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March 1, 2004

Ms. Blanca S. Bayo, Director  
Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Betty Easley Conference Center, Room 110  
Tallahassee, Florida 32399-0850

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Re: Docket No. 020233-EI

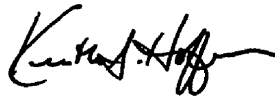
Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are an original and fifteen (15) copies of the GridFlorida Applicants' Draft Positions for the Pricing Issues Workshop to be held on March 17-18, 2004. Copies of the GridFlorida Applicants' Draft Positions were distributed on February 25, 2004 to all stakeholders who signed up to be on the GridFlorida E-mail Explorer List. Copies of the attached documents are again being served by electronic mail on all parties of record.

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

Thank you for your assistance with this filing.

Sincerely,



Kenneth A. Hoffman

AH/rl

Enclosures

cc: All Parties of Record, with enclosure  
FPL\bayo.020233ltr

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**Docket No. 020233-EI**  
**GridFlorida Applicants Draft Positions**  
**Pricing Issues Workshop - March 17-18, 2004**

**Issue No. 1 - Regional State Committee**

The Florida Public Service Commission (FPSC) shall serve as the Regional State Committee for Florida. The FPSC can perform the role of a Regional State Committee as GridFlorida is a single state RTO subject to delegation of authority by FERC if deemed necessary by FERC.

The FERC shall give substantial deference to the initial decisions made by the FPSC in regard to GridFlorida. The FERC shall have a high standard for overruling an initial decision of the FPSC such that there must be a clear abuse of discretion or clearly erroneous application of law.

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**Issue No. 2 - Jurisdictional Responsibilities (Pricing)**

All participating transmission owners (TO) (including investor-owned, municipal, and cooperative) will file their transmission revenue requirements with the FPSC for review and initial decision using the FPSC's methodology. Revenue requirements will be separately stated for existing facilities and new facilities (as will be determined in accordance with the demarcation dates for new facilities) such that GridFlorida can properly include facilities in zonal rates or system wide rates. GridFlorida shall provide its revenue requirements associated with the grid management charge and proposed rate design to the FPSC for review and initial decision.

GridFlorida's rates must be designed to recover the transmission revenue requirements of all TOs and the revenue requirements associated with GridFlorida's grid management charge. The grid management charge for GridFlorida shall include the annual operating costs for GridFlorida and a five-year amortization of the recovery of the start-up costs of GridFlorida. Consistent with GridFlorida's current pricing protocol, GridFlorida's rate design shall consist of (a) zonal rates, (b) system-wide rates and (c) a phase out of zonal rates in the sixth through tenth year. The FPSC shall have the opportunity to review and provide a final approval of the phase out of zonal rates prior to the end of the 5<sup>th</sup> year of commercial operations of GridFlorida.

GridFlorida and the TOs will revise the proposed rates and tariff in accordance with the initial decisions of the FPSC and will then file with the FERC for approval of its tariff. The TOs will be considered co-applicants in the filing before FERC. This filing will include separate details of each TO's revenue requirements that were incorporated into GridFlorida's rates.

All parties shall take transmission service from GridFlorida under its tariff. The GridFlorida pricing protocol will be revised to remove the current exemption for retail load. FPSC jurisdictional utilities shall be allowed to recover the incremental cost of taking GridFlorida service for its bundled retail load through recovery clause treatment (see Cost Recovery Concept section below).

Transmission owners shall have the exclusive, unilateral rights to make filings under Section 205 of the FPA in or relating to the establishment and recovery of the TO's transmission revenue requirements and the TOs collectively shall have the exclusive, unilateral rights to make filings under Section 205 of the FPA with regard to the rate design for their revenue requirements under the GridFlorida tariff, provided that the TOs are in agreement with any proposed rate design change. Such filing rights shall also encompass any provisions of the GridFlorida tariff governing the recovery of transmission related costs incurred by the TOs. GridFlorida shall have no such Section 205 rights with regard to TO facilities and costs. GridFlorida shall have the exclusive, unilateral right to make filings under Section 205 of the FPA regarding or relating to the tariff terms and conditions and the establishment and recovery of transmission revenue requirements and rate design for GridFlorida's facility charges, other than those portions of the tariff related to the recovery of transmission revenue requirements and rate design for TO facility charges. The TOs shall have no such Section 205 rights with regard to GridFlorida facilities and costs.

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The following table outlines the proposed decision making and approval process for GridFlorida:

<b>Decisions</b>	<b>GridFlorida</b>	<b>Transmission Owners</b>	<b>Other Stakeholders</b>	<b>FPSC</b>	<b>FERC</b>
Tariff Terms and Conditions Changes	<p>Initiates proposed change after consulting with stakeholders by seeking initial decision from the FPSC</p> <p>Files for final approval at FERC reflecting the FPSC's initial decision</p>	<p>Provides comments on changes prior to filings.</p>	<p>Provides comments on changes prior to filings.</p>	<p>Tariff terms &amp; conditions submitted to the FPSC for initial decision prior to GridFlorida filing for final approval at FERC</p>	<p>Approves tariff changes with deference to the FPSC's initial decision</p>
Rates and Revenue Requirements	<p>Files for rates dealing only with RTO facilities and grid management related services. Develops and files TDU adder or non-jurisdictional zonal rates from the revenue requirements or rates submitted by the non-jurisdictional TOs.</p> <p>Submits TO's changes to rates and rate design for those rates that recover the costs of more than one transmission owner's transmission facilities.</p> <p>Rates filed at FERC reflect the FPSC's initial decision.</p>	<p>Jurisdictional Transmission Owners: Initiates rate design and revenue requirement filings for transmission assets.</p> <p>Non-Jurisdictional Transmission Owners: submits revenue requirements/rates to GridFlorida for inclusion in their zonal rate or TDU adder.</p>	<p>Provide comments prior to filings.</p>	<p>Adjudicates decisions regarding rates and revenue requirements filings, subject to Florida Supreme Court review. The FPSC's initial decision is filed at FERC by GridFlorida in concert with TOs for approval which grants substantial deference to state decision.</p>	<p>Approves rates giving deference to the FPSC's decision.</p>

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<b>Decisions</b>	<b>GridFlorida</b>	<b>Transmission Owners</b>	<b>Other Stakeholders</b>	<b>FPSC</b>	<b>FERC</b>
Participant Funding Issues	<p>Changes to protocol fall under tariff changes above.</p> <p>Ongoing - Decides if a portion of directly-assigned upgrades for generation interconnections and other proposed investments benefit all customers of GridFlorida or should be participant funded</p>			<p>Participant funding cost allocations principles submitted to the FPSC prior to filing at FERC</p> <p>Cost allocation decisions made by GridFlorida in individual interconnection agreements or other agreements are submitted to the FPSC prior to filing at FERC</p>	<p>Approves the participant funding protocol and cost allocation principles with deference to the FPSC's decisions.</p> <p>Approves generator interconnection cost allocations and other PF cost allocation agreements when approving individual interconnection or upgrade agreements with deference to FPSC decisions</p>
Market Rules	<p>Changes to rules fall under tariff changes above</p> <p>Works with Market Monitor and FPSC on changes</p>			<p>Market rules submitted to the FPSC prior to filing at FERC</p>	<p>Approves market rule changes with deference to FPSC decisions</p>
Market Monitoring and Market Power Mitigation	<p>Changes to rules fall under tariff changes above</p> <p>Works with Market Monitor and FPSC on changes</p>			<p>Market monitoring and market power mitigation rules submitted to the FPSC prior to filing at FERC</p>	<p>Approves market monitoring and market power mitigation with deference to FPSC decisions</p>
Annual Transmission Plan	<p>Develops regional plan in accordance with GridFlorida's planning protocol</p>	<p>Provides individual plans to GridFlorida, works with GridFlorida to develop regional plan</p>	<p>Provides input during planning process.</p>	<p>Transmission plan submitted to the FPSC for final approval.</p>	N/A
Transmission Siting	<p>Co-applicant in Need Determinations with TOs</p>	<p>Need applications filed at the FPSC</p>	<p>Provides input during process if needed.</p>	<p>FPSC makes findings on determination of need.</p>	N/A

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**Issue No. 3 - Participant Funding Concept for GridFlorida**

Cost allocation, including participant funding, for new transmission facilities within GridFlorida should be in accordance with the following eight principles:

1. Consider the need to serve the network load customers of GridFlorida in an effective manner
2. Consider all of the benefits of the facility to all customers of GridFlorida and the need to maintain grid reliability
3. Encourage proper investment
4. Send appropriate price signals relative to the market
5. Be perceived as fair and equitable to transmission customers
6. Provide price certainty to investors and customers
7. Provide for ease of implementation
8. Participant funded projects will receive commensurate transmission rights

The GridFlorida pricing proposal satisfies the above principles in that it adopts a default cost allocation method of rolling in the costs of all standard transmission upgrades 69 kV and above into the system-wide rates charged by GridFlorida, recognizing that such facilities are needed and generally benefit all users. The GridFlorida pricing proposal also will incorporate "participant funding". The GridFlorida Transmission Expansion Plan, as well as the cost allocation plans, will be submitted by GridFlorida to the FPSC for its review

Further, the GridFlorida pricing proposal for "participant funding", or the direct assignment of costs, will be in accordance with the following parameters:

1. Generation Related Upgrades:
  - The costs of all new non-networked transmission facilities required to interconnect a generator will be allocated to that generator.
  - The costs of networked transmission facilities required to interconnect a generator that is designated by a network customer of GridFlorida to meet its installed capacity requirements will be rolled into the system-wide rates charged by GridFlorida. GridFlorida will develop criteria for meeting installed capacity requirements to qualify for rolled in treatment.
  - The costs of all networked transmission facilities associated with the interconnection and integration of a generator will be funded and paid for by the generator to the extent such costs would not have been incurred but for the interconnection and do not meet the criteria for rolled in treatment.
2. Elective and Merchant Transmission Upgrades: Such upgrades include transmission projects built to GridFlorida construction standards but that are not nor will they be included in an approved GridFlorida regional transmission expansion plan. The funding and costs of such upgrades will be the responsibility of the party proposing such upgrades.
3. Enhanced Facility Upgrades: The GridFlorida proposal incorporates direct assignment of costs for non-standard or "enhanced" facilities where a participant proposes to build facilities designed to meet higher standards than those developed by GridFlorida.

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**Issue No. 4 - Cost Recovery Concept for GridFlorida**

The Applicants expect to seek cost recovery of any incremental costs (e.g. Grid Management Charge, the System Rate, or the TDU Adder costs allocated to retail load) through the retail Capacity Cost Recovery Clause mechanism, beginning with year one of GridFlorida operations. The Applicants deem costs such as these to be incremental transmission costs that are not currently being recovered through base rate charges and are thus costs that would appropriately be recovered through the Capacity Cost Recovery Clause.

While the Applicants have not developed a provision for determining the level of transmission costs that are currently being recovered through base rate charges and thus not subject to clause recovery, they believe it is premature to do so for a future GridFlorida implementation date – particularly since it is not clear what the status of each company’s base rates will be in at that time and the status for the companies may not be the same.

Cost recovery is also contingent on how transmission service for retail will be treated in GridFlorida after the first five year period given the Commission’s statement in Order No. PSC-02-1199-PAA-EI (“At the end of the initial five-year operation of the RTO, we shall review the transmission rate structure, given the operation of the RTO and the competitive market conditions in Florida.”)

For purposes of the first five year period, the Applicants remain convinced that cost recovery through the Capacity Cost Recovery Clause for incremental costs associated with transmission service for retail load is appropriate.

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**Issue No. 5 - Cut-off Dates for Existing Transmission Agreements and Facilities**

The Applicants have differing views on the issue of the appropriate cut-off dates for existing transmission agreements and facilities. Tampa Electric and Florida Power & Light stand by the position as described in the testimony of William R. Ashburn filed on September 27, 2002 in this docket while Progress Energy, Florida stands by the position as described in the testimony of William C. Slusser, Jr. filed on that same date in this docket.

Positions as articulated in those testimonies:

**Progress Energy:**

New Facilities Date -	December 31, 2000
Existing Transmission Agreements Date -	December 15, 2000

**Tampa Electric and Florida Power & Light:**

New Facilities Date -	January 1 of the year GridFlorida begins commercial operations
Existing Transmission Agreements Date -	January 1 of the year GridFlorida begins commercial operations

**PAA Decision by FPSC (reconsideration pending):**

New Facilities Date -	January 1 of the year GridFlorida begins commercial operations
Existing Transmission Agreements Date -	December 15, 2000



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**Issue No. 6 - Mitigation of Short-Term Revenues Concept for GridFlorida**

The method for mitigating loss of short-term revenues has been established in the GridFlorida filings and approved by the FPSC in Order No. PSC-02-1199-PAA-EI in Docket No. 020233-EI. Attachment T of the tariff states that:

Participating Owners that lose short-term wheeling revenue due to the elimination of pancaked rates shall be compensated for such loss through payments by the Transmission Provider out of revenues received by the Transmission Provider for short-term Firm and Non-Firm Point-to-Point Transmission service. The loss of revenue for each Participating Owner shall be calculated using a base year amount of revenues from short-term Inter-Zonal service. The base year shall be the year prior to January of the year the Transmission Provider begins commercial operations. The Transmission Provider shall make payments to each Participating Owner for its base year amount in declining increments (by 20 percent per year) over the first five Tariff Years. If such revenues are insufficient in any Tariff Year to make such payments, the unfunded amounts shall be carried over and paid out of revenues in subsequent Tariff Years (but not to exceed Tariff Year 5).

Certain parties have advocated that this method be revisited, and the Applicants are willing to review any suggested alternatives proposed by existing or prospective stakeholders. However, any alternative proposal should be judged according to whether it 1) achieves the same benefits the Commission attributed to the current proposal in Order PSC-02-1199-PAA-EI, 2) satisfies the needs of the Applicants and other stakeholders and 3) treats all participants on a level playing field.

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**Issue No. 7 - Review of Current Regulatory / Legislative Environment**

The Applicants will be prepared to discuss the current regulatory/legislative environment as it relates to the development of GridFlorida at the pricing issues workshop.

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**Issue No. 8 - Continued Review of RTO Costs and Benefits**

The Applicants will be prepared to discuss the appropriate steps to be taken to address the review of costs and benefits at the pricing issues workshop.