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From: on behalf of Filings@psc.state.fl.us  
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 Subject: RE: Docket No. 020233-EI, FIPUG's Response to Applicants' Draft Positions Market Design Issues

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-----Original Message-----

From: Flora Taylor [mailto:ftaylor@mac-law.com]  
 Sent: Thursday, May 13, 2004 4:20 PM  
 To: Filings@psc.state.fl.us  
 Cc: Vicki Gordon Kaufman; Jennifer Brubaker  
 Subject: Docket No. 020233-EI, FIPUG's Response to Applicants' Draft Positions Market Design Issues

Submitted for electronic filing is FIPUG's Response to Applicants' Draft Positions Market Design Issues in Docket No. 020233-EI. The document has 8 pages.

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## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of GridFlorida  
Regional Transmission  
Organization Proposal

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Docket No. 020233-EI

Filed: May 13, 2004

**FIPUG's Response to Applicants' Draft Positions  
Market Design Issues**

The Florida Industrial Power Users Group (FIPUG) provides its responses to the Issues raised in Staff's memorandum of April 6, 2004, Market Design Issues, and comments on the Applicants' filing.

**Issue 1: Market design and congestion management**

The Applicants' numerous sub-issues, set out in their Issue Matrix, are illustrative of the many complex issues that must be addressed in attempting to arrive at a workable and appropriate market design. In devising the appropriate market design, the Commission must ensure that all market participants have equal access to the market, so that the market is not skewed to the benefit of those with market power. The ultimate goal of any market design should be to provide lower cost service to retail end users. The market design selected must protect retail consumers from the potential for market manipulation which will result in the assessment of unreasonable charges to end users.

It is currently unclear what pricing mechanism, if any, the Applicants propose. FIPUG supports the "get what you bid" approach previously approved by the Commission.<sup>1</sup> As the Commission noted, the "get what you bid" approach is preferable, at least at this point in time, to protect retail ratepayers.<sup>2</sup> The Commission said: "[W]e think that the "get what you bid" alternative is preferable for all transactions until the

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<sup>1</sup> Order No. PSC-02-1199-PAA-EI.

<sup>2</sup> *Id.* at 69.

GridFlorida Companies can demonstrate that sufficient participants exist and that localized market power has been adequately addressed."<sup>3</sup> Nothing has changed since the Commission made these pronouncements.

FIPUG continues to be concerned with suggestions that a market clearing price should be used. Such a mechanism has the potential to harm retail consumers. It may permit purchasing utilities to flow through high price wholesale purchases to retail customers and provides no incentive for the construction of new capacity. Such perverse incentives are inconsistent the Commission's statutory mandates in section 366.04, Florida Statutes. As FIPUG has previously noted in this docket, until market power is eliminated and all bidders submit market-based bids, the Commission must protect retail customers from higher rates which have the potential to result from the market clearing mechanism.

In addition, FIPUG is opposed to locational marginal pricing (LMP) as it will lead to higher prices for consumers in areas where capacity is constrained. LMP will not be viable until there is a viable wholesale market, including independent power producers, and all participants have equal access to the transmission grid.

### **Issue 2: Market power monitoring and mitigation**

It is critical that strict market power monitoring and mitigation procedures be in place for GridFlorida. FIPUG recommends that the Florida Public Service Commission assume that role. The Commission has the authority to do so pursuant to the Grid Bill. As the Commission noted in Order No. PSC-02-1199-PAA-EI at 72: "... the Grid Bill, provides this Commission with jurisdiction over, among other things, the planning,

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<sup>3</sup> Order No. PSC-02-1199-PAA-EI at 69.

development, and maintenance of a coordinated electric power grid throughout Florida." The role of market monitor enable the Commission to carry out its statutory obligations. To protect retail ratepayers and ensure an adequate transmission grid and power supply to end users, the Commission must be actively involved in market activities. It can best do this in the role of an independent market monitor.

As market monitor, the Commission must ensure that it has the authority and ability to act quickly to correct market abuses. Thus, it must do more than simply "monitor" and report. It must be able to take action to curb any abuses it uncovers.

### **Issue 3: Resource adequacy**

Pursuant to the Grid Bill, the Commission has clear jurisdiction to ensure that capacity and transmission resources are adequate to serve Floridians. The Commission should continue to exercise and enforce this authority.

### **Issue 4: Treatment of capacity benefit margin**

For the reasons discussed in Issue 3, the Commission has authority to establish and evaluate the capacity benefit margin. The Commission should not permit undue reliance of one utility on the resources of another.

### **Issue 5: Continued review of RTO costs and benefits**

At the prior workshop, Applicants presented a proposal by ICF to study the cost and benefits of a Florida RTO. Applicants volunteered to "fund" the study, but when pressed noted that such "funding" would be recovered from ratepayers through GridFlorida's start up costs. No cost for the study was provided but this is information which should be made available before the study goes forward.

Substantively, if the study proceeds, it is critical that appropriate assumptions, which reflect conditions in Florida, be used. As just one example, the ICF proposal notes: "All cases will assume rational and competitive markets."<sup>4</sup> This currently is not the case in Florida and will not be the case until there are major reforms and such reforms have had time to be reflected in the wholesale market (note the inability of independent power producers to build capacity in the state of Florida). Any study that "assumes" these conditions will be biased from the outset and of no value.

As FIPUG noted at the first workshop, it does not appear that any analysis is being done to assess the costs and benefits that the RTO will visit upon retail ratepayers, who will ultimately pay for the RTO's start up and operation, despite the fact that the ICF materials note that ICF will "conduct an independent analysis of the cost and benefits of forming an RTO on peninsular Florida."<sup>5</sup> In determining costs and benefits, the effect on retail ratepayers must be determined.

ICF should analyze the transmission revenues embedded in retail rates versus the new rates which should be defined as the sum of the zone rates. ICF must also analyze the RTO's O&M costs and any RTO start up costs related to the RTO's creation. ICF should include an analysis of how much retail rates will be reduced so that ratepayers do not pay for the same transmission facilities twice.<sup>6</sup> Only if this type of analysis is provided can costs and benefits truly be assessed. FIPUG urges that either the Staff or ICF conduct such an analysis before the RTO goes forward.

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<sup>4</sup> March 18, 2004 ICF Proposal at 12.

<sup>5</sup> *Id.* at 9.

<sup>6</sup> ICF provided a "Project Description" on May 7, 2004. It does not appear that FIPUG's concerns are addressed.

**Issue 6: Review of current regulatory/legislative environment**

No comment at this time.

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## CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that a true and correct copy of the foregoing FIPUG's Response to Applicants' Draft Positions Market Design Issues has been furnished by electronic mail (\*) and U.S. Mail to the following this 13<sup>th</sup> day of May 2004:

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