State of Florida

Public Service Commission

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

DATE: March 23, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Office of Strategic Analysis and Governmental Affairs (Buchan) JWB BPB
Division of Economic Regulation (Trapp, Ballinger)
Office of the General Counsel (Brubaker)

RE: Docket No. 020233-EI – Review of GridFlorida Regional Transmission Organization (RTO) Proposal.

AGENDA: 04/04/06 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Arriaga

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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

Case Background

This recommendation addresses a motion filed by FPL, PEF, and TECO asking that the docket be closed.

History of the Docket

In December 1999, the Federal Energy Regulatory Commission (FERC) issued Order No. 2000, which required all public utilities that own, operate, or control interstate transmission facilities to file by October 16, 2000, a proposal to form or participate in a regional transmission organization (RTO). An RTO is an independent entity that manages or operates the transmission portion of the electric supply system. The FERC intended the RTOs to provide more equitable and easier access to power lines that cover a large geographical area or multiple states. In

response to FERC Order No. 2000, Florida Power Corporation, now known as Progress Energy Florida, Inc. (PEF), Florida Power & Light Company (FPL), and Tampa Electric Company (TECO) (collectively, the Applicants or GridFlorida Companies) developed a Peninsular Florida RTO proposal referred to as GridFlorida.

On October 3-5, 2001, the Commission initiated and held an evidentiary hearing in Docket Nos. 000824-EI, 001148-EI, and 010577-EI to determine the prudence of the formation of and the Applicants participation in the proposed GridFlorida RTO. As a result of the hearing, the Commission issued Order No. PSC-01-2489-FOF-EI on December 20, 2001[1]. Based on the evidence in the record, the Commission found that a Peninsular Florida RTO was more appropriate for Florida's utilities and ratepayers than a larger, regional RTO. Further, as a policy matter, the Commission noted its support for the formation of an RTO to facilitate the development of a competitive wholesale energy market in Florida.

The Commission also found in Order No. PSC-01-2489-FOF-EI, that the Applicants were prudent in proactively forming GridFlorida. The Applicants were ordered to file a modified RTO proposal that conformed the GridFlorida proposal to the findings of the Order and used an independent system operator (ISO) structure in which each utility maintains ownership of its transmission facilities. A new generic docket, Docket No. 020233-EI, was opened to address the modified proposal. The following parties intervened in this docket: Florida Municipal Group (FMG), which is comprised of Lakeland Electric, Kissimmee Utility Authority, Gainesville Regional Utilities, and the City of Tallahassee, Florida; Florida Municipal Power Agency (FMPA); JEA; Mirant Americas Development, Inc., Duke Energy North America, LLC, Calpine Corporation, and Reliant Energy Power Generation, Inc. (Joint Commenters); Reedy Creek Improvement District (Reedy Creek); Seminole Electric Cooperative, Inc. (Seminole); Seminole Member Cooperatives (Seminole Members); Trans-Elect, Inc. (Trans-Elect); Florida Industrial Power Users Group (FIPUG); and the Office of Public Counsel (OPC).

The Applicants filed a modified proposal (compliance filing) on March 20, 2002. The Commission held a workshop to discuss the compliance filing on May 29, 2002. Parties to this docket were provided the opportunity to file pre-workshop and post-workshop comments and to participate in meetings and conference calls regarding the compliance filing. As a result of comments at the workshop, the GridFlorida Companies modified certain aspects of the compliance filing. These changes (modified compliance filing) were filed on June 21, 2002.

On September 3, 2002, the Commission issued Order No. PSC-02-1199-PAA-EI[2], which determined by final agency action GridFlorida's compliance with Order No. PSC-01-2489-FOF-EI, and directed the GridFlorida Companies to file petitions and testimony addressing the RTO's

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[1] Order No. PSC-01-2489-FOF-EI, issued December 20, 2001, in Docket No. 000824-EI, In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light; Docket No. 001148-EI, In re: Review of the retail rates of Florida Power & Light Company; Docket No. 010577-EI, In re: Review of Tampa Electric Company and impact of its participation in GridFlorida, a Florida Transmission Company, on TECO's retail ratepayers.

[2] Order No. PSC-02-1199-PAA-EI, issued September 3, 2002, Docket No. 020233-EI, In re: Review of GridFlorida Regional Transmission Organization (RTO) Proposal.

market design. The RTO market design was intended to establish the organizational platform to facilitate wholesale energy transactions. The market design addresses issues such as standardized and impartial rules, creating various markets for transmission and generation services, and development of oversight mechanisms to identify activities abusive to the functioning of wholesale markets. Order No. PSC-02-1199-PAA-EI also issued as proposed agency action (PAA) specific changes to the GridFlorida compliance filing. Several protests and requests for hearing were filed with respect to the PAA portions of Order No. PSC-02-1199-PAA-EI.

Also at the August 20, 2002, Agenda Conference, the Commission decided to conduct an expedited evidentiary hearing on the merits of a revised GridFlorida market design proposal. Accordingly, by Orders No. PSC-02-1177-PCO-EI and PSC-02-1251-PCO-EI, issued August 29, 2002, and September 11, 2002, respectively, the market design and protested PAA issues in this docket were scheduled for an expedited administrative hearing on October 31, 2002.

On October 3, 2002, OPC filed a notice of administrative appeal of Order No. PSC-02-1199-PAA-EI to the Florida Supreme Court. By Order No. PSC-02-1475-PCO-EI, issued October 28, 2002, the Commission abated the hearing pursuant to Rule 9.310(b)(2), Florida Rules of Appellate Procedure, which provides that the timely filing of a notice of appeal shall automatically operate as a stay pending review when the state, any public officer in an official capacity, board, commission or other body seeks review.

On June 2, 2003, the Florida Supreme Court issued an order stating that it was opposed to "piecemeal review" of single orders, especially when, as in Order No. PSC-02-1199-PAA-EI, the final and non-final issues are intertwined, Citizens v. Jaber, 847 So. 2d 975 (Fla. 2003). Therefore, OPC's case was dismissed without prejudice to any party to bring a challenge to Order No. PSC-02-1199-PAA-EI after all portions are final.

On September 15, 2003, the Commission hosted a FERC Technical Conference concerning Florida's perspective on FERC's RTO and standard market design (SMD) initiatives. This technical conference provided the Commission, as well as Florida market participants and other interested persons, a forum to discuss, with FERC Commissioners and staff, FERC's wholesale power market design proposals in anticipation of its final rules on SMD.

As a follow-up to the FERC meeting, the Commission issued Order PSC-03-1414-PCO-EI on December 15, 2003, establishing three stakeholder workshops to clearly define the remaining issues in this docket. Those workshops would focus on pricing, market design, and any remaining issues. Included within the issues list for the pricing and market design workshops was an issue addressing to what extent would a Florida RTO produce benefits in excess of its start-up, development, and operating costs.

In order to provide objective and specific costs and benefits to be incurred by GridFlorida, in late 2003, the Applicants hired ICF Consulting to work with all the utilities within Peninsular Florida and gather the necessary information. Numerous workshops, interim reports, and comments cycles were provided in advance of the final Cost-Benefit Study of the Proposed GridFlorida RTO which was released on December 12, 2005.

The ICF Cost-Benefit Final Report concludes that the prospect of a basic Day-1 RTO operation[3] as proposed are "bleak," with the Peninsula Florida costs exceeding the Peninsula Florida benefits by over $700 million over the three year operating period. Under a more advanced Day-2 RTO operation[4], ICF concludes that the total project benefits are a negative $285 million in Peninsular Florida over the ten year operating period. However, ICF points out there is the potential by year 13 for GridFlorida's operations benefits to equal its costs.

On January 27, 2006, the Applicants filed with the Commission a Motion to Withdraw Compliance Filing and Petition and to Close Docket. In this motion, the Applicants ask to withdraw the GridFlorida Compliance filing made on March 20-21, 2002, and the September 19, 2002, Petition of the GridFlorida Companies regarding Prudence of GridFlorida Market Design Principles and request that the Commission close Docket No. 020233-EI.

On February 13, 2006, the Florida Municipal Power Agency (FMPA) and Seminole Electric Power Cooperative (Seminole) filed a statement in opposition to the Motion to Withdraw. These parties asked the Commission to deny the motion to withdraw, order an investigation into this docket, or open a new docket to examine an alternative proposal that was filed with the Commission on August 22, 2005, and to investigate the existing GridFlorida RTO.

In response to the Opposition filed by FMPA and Seminole, the Applicants filed a Response in Opposition, providing more information on why the Petition should be withdrawn and the docket closed. Further, they addressed the points raised by FMPA and Seminole. On that same day, PEF filed supplemental information addressing one particular point raised by FMPA and Seminole. On March 14, 2006, FMPA and Seminole filed an "Answer" to the GridFlorida Companies' response. Finally, on March 15, 2006, the members of the Florida Municipal Group (FMG) provided comments in support of closing the docket.

The Commission is vested with jurisdiction over the subject matter addressed herein through the provisions of Chapter 366, Florida Statutes, including, but not limited to, Sections 366.04, 366.05, and 366.06, Florida Statutes.

[3] A Day-1 only RTO maintains the existing decentralized company operation but transmission service is provided by the GridFlorida RTO and under a single GridFlorida-wide transmission tariff. All transmission customers would take transmission service from the RTO and the tariffed rate would be uniform.

[4] A delayed Day-2 operation reflects three initial years of Day-1 operation followed by ten years of Day-2 operation. Under Day-2 operation, the entire market is centralized under the GridFlorida RTO. Unit commitment and dispatch is centralized to meet the GridFlorida-wide load and reserve requirements.

Discussion of Issues

Issue 1: Would the continued development of GridFlorida be prudent?

Recommendation: No, in light of the quantitative information provided regarding the proposed GridFlorida RTO and alternatives, continued development of GridFlorida does not appear to be cost effective. The costs exceed the benefits to such a degree that it would not be prudent or in the public interest to continue the development of GridFlorida. (Buchan)

Staff Analysis: Upon petition by each of the individual GridFlorida applicants, the Commission conducted a proceeding to review the prudence of the formation of and participation in GridFlorida. By Order No. PSC-01-2489-FOF-EI, the Commission found that the decision to initiate GridFlorida was prudent. The Order states, "Upon consideration of the evidence at hearing, we find that, in light of FERC's Order No. 2000 and its subsequent statements strongly encouraging participation in RTOs, the GridFlorida Companies were prudent in proactively forming GridFlorida." As justification for finding the GridFlorida formation prudent, the Commission stated that, based on evidence in the record, formation of an RTO should provide benefits for Peninsular Florida and its ratepayers, most importantly by facilitating an improved wholesale electricity market, and encouraging competition by removing access impediments and restrictions.

As of May 31, 2001, the Applicants estimated GridFlorida's start-up costs at $9 million. The utilities either provided little or no supporting documentation for those estimates. The Commission expressed concern with the estimate in Order No. PSC-01-2489-FOF-EI:

> The GridFlorida Companies estimate GridFlorida's actual start-up costs at $9 million as of May 31, 2001, with the following allocation: $5 million to FPL; $1 million to TECO; $2 million to FPC; and $1 million to the wholesale jurisdiction. FPL provided minimal justification for its portion of these amounts, while FPC's and TECO's witnesses indicated that no supporting documentation existed for the amounts attributed to their respective companies. As a result, we were unable to examine any supporting documents or workpapers related to these expenses and are unable to determine whether these estimated expenses are accurate, reasonable, or prudent for the purposes of this proceeding.

In order to provide an independent assessment of the GridFlorida costs and benefits, in 2003, the Applicants hired ICF Consulting to conduct a cost-benefit evaluation. That evaluation was to independently assess the costs and benefits to Peninsular Florida of restructuring its power market from the existing decentralized utility control area operation and bilateral market to a centrally organized one, as proposed by GridFlorida.

Until the Final Report was released December 12, 2005, ICF worked with all the electric utilities in Peninsular Florida to acquire the most accurate data by which to estimate the costs and benefits. Numerous drafts were released for comment and evaluation and the ICF study was performed with significant stakeholder participation. The Final Report provides a comprehensive evaluation of the costs and benefits of forming a GridFlorida RTO as proposed by the Applicants. Many of the costs and benefits were quantifiable, but some were not.

The ICF Final Report conclusions state that the prospect of a basic Day-1 RTO operation as proposed are "bleak," with the Peninsular Florida costs exceeding the Peninsular Florida benefits by over $700 million. Under a more advanced Day-2 RTO operation, ICF concludes that the total project costs exceed benefits by $285 million in Peninsular Florida. However, ICF points out there is the potential by year 13 for GridFlorida's operations benefits to equal its costs. The information in the following table was provided by ICF Consulting in their Final Report which breaks down the costs and benefits between the Day-1 proposal and the Day-2 proposal.

SUMMARY OF DAY-1 AND DELAYED DAY-2 COSTS AND BENEFITS 2004		
Net Present Value (years 1-13)	Day-1 Only Operations	Delayed Day-2 Operations
RTO Benefits	$ 71,000,000	$968,000,000
RTO Costs	$775,000,000	$1,253,000,000
Net Benefits	$-704,000,000	$-285,000,000

The stakeholders and Applicants did not have a uniform reaction to the ICF cost-benefit results. Some stakeholders believed that the ICF study had inflated costs "based on an out-dated, bureaucratic model" (Calpine) and that substantial benefits that would have been brought to the state by a Day-1 RTO structure were not quantified (Seminole Electric Cooperative). In contrast, other utilities (JEA, City of Lakeland, City of Tallahassee, Kissimmee Utility Authority, and Gainesville Regional Utilities) were concerned that not enough costs were captured in the study because it did not estimate the incremental cost increases the utilities will incur to operate and manage their own systems in an RTO environment.

Staff believes the primary benefit that has been obtained from the workshop process is that the Commission is now in a position to make a more informed decision as to whether the implementation of GridFlorida is cost-effective. The workshop process provided sufficient time to develop the details of the GridFlorida proposal, obtain input from the stakeholders, obtain direction and guidance from both the Commission and federal regulators, modify the proposal as directed by the regulators, and work with ICF to perform an extensive GridFlorida cost-benefit analysis. During the time that the GridFlorida process has been active, extensive data was collected, analyses conducted and far greater clarity was obtained. By proceeding through all the steps of this process, the data indicates that GridFlorida is not cost effective.

Staff is not recommending that the Commission explicitly approve the ICF Cost-Benefit Study, however, no party has been able to provide quantitative information that the benefits to Florida's consumers will exceed the costs. In fact, the quantitative information filed by FMPA and Seminole on their alternative RTO proposal indicates costs will still outweigh benefits by more than double (discussed in greater detail in Issue 2). In light of the extensive information staff now has regarding the potential costs and benefits of forming the proposed GridFlorida RTO, staff recommends that the Commission should find that it is no longer prudent nor in the public interest for the Applicants to continue the development of the GridFlorida RTO.

Issue 2: Should the Commission grant the GridFlorida Applicant's Motion to Withdraw the Compliance Filing filed on March 20-21, 2002, and the September 19, 2002, Petition of the GridFlorida Companies regarding Prudence of GridFlorida Market Design Principles?

Recommendation: Yes, the Commission should grant the GridFlorida Applicant's Motion to Withdraw the Compliance Filing. In addition, the Commission should direct staff to monitor the Peninsular Florida utilities' and stakeholders' efforts as they continue to develop enhanced wholesale market opportunities in Florida and report back to the Commission in six months on their progress. (Buchan, Brubaker)

Staff Analysis: On January 27, 2006, the GridFlorida Applicants filed a motion with the Commission to withdraw the Compliance Filing filed on March 20-21, 2002, and the September 19, 2002, Petition of the GridFlorida Companies regarding the Prudence of GridFlorida Market Design Principles and, as a result of withdrawing the filings, to close the docket. The Applicants state in their motion that the ICF Study filed on December 12, 2005, clearly demonstrated that the GridFlorida RTO, whether modeled as a Day 1 or Delayed Day 2 proposal, is not cost-beneficial for the retail customers of the GridFlorida Companies. Further, they state,

> In light of the findings and conclusions of the final ICF Study, the GridFlorida companies submit that it is no longer prudent to pursue implementation of the GridFlorida RTO... it is in the best interests of their retail customers that the Commission approve the withdrawal...

On February 13, 2006, the FMPA and Seminole filed an Opposition to the GridFlorida Companies' Motion to Withdraw the Compliance Filing and the Petition to Close the Docket. In the filing, they requested three items: (1) for the Commission to deny the Applicant's Motion, (2) to either order an investigation into the Florida Independent Transmission Provider (FITP) proposal or to open a new docket to conduct the examination, and (3) to investigate specific modifications to the GridFlorida documents to achieve the desirable outcomes sought by the Commission and the stakeholders. Within their filed Opposition, FMPA and Seminole stated five points the Commission should consider (discussed at greater length below).

On March 10, 2006, the Applicants filed a response providing more information on why they believe it is prudent to withdraw the petition and close the docket at this time. Further, they provided responses to four out of the five points raised by FMPA and Seminole (discussed below). Also, on March 10, 2006, PEF filed a supplemental response to the GridFlorida Applicants' response addressing the fifth point made by FMPA and Seminole. On March 14, 2006, FMPA and Seminole filed further comments in the form of an answer. Then, on March 15, 2006, the members of FMG filed comments in support of allowing the GridFlorida Applicants to withdraw their petition and to close the docket. The points raised by FMPA and Seminole as to why the docket should not be closed, points made by the Applicants and FMG as to why the docket should be closed, and staff's analysis follows.

The first point raised by FMPA and Seminole was that, as part of the merger that formed PEF, Florida Power Corporation made a commitment to FERC to participate in an RTO. In its supplemental response, PEF clarifies that the condition for the merger was not that they

participate in an RTO, but that they file an RTO proposal by October 15, 2001, which they did. Further, PEF points out that they had been a participant in the formation of the GridSouth RTO before the GridSouth utilities suspended its development. That proceeding was ultimately terminated by FERC on October 20, 2005. Staff notes that whatever the agreement for the merger was, the agreement was between FERC and PEF not between PEF and the Commission. It is the responsibility of the FERC to enforce that agreement as it sees fit. The current FERC Chairman, Joseph T. Kelliher, has gone on record[5] stating, while he believes that RTOs have great potential benefits, he recognizes the growing rate of criticism about the level and rate of increase of RTO costs and does not expect RTOs to be established in all regions of the United States. Further, he has stated publicly that the FERC will take timely action on requests by parties seeking to withdraw from RTOs and ISOs. It appears to staff that Chairman Kelliher is fully cognizant of the concerns that the cost to develop RTOs in every region of the United States may be prohibitive.

The second point raised was the language of the Commission's December 2001 Order which stated that benefits to Florida consumers would include improved reliability and wholesale competition, enhanced emergency response, and lower transmission and generation rates among others. As detailed in Issue 1, and raised by the Applicants in their Responses, at the time the December 2001 Order was issued, the Commission had scant hard data to quantify the benefits of GridFlorida. The Applicants said it best in their Responses:

> It is now clear that the hard cost and benefit data analyzed and presented in the extensive ICF Study supports a conclusion that the GridFlorida RTO should no longer be pursued but that instead the GridFlorida Companies and affected stakeholders should continue to investigate cost efficient approaches that could capture planning, reliability and energy market benefits in the wholesale market outside of an RTO structure.

With the third and fourth points of consideration, FMPA and Seminole refer to the May 23, 2005, workshop, where the parties were asked to provide comments regarding what measures this Commission should consider implementing in lieu of an RTO or of providing an alternative strawman that would allow utilities to capture benefits resulting from a coordinated transmission system. The Applicants state, based on the workshop transcripts, both the Commission and staff commented that it was premature to identify measures that could be implemented in lieu of an RTO before the final ICF Study was provided and reviewed. Instead of providing another strawman proposal the Applicants state, "The GridFlorida Companies have continued to discuss and have agreed to investigate cost-effective improvements to the wholesale markets in Florida and estimate that these investigations into cost-effective improvements to the wholesale market can be concluded within six months and shared with the Commissioners and other stakeholders through the Florida Reliability Coordinating Council [FRCC] Process." FMPA and Seminole answered that deferring to the FRCC process is "misplaced" because "the FRCC process lacks the teeth necessary to make the participants actually ante up the significant dollars needed to

[5] Chairman Kelliher made these comments in both FERC Docket Number RM04-12-000 and at the March 1, 2006, American Public Power Association meeting, as covered by SNL Energy Power Week Midwest, Volume 5, Issue 10, Tuesday, March 7, 2006.

underwrite the long overdue construction." In contrast, the FMG members stated they "are optimistic they [the new FRCC planning protocols] will lead to a materially higher level of coordinated transmission planning and improvements among all operators." This Commission has ample "teeth" under the Grid Bill authority to ensure that inadequacies in the grid (identified by the FRCC process) are fixed with costs spread to all affected utilities on a pro rata basis of the benefits received. This authority extends to investor owned utilities, municipalities and cooperatives. Staff recognizes that the FRCC is a voluntary organization and that no progress will occur unless all utilities are actively participating in the process. Staff has been and will continue to monitor and participate in the FRCC transmission planning process. To keep the Commissioners fully informed, the Commission may wish to order staff to report back to the Commission at regular intervals. Further, with the changes being imposed by the Energy Policy Act (EPACT) of 2005, staff believes the Electric Reliability Organization[6] (ERO) will also have the teeth to enforce needed investments in new transmission systems. In regard to the ERO, the FMG members stated that while the changes that will flow from the ERO are unknown, they have the potential to be profound. Further, FMG advises, "it would be wise to give this process time to evolve before asking the FPSC to stand prepared to wade into GridFlorida-type issues on short notice (as would be implied by keeping the GridFlorida docket open at this time)."

The final point raised by FMPA and Seminole is that the Applicants make no mention of the August 22, 2005, Florida Independent Transmission Provider (FITP) proposal. The FITP is a non-RTO alternative transmission system proposed by FMPA, Seminole, Calpine Corporation and Northern Star Energy. In their Responses, the GridFlorida Companies state that they have reviewed the FITP proposal and do not believe it shows promise for the customers of the GridFlorida Companies. The reasons why they believe FITP does not show promise is because the estimated cost of the proposal "exceeds the estimated benefits to Florida consumers by a ratio of more than two to one." Further, the Applicants state, "The mechanism for cost recovery of existing and new transmission facilities set forth in the FITP proposal will result in cost shifts between transmission owners that will ultimately increase costs to the retail customers of FPL, PEF, and TECO by approximately $75 million per year and $665 million net present value (NPV) over the first thirteen years, with a corresponding reduction in costs for FMPA and Seminole." To conclude, the Applicants state that they will continue to work to determine if some of the potential benefits identified in the ICF Study can be captured in a cost effective manner. They will be undertaking a number of initiatives that are required by the EPACT of 2005 that have the potential to improve the transmission and market structures in Florida, such as the establishment of a new ERO, transmission incentive rulemaking, identification of natural interest transmission corridors, investigations into Security-Constrained Economic Dispatch, collaborative studies on competitive markets, and market transparency rulemaking.

Each of the points raised by FMPA and Seminole are valid points to be considered by the Commission before making a decision to allow the Applicants to withdraw their petition. However, staff does not believe that any one point nor all cumulative points justify continuing with an RTO proposal that is not prudent. As discussed in Issue 1, in light of quantitative information provided, which indicates that the costs exceed the benefits and will continue to

[6] The term Electric Reliability Organization (ERO) is defined by EPACT as the organization certified by FERC to establish and enforce reliability standards for the bulk-power system, subject to FERC review.

exceed the benefits, staff no longer believes that the proposed RTO is prudent, or in the public interest. Therefore, it would be appropriate to grant the withdrawal of the original filings, cancel the hearing, and close the docket.

Even though staff recommends allowing the Applicants to withdraw the petition, the underlying impetus for examining the feasibility of an RTO still remains a valid concern for the state. Staff believes that Florida would still benefit from laying additional basic framework for wholesale competition, and efficiencies may be gained by making modifications to the current market structure. Over the past four years, Florida's Peninsular utilities and the Commission have conducted a close examination of the current wholesale market and identified several areas where efficiencies may be gained in a cost-effective manner. One of these is already underway at the utilities' initiative, and there are two more that the utilities are investigating. The initiative that is underway is the FRCC Transmission Planning Process.

The objective of the transmission planning process is to increase coordination among the FRCC members in an effort to improve the overall transmission planning process within the FRCC Region, and provide a better transmission expansion plan from a statewide perspective. This process will utilize the reliability standards and criteria established by the North American Electric Reliability Council (NERC) and the FRCC, and shall utilize the specific design, operating and planning criteria used by Peninsular Florida transmission owners. Since the Peninsular Florida utilities already provide the FRCC with their future generation facility plans, the two can be coordinated. This enhanced process was approved by the FRCC Board of Directors in the first quarter of 2005. Commission staff have been observing the meetings. The first utility filing utilizing this planning process will be in the April 2006 Ten Year Site Plan filings, and will be reviewed by staff as part of the Ten Year Site Plan process.

The new FRCC transmission planning process begins with the consolidation of the long-term transmission plans of all of the transmission owners in the FRCC Region. This will include all plans for all transmission facilities 69 kV and above. Detailed evaluation and analysis of these independently developed plans will be conducted by the FRCC, and will provide the basis for possible recommended changes to individual system plans that, if implemented, would result in a better overall transmission expansion plan for the FRCC Region. This new planning process is intended to meet the existing and future needs of all firm users of the transmission system (e.g., utility generation, network generation, network loads, merchant generation, independent power producers, and load serving entities) requiring Network Integration Transmission Service, firm Point-to-Point Transmission Service, and Generator Interconnection Service.

The two other areas that are under preliminary investigation by the utilities are a new cost-based spot market and examining the need for congestion management. Florida established a cost-based broker system in 1978, but abandoned the system in the mid-1990s. Reestablishing a cost-based spot market would create a mechanism for marketing non-firm (or spot) electric energy on behalf of electric utilities that have excess generating capacity during a given point in time. This is accomplished by a shared computer program and communication system. Every hour the broker can match potential sellers of electric energy with potential buyers. Under this system, participating utilities enter buy or sell bids into the broker. The broker matches the selling utility with the buyer, however, it does not take title to the commodity. Potential buyers

will review the energy sale prices on the spot market to make the determination if it is a better economic decision to generate its own energy or to purchase energy from another utility.

The development of a new cost-based spot market could be transitioned over time by first developing a voluntary non-firm hourly market, and then proceeding with the development of a day-ahead market based on the experience with the hourly market. The vast majority of quantifiable benefits identified by the Cost-Benefit Study Final Report would accrue from the implementation of more transparent energy markets, like the proposed cost-based spot market. Discussions on this process are underway between the Applicants and stakeholders.

The final area of investigation includes the development of mechanisms and treatment of transmission congestion. There are two types of transmission congestion. One type refers to the lack of transmission capacity that limits commercial transactions and thus creates economic inefficiencies. The other type is congestion that leads to violations of reliability standards. Both types can be remedied by the construction of new transmission lines. The utilities are in the early stages of investigating congestion management mechanisms. FPL, PEF and TECO estimate that their various investigations into the cost effective improvements to the wholesale market can be concluded within six months. The utilities have been sharing their progress with the Commission and will continue to work with the other stakeholders through the FRCC organization.

Staff recommends the Commission direct staff to monitor the Peninsular Florida utilities and stakeholders' efforts as they continue to develop enhanced wholesale market opportunities in Florida and to facilitate action where appropriate. Further, staff should report back to the Commission in six months on the Peninsular Florida utilities and stakeholders' progress.

Issue 3: What should be the disposition of the outstanding motions currently pending in Docket No. 020233-EI?

Recommendation: If the Commission approves staff's recommendation in Issue 2, the four outstanding motions currently pending in Docket No. 020233-EI will be rendered moot and should not require further action by the Commission. (Brubaker)

Staff Analysis: There are currently four outstanding motions in this docket, not including the Applicant's Motion to Withdraw, which is the subject of Issue 2 of this recommendation. They are as follows: JEA's Motion for Additional Hearing Dates, filed September 17, 2002; Mirant and Calpine's Motion for Additional Hearing Dates, filed September 26, 2002; the GridFlorida Companies' Motion for Leave to File Amended Petition regarding the prudence of GridFlorida's Market Design Principles, filed October 7, 2002; and Seminole's Motion to Compel responses to Seminole's interrogatories to FPL, PEF, and TECO, filed October 14, 2002.

By Order No. PSC-02-1426-PCO-EI, issued October 17, 2002, a ruling on all pending motions was deferred and the time for filing responses to the motions was tolled, pending future disposition of Docket No. 020233-EI. Each of the outstanding motions concern substantive or procedural aspects of the hearing on the GridFlorida filing. If the Commission approves staff's recommendation in Issue 2, the four outstanding motions pending in the Docket No. 020233-EI will be rendered moot, and should not require further action by the Commission.

Issue 4: Should a new docket be opened to address a non-RTO alternative for Peninsular Florida, such as the Florida Independent Transmission Provider (FITP) proposed by Florida Municipal Power Agency, Seminole Electric Cooperative, Calpine Corporation, and Northern Star Energy?

Recommendation: No, at this time it is not cost-effective to open a new docket to examine alternative RTO or non-RTO proposals. Instead, the parties should be encouraged to continue investigating opportunities to enhance the existing wholesale market. (Buchan, Brubaker)

Staff Analysis: On September 26, 2005, Florida Municipal Power Agency, Seminole Electric Cooperative, Inc., Calpine Corporation, and Northern Star Energy submitted a non-RTO alternative for Peninsula Florida titled the Florida Independent Transmission Provider (FITP). This proposal was submitted as a lower cost alternative to GridFlorida. The proposal scaled down the size of the RTO and attempted to retain all the benefits. While the participants did cut the costs dramatically within their proposal, the costs still exceed the benefits by more than double. The FITP proposal cited the NPV of cost at $195 million and the NPV of Day 1 benefits at $71 million, with the NPV of costs exceeding the benefits by $124 million. At this time of rising fuel costs and hurricane recovery cost, staff does not believe it is cost-effective to pursue developing a high cost independent transmission organization that may or may not benefit all Peninsular Florida consumers at some point in the future.

As mentioned in Issue 2, staff believes that Florida would benefit from laying additional basic framework for wholesale competition, and efficiencies may be gained by making modifications to the current market structure. However, staff does not believe that pursuing the proposal is cost-effective at this time. Not going forward to address the FITP proposal at this time does not prohibit substantially affected persons from bringing a proposal, showing quantitative benefits outweigh the costs, at a later time. Instead, Florida's utilities should continue to investigate smaller scale initiatives that will lay the groundwork for wholesale competition in a cost-effective manner. If the Commission approves Issue 2, staff will report back to the Commissioners in six months on the utilities' progress in investigating various competitive initiatives. At that time, the Commission may revisit the issue of whether to open a new docket.

Issue 5: Should this docket be closed?

Recommendation: Yes, if the Commission votes to approve staff's recommendations in Issues 1 through 4, this docket should be closed. (Brubaker)

Staff Analysis: If the Commission votes to approve staff's recommendations in Issues 1 through 4, this docket should be closed.