



Florida Municipal Power Agency

ORIGINAL

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Associate General Counsel

BY HAND DELIVERY

May 28, 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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ENED-FPSC

**Re: PSC Docket No. 020333-EI
Joint Comments of Florida Municipal Power Agency
and Seminole Electric Cooperative, Inc.
Post GridFlorida Market Design Issues Workshop**

Dear Ms. Bayo:

Please find enclosed for filing in the above-referenced matter one (1) original and fifteen (15) copies of the Joint Comments of FMPA and Seminole Electric Cooperative as follow-up to the GridFlorida Market Design Issues Workshop, May 19 – 21, 2004. The Comments have been distributed to all stakeholders via the GridFlorida E-mail Exploder List.

Also enclosed is a Filing Verification. Please acknowledge receipt in the space indicated and return the same to my office.

If you have any questions or need clarification, please do not hesitate to contact me.

Very truly yours,

Jody Lamar Finklea
Associate General Counsel

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cc: Parties of Record

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Docket No. 020233-EI

**Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency
Post-Workshop Comments Regarding Market Design
May 28, 2004**

Given the outcome of the truncated May 19, 2004 workshop, which was largely a result of the Applicants' inability to present positions on key market design issues, Seminole Electric Cooperative, Inc. ("Seminole") and the Florida Municipal Power Agency ("FMPA") have nothing substantive to add to the written materials submitted by them on May 13 and their oral presentations at the May 19 workshop. Seminole/FMPA understand that the Applicants are attempting to reach consensus on the various market design issues, and when/if that is accomplished, they will inform the participants of the details of such agreement, at which time the participants will be afforded the opportunity to respond. In view of the foregoing, these comments will be limited to observations/suggestions regarding the ICF Cost-Benefit Analysis of GridFlorida ("ICF study") being sponsored by the Applicants.

First, Seminole/FMPA strongly suggest that the outcome of the ICF study be shown on a per load serving entity basis and not simply aggregated to show the impacts on jurisdictional versus non-jurisdictional entities. Seminole/FMPA see no benefit to such an aggregation, and the downside is that it suggests that the FPSC should be swayed by such a demarcation, versus overall costs/benefits to ultimate consumers in the State.^{1/} Further, all players should have an understanding as to the potential costs/benefits of moving to an RTO so that they can better assess their own positions. Seminole/FMPA understand that breaking down the impact by customer may involve some additional costs, but frankly are hard-pressed to believe that the incremental cost would be significant. Indeed, as we explained at the workshop, no new "runs" are required; providing results for individual LSEs is simply a matter of publishing information that is necessarily included in the detailed study results, which the Applicants evidently have planned to retain for their own use. Finally, regardless of the additional cost involved, Seminole/FMPA believe that this output data is sufficiently important that it needs to be produced.

Second, a representative working group needs to be assembled as soon as possible. This working group would discuss the key assumptions for the models (see, for example, items fifth and sixth, below) and would obtain and provide inputs on how the models would be run. As noted by various participants at the workshop, ICF has not sought certain input data that one would have thought would be essential to develop the base case forecast (such as details of purchased power transactions with energy pricing or from units with use limitations, etc). Seminole/FMPA anticipate that at least two face-to-face meetings would be required, so time is

^{1/} The FPSC was established "for the protection of the public welfare," and its organic statute directs that its authorities are to be construed "for the accomplishment of that purpose." Fla. Stat. § 366.01. The public welfare, of course, includes the welfare of all Floridians, whether or not their electricity supplier's rates are regulated by the FPSC.

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of the essence. This working group would also review and discuss the results of the ICF study in detail.

Third, the cases which reflect LMP should be run using both average and marginal losses so that the impact of the two approaches can be measured. If only one approach is used, it should be average losses. Clearly, any proposal to change from the established use of average losses to the use of the more complex and highly contentious marginal losses requires an analysis showing the cost shifts that would be experienced by such a switch.

Fourth, it is extremely important that one of the published results of the ICF study be an identification of the transmission constraints in Florida and their impacts on pricing if an LMP regime is adopted. Many participants both in this proceeding and in RTO proceedings in other areas of the country have noted (correctly) the importance of having adequate infrastructure in place preceding the implementation of LMP to avoid inflicting substantial congestion costs on unsuspecting LSEs and to ensure that there will be sufficient FTRs available on a simultaneously feasible basis to support at least all existing firm uses on the transmission system. Thus, it is imperative that Floridians understand where congestion exists (or may exist during the period of the study) so that proper assessments can be made regarding infrastructure issues in the context of a congestion management scheme.

Fifth, Seminole/FMPA need to understand the specifics of how ICF intends to utilize the hurdle rates to model pancaked transmission in the base case in order to determine whether they accurately reflect what actually happens in Florida. The ICF documents indicate that ICF will apply the hurdle rates every time a transaction crosses two control areas. This may produce misleading results in light of the use of network service in individual control areas and the historical construction of transmission by transmission-dependent LSEs to avoid pancaked rates. In addition, fixed hurdle rates based on a single historical year need to be scrutinized in light of forecast assumptions for new generation and transmission investment. These are the types of issues that need to be discussed by the working group, to the benefit of all interested parties and ICF.

Sixth, Seminole/FMPA assume that ICF will be relying to some extent on the Load and Resource Plan (“LRP”) as developed through the FRCC. The LRP is the aggregation of individual utility’s 10-year site plans. Lessons learned from the FRCC working group efforts in gathering such data include:

- Need to eliminate double counting of resources by utilities;
- Because control areas may peak at different times, unless hourly load information is used, the forecasts are not additive;
- The LRP ignores non-committed merchant units;
- Difficulty in sorting out interchange between control areas;
- Inconsistent load growth and generation assumptions. Some utilities hold their

forecast constant after five years; others forecast load growth and unspecified resources to meet such load growth. .

ICF states its intention to use the FRCC's Transmission Load Flow Data Bank. But even here, the utilities have differences in their methods for rating of transmission lines. These are items that could be productively discussed during the working group sessions.

Seventh, Seminole/FMPA believe that the Applicants need to keep an open mind about running cases other than those set forth in the ICF project description.^{2/} Seminole/FMPA understand that there are cost factors to consider here, but once a suitable model is developed, running additional cases will likely not involve substantial additional costs. And this is particularly true if the suggestion of forming a working group is accepted, as such a working group will likely generate productive insights at an early stage, which will minimize the costs of generating later change cases.

Finally, Seminole/FMPA wish to stress that the above suggestions are intended to be constructive. While Seminole/FMPA have their reservations about the ICF study (as, for example, it will not capture many of the qualitative benefits of a Basic RTO), they nevertheless believe that there are many benefits to be gained from such a study if the Applicants take an open, inclusive approach to the modeling of the study. Thus, Seminole/FMPA urge the Applicants to adopt the suggestions above and others that may be made that will result in a more useful end product.

^{2/} Seminole/FMPA question the value of running a separate case for SMD in addition to the case for Applicants' September 19, 2002 proposal. While there may be some differences between the two (e.g., with regard to FTR allocation), we would not expect these differences to be significant or particularly informative. The savings obtained by eliminating the SMD case could be used to pay for one or more other cases of more interest.