEA understands and appreciates the Applicants' desire to acquire Commission approval as quickly as possible and move on to FERC. However, approval of Applicants' RMD without the final tariff language, or at a minimum more details concerning the implementation of the principles outlined in the RMD<sup>2</sup> and an

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<sup>2</sup> For example, Applicants state that the LMP proposal is "a financial rights model with locational (or "nodal") pricing." [Applicants' Comments at 2] Under this system "market prices will be established for each node on the system." [Id.] When

evidentiary hearing, produces several bad results.

First, under the Applicants' proposal, the forum for Commission review and action will be removed to FERC. The Commission will be one intervenor among many offering its comments for FERC's consideration, comments which do not have the weight of being supported by record evidence or by a process in which non-Applicant stakeholders were given a chance to offer expertise and raise issues.

Second, if the Commission is only given an outline of the RMD to review, how meaningful can the Commission's approval, or rejection, of the RMD be? The lack of detail regarding the RMD proposal is a *de facto* limitation on the Commission's role in its review. There are many questions concerning the RMD, few of which were answered during the Applicant's teleconference this Monday, July 8th. However, as a result of that conference, it is now clear that some of the most fundamental implementation issues for the RMD have not even been discussed among the Applicants themselves, much less provided to the stakeholders and Commission staff. The simple truth is that without more implementation detail than has been

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questioned during the July 8th teleconference, Applicants stated that they had not identified the "nodes" nor really determined which RTO facilities would be classified as nodes for pricing purposes, i.e., substations of 69 kV or 115 kV, grouping of nodes, etc. Nor had the Applicants conducted studies to project a market clearing price range, presumably because it would be impossible to do so without knowing the location of the proposed nodes. Further, Applicants have not identified the factors used to develop the market clearing prices at each node, i.e., line losses, miles of transmission, etc. Without these fundamental pieces of information, neither JEA nor the Commission can reliably evaluate Applicants' RMD.

provided by the Applicants, the Commission's approval or rejection of the RMD will be highly restricted in its application and scope.

Third, the Applicants' July 2 filing represents a complete change of course on the most significant issue in RTO formation without input from non-Applicant stakeholders. *Only after the fact* did the Applicants initiate a conference call to discuss the RMD, four days prior to the date by which comments regarding the RMD were due to be filed.<sup>3</sup> However, Applicants *did not solicit participation from anyone else in the formation* of the RMD. The Commission has indicated that stakeholders should "continue to negotiate any remaining issues between them." [Order PSC-02-0865-PCO-EI (Order 02-0865) at 3] JEA suggests that initiating an evidentiary hearing process, with full disclosure of information and development of issues, will actually facilitate and focus meaningful negotiation between the stakeholders.

#### ALLOCATION OF FTRS

Applicants have made several statements with regard to allocation of FTRs:

[A]llocation 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 financial rights model. LSEs thus will be allocated FTRs based on their use of the GridFlorida transmission system to serve their loads<sup>4</sup>;

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<sup>3</sup> While Applicants have scheduled another informational face-to-face meeting in Tampa on July 29th to discuss the RMD, this meeting is after the Intervenor's comment filing date of Friday, July 12th.

<sup>4</sup> Applicants' Comments at 3 (Emphasis added).

[F]inancial 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<sup>5</sup>;

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<sup>6</sup>; and

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 rights.<sup>7</sup>

JEA read these statements as retaining the allocation method originally proposed for PTRs (at least with regard to the initial allocation): an allocation based upon historic usage plus load growth as projected by the Load Serving Entities (LSEs) in their Ten Year Site Plans filed with the Commission. During the July 8th conference call, Applicants disabused JEA of this incorrect interpretation. As JEA now understands it, while the Applicants fully intend to allocate FTRs to allow LSEs to meet current and projected loads, the mechanism for doing so has not yet been decided.

JEA supports the initial allocation of FTRs rather than an initial auction process. However, as discussed previously, JEA

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<sup>5</sup> Applicant's Comments at 3.

<sup>6</sup> Applicants' Comments at 12 (Emphasis added).

<sup>7</sup> Applicants' Comments at 13.

must retain FTRs for its CBM or risk the reliability and cost effectiveness of its system. Allocation of FTRs for CBM is entirely consistent with the Applicants' statements quoted above. To the extent that the Applicants have provided no detail regarding the allocation methodology, and as such possibly no resolution of JEA's CBM issue, JEA is unable to support this aspect of the RMD proposal.

ICE

JEA agrees with the three general principles contained in the Applicants' Comments, which appear to be a restatement of the "Capacity and Energy Obligations" section of Attachment W of the Open Access Transmission Tariff (OATT). [OATT, Attachment W, §II.A.] As JEA understands this section, it was the Applicants' original intention for the Commission, through its statutory review of Ten Year Site Plans formulated by utilities in compliance with Florida Reliability Coordinating Council (FRCC) standards, to establish reserve margins and generation needs on a long-term basis for the State, i.e., statewide needs for a ten-year planning horizon. The RTO, through its designation of each LSE's capacity and energy requirement, would then allocate "a portion of that capacity requirement to each LSE."<sup>8</sup> [Applicants' Comments at 15] These allocations of ICE for each LSE would be done on a short-term basis, at least yearly but perhaps as frequently as monthly, with

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<sup>8</sup> It was unclear if, or how, any Commission determination of need for any specific utility during a need determination for a proposed power plant or transmission line would impact the RTO's allocation of statewide needs to that utility.

enforcement via "deficiency auction, deficiency charge, and/or other mechanisms." [OATT, Attachment W, §II.C.]

JEA understands that this basic scheme is the same under the RMD, but that the means of enforcement have not yet been set. In fact, the Applicants have requested that the Commission make a "specific finding" with regard to the type of enforcement mechanism that should be included in the OATT. [Applicants' Comments at 15] The Commission should not make a "specific finding" on the type of enforcement the RTO is able to dispense without an evidentiary hearing on which to base its decision. Nor should the Commission act without more details about how the statewide needs identified by the Commission will actually be allocated among the state's LSEs.

JEA also notes that through its immediate ability to enforce the ICE provisions, especially if the enforcement mechanism relied upon is forced purchase of capacity coupled with an imbalance penalty, the RTO will, in fact, have more direct impact on the amount of capacity perceived by the state's utilities as actually "needed" than any amount set by order of the Commission.

Imbalance penalties

Applicants are apparently convinced that in the newly created Florida wholesale market, real-time prices will not be permitted to rise to levels that will truly offer disincentives for LSEs who rely "unduly" upon the real-time market. [Applicants' Comments at 16] Thus, they propose to add imbalance penalties to the ICE requirements discussed above. [Id.] Again, the Applicants have



not worked out the details of when penalties would be imposed, i.e., how much an LSE would have to deviate over its scheduled load before penalties would be imposed. Nor have Applicants determined what these penalties would be. Again, while JEA is not opposed to this proposal on a conceptual basis, the details need to be presented before JEA can support this idea.

Procedural proposal

As was discussed during the July 8th conference call, the majority of the Applicants' March 20th compliance filing positions have been retained by the Applicants, e.g., IOU membership on the Board Selection Committee, ISO structure, planning, existing transmission agreements, ICE, market monitor structure. JEA would suggest that for these issues, the Commission has both adequate information and stakeholder input to issue a final "compliance" order.

However, arguably the most important issue, market design, has been radically changed at literally the eleventh hour from that proposed on March 20th and that previously approved by the Commission in Order No.PSC-01-2489-FOF-EI, issued December 20, 2001. Further, this change was made without providing the Commission or stakeholders with either crucial details or participation. And, to the extent that the RMD details have been disclosed by the Applicants, many of these positions were specifically rejected by the Commission in Order No. PSC-01-2489-

FOF-EI.<sup>9</sup> Obviously, a FTR market design proposal, and the numerous subissues associated with it<sup>10</sup>, are inconsistent with a "compliance" type of review. For these issues the Applicants must be required to provide both more detail and data supporting why these changes are now in the ratepayers' best interests.

JEA fully supports the development of the details of the RMD by a collaborative process as quickly as possible. FERC has indicated that it will issue a Notice of Proposed Rule on Standard Market Design (SMD) by the end of this month. FERC's SMD is the logical starting place for the collaborative effort necessary to reach consensus on the details of the RMD for GridFlorida. By filing the July 2d RMD, apparently without consulting anyone other than each other, the Applicants have demonstrated little commitment to a truly collaborative process. The existing GridFlorida Advisory Committee conducts open meetings and has representatives from all stakeholder groups, including the Applicants. For these reasons, the Advisory Committee is the proper entity to conduct the collaborative effort necessary to develop a RMD with wide support among all stakeholders.

Once a consensus has been reached and the RMD tariff language

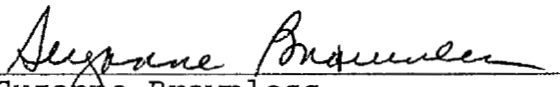
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<sup>9</sup> For example, market clearing prices were rejected in favor of a "get what you bid" approach because the Applicants had not demonstrated that there were enough participants in the market or that there were mechanisms in place to adequately address localized market power issues. 01 FPSC 12:316,331 (2001).

<sup>10</sup> For example, allocation methodology for FTRs, imbalance penalties, enforcement mechanisms for the market monitor, POMA, mechanisms to prevent the exercise of localized monopoly market power, etc.

has been developed, this matter should be expeditiously set for hearing. It is only through a full evidentiary hearing with cross-examination on these issues that the Commission can develop both the record and knowledge that it needs to reach a well reasoned decision on this crucial structural change to the State's electric grid.

Respectfully submitted this 12th day of July, 2002 by:

  
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail to all parties listed below and also by (\*) Hand-Delivery as indicated on this RFH day of July, 2002.

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