

ORIGINAL

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: August 13, 2002
TO: Mary Andrews Bane, Executive Director
FROM: Roberta S. Bass, Chief of Market Monitoring & Strategic Analysis, Office of Market Monitoring & Strategic Analysis *Rob*
RE: Revisions to GridFlorida Recommendation - Docket No. 020233-EI - August 20, 2002 Agenda Conference, Item #20

Subsequent to the filing of the above referenced recommendation, staff identified certain errors contained within the recommendation. I am requesting that staff be permitted to substitute revised pages now and make certain verbal revisions at the agenda conference.

The revised pages (attached) are as follows:

- (1) Cover page in type and strike format - issues regarding participation by parties corrected
- (2) Issue 2G (in its entirety) in type and strike format - corrects numerous typographical errors

The following verbal revisions will be made at the agenda conference:

- (1) page 72, second sentence of Alternative Staff Recommendation, insert "complies with the Commission's December 20 Order" at the end of the sentence (after revenues)
- (2) page 75, under heading "Cost to transmission owners", on the eighth line, "T.U." should be changed to "TDU"
- (3) page 77, under heading "Staff Analysis", on the third line, "T.U." should be changed to "TDU"

Please let me know if this is acceptable.

RSB:me

Attachments

- cc: JoAnn Chase
Cayce Hinton
Ignacio Ortiz
Katrina Tew
Kimberly Griffin
✓ Blanca Bayo
Mary Anne Helton
Cochran Keating

- AUS _____
- CAF _____
- CMP _____
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- SEC _____
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*Blanca
Moser
R. Thompson*

*OK
MAB
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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: AUGUST 8, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: OFFICE OF MARKET MONITORING & STRATEGIC ANALYSIS (R. BASS,
BUCHAN, BUTLER, COLLINS, GROOM, LOWE, NORIEGA)
OFFICE OF THE GENERAL COUNSEL (C. KEATING, BRUBAKER)
DIVISION OF COMPETITIVE MARKETS & ENFORCEMENT (FUTRELL)
DIVISION OF ECONOMIC REGULATION (BALLINGER, BOHRMANN,
BREMAN, FLOYD, HARLOW, HEWITT, KUMMER, BAXTER, SPRINGER,
WHEELER, E. DRAPER)

RE: DOCKET NO. 020233-EJ - REVIEW OF GRIDFLORIDA REGIONAL
TRANSMISSION ORGANIZATION (RTO) PROPOSAL.

AGENDA: AUGUST 20, 2002 - REGULAR AGENDA - ISSUES 1, 2A, 2B, 2D,
2E, 2G, 3A, 3B, 5 ARE POST-HEARING AND PARTICIPATION IS
LIMITED TO COMMISSIONERS AND STAFF; ISSUES 2C, ~~2E~~, 2F, 4A,
4B, 4C ARE PROPOSED AGENCY ACTION AND INTERESTED PERSONS
MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\MMS\WP\020233.RCM

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ISSUE 2G: Does the proposed transmission rate structure consisting of charges for (1) existing embedded facilities, (2) an adder to recover ~~T.U.~~ TDU facilities not included in the zonal rate, (3) new network facilities, and (4) Grid Management comply with Commission Order No. PSC-01-2489-FOF-EI?

RECOMMENDATION: No. The proposal preserves Commission jurisdiction over only existing bundled retail transmission costs, and only for the initial five-year period of RTO operations. The Commission's December 20 Order provides that the Commission should retain jurisdiction over the total cost of transmission to retail customers on a going forward basis. At the end of the initial five-year operation of the RTO, the Commission should review the transmission rate structure, given the operation of the RTO and the competitive market conditions in Florida. (WHEELER, E. DRAPER)

STAFF ANALYSIS: In response to the Commission's concerns stated in its December 20 Order regarding the retention of its jurisdiction over bundled retail transmission rates, the Applicants modified the pricing protocol previously filed under the Transco model. Under the modified proposal, transmission customers can optionally exempt their retail customers' bundled load from the payment of Zonal Rates for the first five years of RTO operation. The Applicants have indicated that they will exercise this option.

Beginning in year six, transmission customers will pay the RTO rates for all transmission service, including transmission service required to serve retail customers. From the beginning of RTO operations, the Applicants will still pay the Grid Management and System Rate charges attributable to their retail load, as well as a "~~T.U.~~ TDU adder" that will recover the costs of existing ~~T.U.~~ transmission dependent utility (TDU) facilities that are included in the Zonal Rates. These rate components are more fully described below.

Transco Proposal

In the Applicants' Transco filing, all transmission customers were required to pay the ~~trifled~~ tariffed rates of the RTO (including Zonal Rates) for all of their load, including their bundled retail load. In addition, retail load was responsible for its load ratio share of the Grid Management Charge and the System

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Charge.

Zonal Rates. In its initial five years of operation, the RTO would have used Zonal Rates to recover the costs of existing transmission facilities. Existing facilities were defined as those that were in service prior to January 1, 2001. In years six through nine, Zonal Rates would have been phased out at the rate of 20% of the revenue requirement per year, so that beginning in year ten, all transmission customers would have paid a systemwide average rate for service. The purpose of Zonal Rates is to mitigate the cost shifting that would occur if the RTO were to immediately implement a systemwide rate. These cost shifts would have resulted because of differences in the embedded costs of the existing transmission systems in peninsular Florida.

Any transmission owning utility, with the exception of ~~THUS~~ **TDUs**, could form its own separate zone. Each zone would submit a revenue requirement for its existing facilities to the RTO. The revenue requirement would be subject to FERC approval. The proposed OATT listed fourteen zones (See Attachment V to the OATT), although only the three applicants had committed to joining the RTO.

Zonal Rates were determined using the revenue requirements for the facilities located in the zone and the monthly peak loads for the zone. The Zonal Rate would be paid based on the location of the *load served*, and not on the location of the generator. For example, if the system consisted of Zones 1 and 2, and a customer was using the transmission system to serve load in Zone 1 from their generator located in Zone 2, the customer would pay the Zonal Rate for Zone 1 only.

System Rate. The System Rate was designed to recover the costs of all new transmission facilities, which were defined as those facilities that went into service on or after January 1, 2001. Beginning in year six, the System Rate would also begin to recover the costs of existing facilities that were recovered entirely through Zonal Rates in years one through five. Each year in years six through ten, 20% of the Zonal revenue requirements would be transferred to the System Rate, so that beginning in year ten, Zonal Rates would cease to exist, and the revenue requirements of all RTO transmission facilities would be recovered through the

System Rate.

The System Rate was determined using the revenue requirements of the transmission facilities and the monthly peak loads for the entire system. This differed from Zonal Rates, which were based on revenue requirements for only a single zone, and on the peak loads of the zone. The System Rate would be set by the RTO and would be subject to FERC approval.

Grid Management Charge. The Grid Management Charge (GMC) was a systemwide charge that would be applicable to all transmission customers' service from the outset, including service for bundled retail load. The GMC was designed to recover the RTO's own revenue requirements, including start-up costs (amortized over five years), grid operations and administrative costs, and the costs of market monitoring. The revenue requirement would be set by the RTO, subject to FERC approval.

Cost Recovery. The Applicants sought recovery through an adjustment clause of the incremental costs of transmission service, which they defined as those costs that were not currently being recovered in retail base rate charges. FPL's suggested methodology for recovery of incremental transmission costs included a calculation of the level of transmission costs currently embedded in base rates (expressed in cents per kWh), based on a recent cost of service study. This cost was to be applied to the projected kWh sales for the relevant recovery year to determine the current level of transmission costs recovered in base rate charges. The charges billed to the utility by the Transco in excess of this amount were deemed to be the incremental costs of transmission, and would be recovered from retail ratepayers through the Capacity Cost Recovery Clause.

ISO Compliance Filing

While retaining most aspects of the original pricing proposal, the Applicants have amended the OATT to provide that, at a transmission customer's option, the customer's bundled retail load will be exempted from Zonal Rates for the first five years of RTO operation. The Applicants have indicated that they will exercise this option. The costs of retail transmission service will be recovered directly from the retail ratepayers through their payment

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of base rate charges, and no revenues will flow through the RTO. Thus, for the first five years of operation, FPL, FPC, and TECO will pay Zonal Rates only for their wholesale use of the transmission system. They will, however, pay the Grid Management Charge, System Rate, and the ~~F.U.~~ TDU Adder applicable to their retail load during the initial five years. These are considered by the Applicants to be "incremental" costs subject to recovery from a retail load. Beginning in year six, the Applicants are required to pay for and receive transmission service for all loads (both retail and wholesale) pursuant to the OATT, just as any other transmission customer.

The ISO OATT also changed the definition of new facilities, which are now defined as those facilities put into service on or after January 1 of the first year of RTO operations, rather than January 1, 2001.

The Applicants state in the Executive Summary of their compliance filing that their proposal to exempt bundled retail load from Zonal Rates during a transition period has been adopted in other ~~IBOS~~ ISOs. Specifically, the Applicants state that "this approach has been adopted in other ~~IBOS~~ ISOs to address concerns over state jurisdiction, see Southwest Power Pool, 89 FERC, 61,284 at 61,889 (1999), and FERC recently reaffirmed that it finds such an approach acceptable, Midwest Index. Trans. System Operator, Inc., 98 FERC, 61,141 at 61,413 (2002) ('MISO')." In the MISO order, the FERC concluded that "because the existing agreements already provide for recovery of the costs of serving bundled retail and grand fathered customers, these transmission-owning members will be exempt, during the transition period, from rates under the Midwest ISO Tariff for services provided pursuant to the existing agreements . . ." (MISO Order, p. 10)

Mr. ~~Naive~~ Naeve, speaking on behalf of the Applicants, explained at the Commission workshop, that at the time of the original filing the companies believed that it was a FERC requirement under Order 2000 to charge retail load pursuant to an RTO tariff. Mr. ~~Naive~~ Naeve expanded by stating that "more recently, however, FERC has clarified what they intended in Order 2000, and in a Midwest ISO order FERC approved a phased-in approach in which bundled retail load initially would not be under the RTO tariff." (Transcript, p. 29)

~~F.U.~~ TDU Adder. The decision to exempt retail load from zonal charges resulted in the addition of a new charge to the OATT, the ~~F.U.~~ TDU Adder. A ~~F.U.~~ TDU is a utility that relies upon another utility's transmission system to integrate its generation and load. According to the Applicants, in peninsular Florida there are two ~~THUS~~ TDUs: Seminole and FMFA.

Seminole is a generation and transmission cooperative that provides wholesale power to its ten member retail cooperatives. Seminole uses the transmission systems of FPL and FPC to transmit power from its generation facilities to its members. Seminole also owns 270 miles of 230kV transmission lines and 140 miles of 69kV transmission lines.

FMFA is a wholesale joint action agency which supplies wholesale power and other project services to its municipal electric utility members. FMFA supplies the full requirements of 13 member municipal utilities and uses the transmission systems of FPC and FPL to serve this load from their generation resources. FMFA also owns approximately 350 miles of 230kV, 138kV, and 69kV transmission lines.

A significant area of dispute with regard to the formation of the RTO has been the manner and timing with which the transmission facilities of ~~THUS~~ TDUs will be included for recovery through the rates of the RTO. The ~~THUS~~ TDUs have contended that the costs of all their existing transmission facilities should be included for recovery in the Zonal Rates of the RTO from the outset. The timing of the recovery of these ~~F.U.~~ TDU costs is currently a subject of litigation at FERC.

The OATT offers ~~THUS~~ TDUs two options with regard to cost recovery of their existing transmission facilities through the RTO rates. The choice is a one-time election that must be made at the time the ~~F.U.~~ TDU joins the RTO. Under the first option, the ~~F.U.~~ TDU's existing facilities costs can be recovered through the Zonal Rates if they can demonstrate to FERC that the facilities:

1. Are integrated with the RTO transmission system;
2. Provide additional benefits to the system in terms of capability and reliability; and

3. Can be relied upon for the coordinated operation of the system.

Any facilities that FERC deems to have met these standards are included in the Zonal revenue requirement at the time FERC issues its order. Any facilities that do not meet the standard will not be included in the Zonal Rates.

Under the second option, ~~THUS~~ TDUs can elect to phase in their entire existing facilities costs into the Zonal Rates over the first five years of operation of the RTO, at the rate of 20% per year, without any demonstration that they are an integrated part of the transmission system.

As noted above, for the first five years of RTO operation, the Applicants have indicated that they will exempt their retail load from the payment of Zonal Rates. Because exempted retail load will not pay Zonal Rates, the RTO will not recover the full revenue requirement of the included ~~F.U.~~ TDU facilities. In order to remedy this problem, the Applicants have proposed a ~~F.U.~~ TDU Adder in the OATT that will be assessed on the exempted retail load (as well as the load of certain grand fathered contracts) for the first five years of operation to recover the retail load's share of the ~~F.U.~~ TDU facilities' costs. Beginning with year six of operations, the ~~F.U.~~ TDU adder will no longer be necessary because the retail load will then be required to pay Zonal Rates.

Cost Recovery. In its petition, the Applicants are seeking explicit Commission approval for recovery of the GMC, the System Rate, and the ~~F.U.~~ TDU Adder costs attributable to their retail load through the Commission's existing Capacity Cost Recovery Clause mechanism, beginning with year 1 of the RTO operations. The Applicants deem these costs to be incremental transmission costs that are not currently being recovered through base rate charges. In their response to staff's informal data request No. 25, submitted on May 6, 2002, the Applicants indicate that because these charges are incurred pursuant to a FERC-approved tariff, the Commission will not have the authority to deny their recovery.

Unlike the proposal contained in the Transco filing, the compliance filing contains no provision for determining the level of transmission costs that are being recovered through base rate

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charges. Thus, any growth in sales that occurs will serve to increase the level of recovery through base rates of transmission costs, even though the cost of new transmission facilities will be recovered through the System Charge, which the Applicants have proposed to recover through a cost recovery clause.

Intervenors' Comments

The comments of the intervenors regarding this issue are summarized below.

FMPA, in its Pre-Workshop Comments, states that "although FMPA preferred Applicants' original approach of placing all load under GridFlorida's rates, we do not object to the proposed rate exemption unless it becomes a platform for discriminating against the wholesale component of transmission." FMPA reiterated its position at the workshop and added that it is important that certain RTO costs be shared by the Applicant's retail customers. (Transcript, p. 84-85) At the Commission's workshop FMG supported the proposal to exempt retail load from zonal rates. (Transcript, p. 107)

OPC strongly objects to the Applicants' compliance filing, stating in its Post-Workshop Comments:

Acceptance of the compliance filing would mean that the Commission would only regulate the revenue requirement associated with the transmission component of bundled retail sales as it related to existing transmission facilities for five more years. Jurisdiction over the revenue requirement for new transmission assets would be ceded to FERC immediately. Today's Commission would diminish its own present range of authority and decide for another Commission five years in the future (and for the Legislature) that additional, more substantial elements of its statutory jurisdiction had come to an end. Thereafter, FERC alone would set the revenue requirement for the transmission component of bundled retail sales.

OPC further states in its Post-Workshop Comments:

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The Applicants' attempt to alter this regulatory regime and transfer jurisdiction to FERC must be rejected because the Commission cannot permit utilities over whom it exercises total retail authority to decide through voluntary action to lessen the Commission's jurisdiction over them.

Seminole, in its Pre-Workshop Comments, objects to the Applicants' proposal to exempt retail load from zonal pricing. Seminole states that "the effect of this new position by the Applicants is to renege on their commitment in their GridFlorida filing at the FERC 'to take (and pay for) transmission service under the GridFlorida transmission tariff for all of its load (both retail and wholesale).'"

FIPUG does not believe that recovery of any transmission costs should be allowed through a cost recovery mechanism. They assert that such costs should remain in base rates, and be considered just as any other base rate cost component.

Commission Oversight

In Order No. PSC-01-2489-EI, page 14, the Commission stated that "under an ISO model, where the ownership of transmission assets is retained by the individual retail-serving utilities, we believe this Commission would continue to set the revenue requirements needed to support retail transmission service and retain oversight over cost control and cost recovery." By exempting the retail load from Zonal Rates for the first five years of operation, the Applicants assert that the Commission will "have authority during the transition period to set each of the GridFlorida Company's revenue requirements for existing transmission facilities to support retail transmission service." The Applicants have not articulated how this Commission jurisdiction would be exercised.

Conclusion

While the Applicants' OATT allows the Commission to retain jurisdiction over the costs of the existing transmission system for a five-year period, the costs to the retail jurisdiction of any new transmission facilities (the System Charge), as well as the ~~F.U.~~

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TDU Adder and the GMC, will be determined by FERC from the outset. Beginning in year six, FERC will have exclusive control over all charges for both retail and wholesale transmission service. Staff believes it is premature at this time to decide whether the Applicants' proposal to phase in systemwide charges after year five of the RTO operation is appropriate. Staff agrees with FMG, who at the workshop supported a "wait-and-see" approach. FMG stated that "there is no reason that if we get to the end of a four- or five-year period and find that there needs to be a change, that it can't be, can't be sought at that point. . ." (Transcript, p. 119).

Based on the preceding analysis, staff does not believe the modified compliance filing provides for preservation of the Commission's jurisdiction over retail transmission rates and, therefore, does not comply with the Commission's December 20 Order. The Applicants should be directed to modify the GridFlorida compliance filing to recognize the Commission's continuing jurisdiction over the total cost of transmission service to retail customers. At the end of the initial five-year operation of the RTO, the Commission should review the transmission rate structure, given the operation of the RTO and the competitive market conditions in Florida.