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July 14, 2004

VIA HAND DELIVERY

Ms. Blanca S. Bayó, Director
Division of Commission Clerk and
Administrative Services
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

*Re: Docket No. 020233-EI; Calpine Corporation Post Workshop Comments Regarding ICF
Cost Benefit Study.*

Dear Ms. Bayó:

Enclosed for filing please find one (1) original and fifteen (15) copies of the Calpine Corporation Post Workshop Comments Regarding the ICF Cost Benefit Study, submitted for filing in the above-referenced docket. Please also find the enclosed diskette, containing the electronic version of the Filing in Word format. Copies of this letter and the Calpine Corporation Comments are being distributed via E-mail on this same date.

Please acknowledge receipt of this document by time/date stamping the enclosed additional copy of the Filing, as indicated.

Very truly yours,


Leslie J. Paugh

Enclosures: Comments (original and 15 copies)
Diskette

DOCUMENT NUMBER-DATE
07631 JUL 14 2004
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of GridFlorida Regional)
Transmission Organization (RTO) Proposal)
_____)

Docket No. 020233-EI
Filed: July 14, 2004

**Calpine Corporation Post Workshop Comments
Regarding the ICF Cost Benefit Study**

- 1.) The substantial benefits of integrated planning of transmission system expansion and generation resource additions, which result from RTO formation, need to be quantified as part of this study in order for the results to be comprehensive.**

One of the many benefits of an RTO is the efficiency gained in the planning of transmission expansion and generation resource additions to the system on a system wide coordinated basis. Under an RTO regime implementation, system wide expansion evaluations (Day 1 and Day 2) and price signals (Day 2) will indicate where transmission expansion and system upgrades are required to serve the aggregate of peninsular Florida consumers most efficiently. These system wide expansion evaluations and price signals also provide indications as to the best locations within the system for the addition of new generation sources. Without these types of system wide expansion evaluations and price signals, transmission system expansion and generation additions will continue to be done on a balkanized utility by utility basis with less than optimum system efficiency.

ICF, the Applicants and other stakeholders expressly recognized during the June 23 Cost Benefit Work Group meeting that there was value and benefit of integrated transmission expansion and generation addition system wide planning associated with an RTO. However, it was stated that there would be qualitative recognition of this value in the final report rather than a quantitative valuation of this benefit. For the Commission to fully evaluate the benefits of GridFlorida, the value of this integrated planning must be quantified.

One method of quantifying this benefit is through a "back-cast". Utilizing historical information, ICF can determine how the system performed historically and establish a baseline. ICF can then model the system for that same period of time with an RTO in place and Day 2 activities implemented. The delta would be the value that is created by the RTO formation and the more efficient transmission expansion and generation additions.

Another method is to quantify the value historically based on what has occurred in other RTO/ISO markets and to establish a projected benefit rate that would be added to the resultant benefit analysis from the study. Although this would represent an

assumption it is arguably as reliable as any other assumption imbedded within the study (load growth, environmental costs, retirement expectations, etc.).

2.) Environmental regulations proposed by the EPA must be modeled.

The EPA has issued proposed rules for SO₂, NO_x and Mercury (Hg). While the current ICF assumptions document acknowledges SO₂ and NO_x emissions costs, the study as currently proposed does not recognize future Hg regulation. Given that the EPA has proposed rules for Mercury regulation, it is reasonable and appropriate to model this future Hg regulation. It is Calpine's belief that ICF can make some reasonable assumptions regarding Hg allowance costs and this will provide the Commission with a more accurate representation of the future. Calpine recognizes that there may still be some debate over which proposed rule will be applicable. However, for this study to be accurate, there must be some recognition of the impact of Hg regulation on future fuel use, given that coal generation represents approximately 30% of the energy that will be consumed within the GridFlorida footprint.

3.) RMR designation may only be granted for those facilities that provide voltage support and facilities granted this status must be disclosed.

As currently contemplated by the ICF Cost Benefit Study, Reliability Must Run (RMR) status is self designated in the data collection process and then is to be reviewed on a case-by-case basis by ICF to determine if RMR status is applicable. RMR status can only be granted to those facilities providing voltage support. If RMR status is extended beyond voltage support, and if such status is not independently verified as supported by contract, the results of the study may be skewed by the resulting change in the order of economic merit for purpose of modeling a security constrained dispatch regime.

4.) The operational scope and operating parameters of GridFlorida have not been defined for study purposes. These factors will determine the likely RTO configuration and cost, and their lack of definition in the ICF assumptions represents a significant shortcoming in the present study description.

Calpine reserves the right to provide future comment when this information is made available.

5.) The development and operating costs of the fully functioning RTO are critical elements of the study that have yet to be defined.

The development and operating costs of the GridFlorida RTO Day 1 and Day 2 structures have not been defined or costed out. These costs will have a determining

impact on whether the benefits of the RTO will outweigh the costs. It is therefore essential that ICF publish the detailed assumptions of what will be modeled as a Day 1 and Day 2 RTO operational system structure and market structure, as well as the timeline that is being modeled to arrive at Day 2 operational status. The Applicants and stakeholders should have an opportunity to review and comment on such assumptions. The detailed assumptions will need to address, inter alia, issues such as:

- Operational and market administration responsibilities of GridFlorida;
- Whether the RTO will be created through a competitive procurement process or by secondment of staff from Applicants' bulk power operations offices;
- Whether the RTO structure will mimic currently existing structures such as NE-ISO, PJM Interconnection, MISO, or whether other models such as the SE-Trans ISA will be pursued;
- Whether the RTO will be expected to assume control of the grid from an existing or from a newly constructed control center;
- Whether cost containment processes will be embedded in the RTO creation;
- Whether the necessary software for the market structure will be adapted from existing market structures or newly developed;
- Whether there is expected to be consolidation of control centers and timing of such consolidation;
- Whether a subsequent cost benefit study of locational marginal pricing will be performed prior to moving to the Day 2 market structure, in order to pre-determine and manage the cost shifts inherent to initiation of LMP markets.

Due to the criticality of this input to the study, Calpine reserves judgment on the readiness of ICF to proceed with the next phase of the study and related model runs.

If, as ICF has stated, these structural parameters to the study will be determined by simply assuming the developmental/operating costs of existing RTOs, Calpine believes that the results will be heavily weighted against a derivation of benefits for GridFlorida. If, on the other hand, ICF were to model multiple structures, including a competitively procured ISA-modeled structure, the resulting benefits would likely be substantially different; they would reflect the ability of GridFlorida to learn from the mistakes of others, and would also respect the thesis that GridFlorida can be constructed to reflect local requirements and conditions.

6.) A review of the outstanding inputs for the Cost Benefit Study needs to take place prior to ICF running the models and issuing the report.

Due to the number of outstanding items and inputs needed for the study, Calpine recommends that ICF present detailed definitions and assumptions on all the outstanding model inputs to the stakeholders and the Commission prior to running the model. A review of these items will help ensure the accuracy of inputs and credibility of the results.

- 7.) **There appears to be some inconsistency between the load forecasts provided in the ICF assumptions document and the NERC load forecast for FRCC.**

ICF should provide a brief explanation as to why this discrepancy exists.

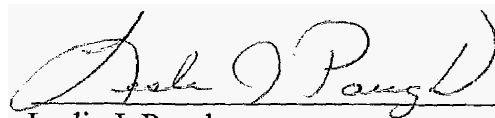
- 8.) **The flowgates identified in the ICF assumptions document should not be limited as proposed by ICF. Instead, the given line loadings and their respective limits should be used to determine where and when constraints exist.**

RW Beck, on behalf of Seminole, has suggested that by limiting the flowgates the system will not be modeled appropriately. To more accurately identify the overloads or congestion, the flowgates should be left unconstrained in the model and the line limits will be the governing factor in congestion and overloads.

- 9.) **The modeling of generation resource additions needs to be clarified.**

It is Calpine's opinion that generation additions under the RTO, should be identified by the model rather than utilizing individual utility's generation expansion plans (10-Year Site Plans). This method would yield the best siting of the generation additions, and will also demonstrate the value of comprehensive generation planning for the entire GridFlorida versus each utility estimating their expansion and generation needs.

Respectfully submitted this 14th day of July, 2004.



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