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BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF:	:	Docket Numbers
REMEDYING UNDUE DISCRIMINATION	:	RM01-12-000
THROUGH OPEN ACCESS TRANSMISSION SERVICE	:	
AND STANDARD ELECTRICITY MARKET DESIGN	:	
	:	
GRIDFLORIDA, LLC	:	RT01-67-000

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Room 148  
Florida Public Service Commission  
4075 Esplanade Way  
Tallahassee, FL  
Monday, September 15, 2003

The above-entitled matter came on for technical  
conference, pursuant to notice, at 9:30 a.m.

1 APPEARANCES:  
2 LILA A. JABER, Chairman, FPSC  
3 PAT WOOD, III, Chairman, FERC  
4 NORA BROWNELL, Commissioner  
5 ROBERTA BASS, Florida PSC Staff  
6 KEN WILEY, FRCC  
7 SUSAN CLARK, Radley, Thomas, Yon & Clark  
8 MIKE NAEVE, Skadden, Arps, Slate Meagher & Flom  
9 ED REGAN, Gainesville Regional Utilities  
10 MIKE GREEN, PACE  
11 JIM DEAN, Florida PSC Staff  
12 BILL ASHBURN, TECO  
13 TIM EAVES, Calpine Corporation  
14 BOB WILLIAMS, FMPA  
15 TOM BALLINGER, Florida PSC Staff  
16 GREG RAMON, TECO  
17 JOHN ORR, Reliant Energy  
18 TIM WOODBURY, Seminole Electric Cooperative  
19 JENNIFER BRUBAKER, Florida PSC Staff  
20 KEN HOFFMAN, Rutledge, Ecenia, Purnell & Hoffman  
21 CHARLES DAVIDSON, FPS Commission  
22 J. TERRY DEASON, FPS Commission  
23 TIM EVES, Calpine Corp.  
24 P.G. "BUD" PARA, JEA

1 MS. JABER: Let me start by thanking everyone for  
2 being here. This is certainly unique and this is a  
3 different format than certainly what we are accustomed to  
4 and the participants that appear before the Florida Public  
5 Service Commission here with us because this is a unique  
6 format. We hope that it works really well. If you notice,  
7 we've got the FERC Commissioners sitting side-by-side with  
8 the State Commission. That's done hopefully to facilitate a  
9 meaningful dialogue and to allow us to see and interact with  
10 the panel members as easily as possible, but I hope also  
11 there is a symbolism in how we are seated in that this  
12 process can lend itself to dialogue and cooperation and  
13 facilitation and that we are all on the same page as it  
14 relates to caring about Florida Retail Rate Payers and  
15 Florida Consumers and the ability to make sure that every  
16 consumer in the State of Florida has safe, reliable service  
17 at the least cost prices. Hi Bill. Bill is waving so we  
18 should say high to Bill Walker. Seriously, I want to thank  
19 everyone for being here. You will notice from the agenda  
20 that there is an opportunity at the end of the agenda for  
21 public input, we hope you take advantage of that. I have  
22 just minor announcements to make to help facilitate the  
23 process this morning. First, I would ask all the panelists  
24 to speak right into the microphone and identify yourself for  
25 the record because we are transcribing today's workshop.

1 The other thing I want to remind everyone about is lunch.  
2 Very important topic for this morning. We've got to be back  
3 in the conference room after an hour for lunch so we've  
4 tried to facilitate that by arranging a line for lunch with  
5 the East cafeteria. There will be someone there to direct  
6 you to an area that has been set aside for the workshop  
7 participants. There are pre-made sandwiches, pizza and  
8 salad for your convenience. We do ask that everyone return  
9 in an hour's time. Lunch will be from 12:15 to 1:15. FERC  
10 Commissioners have to get out of town just after the  
11 conference and certainly we want to have enough time for  
12 dialogue here. Just to remind everyone, the purpose of the  
13 workshop is to allow the dialogue between the State  
14 Commissioners, the FERC Commissioners and the panel members  
15 that have agreed to participate, but also to gather  
16 information on GridFlorida particularly but market design  
17 and FERC's White Paper. Just to remind everyone where we  
18 were and where we've been, Florida has approved a Florida-  
19 specific RTO, we've dubbed it GridFlorida. There are some  
20 issues that remain related to market design. FERC issued a  
21 White Paper that we're really anxious to learn more about.  
22 If you look at the agenda for today, it's broken up into  
23 four areas. We ask that everyone stays focused on those  
24 four areas and that you are patient with us as we ask  
25 questions and delve into the issues further. I'd like at

1       this point to introduce Chairman Wood and let him make some  
2       brief remarks. You can do it from there or here, whichever  
3       is convenient.

4                   CHAIRMAN WOOD: You're a tough act to follow but  
5       I'll give it a shot. I was -- before I became a member of  
6       the FERC, I was the Chairman of the State Commission that  
7       had another Governor Bush head of it at the time over in  
8       Texas and got to know and respect ROGO (phonetic) define  
9       market before the Commission, I see one of your illustrious  
10      predecessors here in our first panel, Susan and work a lot  
11      with the staff here in Florida, both in telecom and electric  
12      issues so it's nice to be back. Also had the opportunity to  
13      testify about two years ago to the 20/20 Commission. I have  
14      been as the State Commission of Texas talking about the  
15      transitions to wholesome markets that we had done in that  
16      State and the same issues that you all are contemplating  
17      here and I know I will probably see a number of the same  
18      people that were participating in the 20/20 study from two  
19      years ago here today. It's our hope at FERC to really try to  
20      give some support and empathy to the State Commission's  
21      effort here to form a GridFlorida RTO. Our Commission back  
22      in 2001 before Bev Nora and I got on the commission, had  
23      approved in substantial part, a proposal by Florida  
24      utilities and Florida market participants to set up a  
25      GridFlorida RTO and I think as I have remarked at the time,

1       when I was still in Texas and testifying before the 20/20  
2       Commission, that that was a very inspiring, good model but I  
3       thought then, as a State Commissioner, looking at wholesome  
4       markets from what we had done in Texas, looked like a very  
5       good potential to set up for a discipline and organized  
6       manner of structuring wholesale markets so that the retail  
7       customers here in Florida would get large benefits from  
8       that. And I think that is still true today and want to  
9       really listen today to the panels, to what people from  
10      across the marketplace are interested in, from my colleagues  
11      who are on the State Commission, the values you all want to  
12      protect and instill possibly in the GridFlorida organization  
13      and understand what it takes to get there. When we first  
14      got to the commission, Nora and I had discovered that within  
15      the series of about 48 hours, our first day we voted on what  
16      basically became known as the price cap order for  
17      California. We (inaudible) debating in what was then a  
18      pretty dysfunctional broken marketplace and then the very  
19      next day we heard from panelists in the Northeastern  
20      markets, which were the New England, New York and  
21      Pennsylvania, Jersey/Maryland market, Mid Atlantic market,  
22      some issues that those relatively mature markets were having  
23      interfacing with each other. We call them seams issues.  
24      The seams between the different organized markets were  
25      having difficulties translating, much like French and

1 Germany, speaking four languages have issues at their  
2 borders, we were having those issues in the (inaudible)  
3 markets as well and within those first 48 hours on the job  
4 became pretty clear to us that oh, my gosh, we've got all  
5 these markets going into very different directions. Can't  
6 we learn from the best of these and try to capture benefits  
7 so that we don't make these mistakes again. And therein lay  
8 the brunt of what became known as the Standard Market Design  
9 Rule. We had hearings and public testimony comments, and  
10 technical conferences for the next year and in July of last  
11 summer, we put out a proposal for Standard Market Design  
12 that in effect captured the best benefits of all the markets  
13 and so this is where we think the markets in America need to  
14 go to so that we don't make the California mistake again,  
15 that we don't encounter some of the issues that have  
16 happened both in America markets in electricity as well as  
17 other commodities and foreign markets. After result of the  
18 number of comments including very good cogent ones from this  
19 Commission here, as well as a number of market participants  
20 who are here in the room, the Commission pulled back on its  
21 effort to try to standardize everything about what a market  
22 ought to look like, recognizing that markets in the country  
23 were at very different places of growth. The Florida market  
24 was not as far along as the Mid Atlantic market but yet it  
25 was further along than the market in the desert Southwest,

1       for example. And so what we put out in April of this year  
2       was a response in the rulemaking docket to the comments,  
3       over a thousand comments that we received, which I think in  
4       effect that we hold dear and near to the principles that  
5       underline good market design, no matter what those were, and  
6       I think what spur basically most of those today, but we  
7       believe in a reliable operation. We believe in  
8       independence, independence of the grid from the market  
9       participants. We believe in long-term reliability and  
10      short-term reliable operation of the grid. We believe in  
11      having the infrastructure there for markets to grow but I  
12      think what we indicated pretty clearly was we acknowledged  
13      that the sequencing and the timing of those and even the  
14      fundamental question, for example, of whether to do say a  
15      day ahead market or not, but that should be worked out on a  
16      region-by-region basis, based on whether the costs were less  
17      than the benefits of each of those criteria.

18               Now its account of substantial change from our  
19      direction and it's one that I think, quite frankly, a lot of  
20      the State Commissions and a lot of the market participants  
21      in the Southeast and up here in the west were very  
22      interested in. They said we want to get there eventually  
23      but we want to get there on our terms and in our timeline  
24      because it's our dollars that are paying for it and we said  
25      that's practical and that's right. And so what's what we've

1 committed to do in the White Paper, in April. As a follow-  
2 up to that, we said we were going to all the ten regions of  
3 the country where RTOC that we're up and running or are  
4 preliminary approved, this will be in our category here in  
5 GridFlorida. This is our sixth of ten conferences. We're  
6 doing two more in the next six weeks and a third one in  
7 November. We've got one left to do after that and what  
8 we're learning quite frankly is what regional variation is  
9 all about and we're on the fact finding part of our trip too  
10 in our rulemakings, trying to understand what it is we want  
11 to ultimately do with this Standard Market Design Rule. So  
12 we will be taking home today our thoughts and impressions  
13 about that and I will be glad to try to summarize what those  
14 are after we have them at the end of the day but we want to,  
15 at the bottom line here, we want to facilitate as we have  
16 all along, we want to facilitate the development of good,  
17 efficient, reliable, competitive, wholesale markets that  
18 benefit customers. If we haven't achieved all those  
19 adjectives and that important cause at the end, then we need  
20 to start over. It's been my assessment, personal  
21 assessment, not an official one of our Commission yet, that  
22 the steps that have been taken in Florida, which I know were  
23 on hold for the last year due to the court review, were very  
24 positive and very much in the right direction. So I'm  
25 coming here I guess with some baggage of having already

1 looked at this both as a person who had no idea whatever go  
2 to FERC and now as one who is head of FERC, looking at this  
3 market design and seeing a lot of very positive things in it  
4 that we certainly want to buttress, allowing your efforts  
5 and those of your colleagues to instill here and do what we  
6 can, really to buttress that and make sure that it finally  
7 comes to fruition. So I'm here to listen, Nor is here to  
8 listen, our colleague Bill Massey, actually is representing  
9 the Commission in China today, it's a trip that thanks to  
10 him I didn't have to do so -- Bud (inaudible), Bud you want  
11 to raise your hand? Bud from Bill's office is here  
12 representing Bill today and taking back his thoughts and  
13 impressions from our conference here today. I'd like to  
14 also recognize our team here from FERC. We have a team that  
15 works with, by region and our south team is headed by Steve  
16 Rogers who is sitting there next to Bud and we also have  
17 Sandy Duluth and John Rogers, not related to Steve, here  
18 from that committee as well. From our State relations  
19 staff, we also have Ted Myers and Sarah McKinley who  
20 coordinate these events all across the country for us and  
21 from our General Counsel's office, Elizabeth Rylander who  
22 works a lot with the issues related to GridFlorida and from  
23 our office Rob Gramlich is here. So these are folks that if  
24 you all see them during the day, feel free to bend their ear  
25 or say hi and we appreciate the nice welcome and good to be

1 back in Tallahassee.

2 MS. JABER: Thank you Mr. Chairman. I want to  
3 explain the roles of the moderators and get us started with  
4 our first panel. You'll notice from the agenda that our  
5 moderators are PSC staff members. Of course that's been  
6 done by design. They are very familiar with the issues and  
7 their sole purpose today is to make sure that the panel  
8 stays on time, that they ask questions that will facilitate  
9 the most informed discussion that we need today and I want  
10 to take an opportunity as the Chairman did to thank our PSC  
11 staff members as well as the FERC staff who are being here  
12 and facilitating this forum and if you see them today,  
13 please take an opportunity to also thank them because they  
14 really have been working hard at making sure this is a very  
15 organized technical conference for everyone's benefit today.

16

17 With that I'd like to introduce Roberta Bass. I think you  
18 are going to get us started on the first panel?

19 MS. BASS: That's correct.

20 MS. JABER: Good.

21 MS. BASS: Good morning. I'm Roberta Bass with  
22 the Florida Commission staff. I too would like to welcome  
23 everyone who is attending the conference today and I would  
24 especially like to thank those individuals who agreed to  
25 appear as presenters at the conference. Just a couple of

1 housekeeping matters before we get started. There is a

1 sign-in sheet that's located outside the hearing room. If  
2 you have not pre-registered through the FERC website, we ask  
3 that you do sign in. There are also hand-outs outside on  
4 the table that presenters have provided in addition to the  
5 comments they'll make today and this conference is being  
6 transcribed. It's my understanding that the transcripts  
7 will be publicly available through FERC's website shortly.  
8 Okay with that, I think that ought to do it. Let's get  
9 started.

10 I'm sure most states would say this, but we  
11 believe Florida is unique, not just geographically, but our  
12 customer makeup, our energy load growth, our energy  
13 infrastructure and the statutory framework within which we  
14 operate. Our first panel of presenters will be providing  
15 additional insight into the uniqueness of Florida. Our  
16 first presenter is Mr. Ken Wiley. He is with the Florida  
17 Reliability Coordinating Council or FRCC. Mr. Wiley is  
18 going to provide us an overview of Florida's electric  
19 system. Our next presenter is Ms. Susan Clark, she is the  
20 law firm Radey, Thomas, Yon and Clark and Ms. Clark is going  
21 to describe Florida's statutory framework. And then our  
22 final presenter in this section will be Mr. Mike Naeve who  
23 is here today on behalf of the GridFlorida applicants. Mr.  
24 Naeve is going to provide us with the history and status of  
25 the GridFlorida ISO proposal. So with that, I'll ask Mr.

1       Wiley.

2                   MR. WILEY: Thank you Roberta. Commissioner  
3       Woods, Commissioner Jaber, Chairman Wood, Chairman Jaber and  
4       Commissioners, I appreciate this opportunity. I have to  
5       start off by saying I'm glad that I was able to make your  
6       conference today Chairman Jaber. I wasn't able to, as you  
7       know last month, but I put my sailing trip off this month  
8       so, I thought this was a very special occasion and secondly,  
9       I'm a little self-conscious here today, not because I'm  
10      speaking because most of you who know me know I love to talk  
11      if I can get two people together but it is because I'm  
12      developing a fashion statement I find out and made a lot of  
13      looks as I came in here today and I just wanted to say that  
14      I'm solid coat and stripe pants. So, I am admitting to that  
15      but only because I forgot to put my contacts in when I was  
16      selecting my wardrobe. So if you see Christian Dior coming  
17      out with that combination next year, I want the credit.

18                   MS. JABER: Well I was just real pleased to see  
19      Bill Walker didn't show up in a tie frankly.

20                   MR. WILEY: But as many of you know, I've spent  
21      many years worrying about the reliability here in the State  
22      of Florida and I would like to give you a little bit of  
23      history because I think this subject of RTO discussion in  
24      Florida commands a knowledge of some history. The Panhandle  
25      of Florida is not part of the FRCC. Electrically it is tied

1 very closely to the seven company and to the seven region of  
2 SERC and FRCC is the peninsula of Florida which includes  
3 Tallahassee and we are virtually on an island here  
4 electrically in this State with drifting with  
5 interconnections to the north of us and this is clearly a  
6 very unique situation for Florida over the years. In the  
7 late 50's, the three major investment utilities in the FRCC  
8 region came together and formed an informal group known as  
9 the Florida Operating Committee and then the purpose for  
10 that was to build interconnections, do some joint type of  
11 planning and achieve economies and reliabilities through  
12 this joint process. Soon after, in the early 60's, they  
13 were joined by two of the larger municipals in the State of  
14 Florida and if you can think back to the early 60's, that in  
15 itself was a miracle to have investor-owns and municipals  
16 doing something together in our industry. They continued  
17 throughout the 60's to gather all of the other municipals in  
18 Florida and eventually are generating cooperative to join  
19 this group. And in 1972, we decided that this informal  
20 group that have been setting the operating policies and  
21 reliability policies that we operated under, we decided we  
22 needed to formalize that. And we formed a formal  
23 organization known as the Florida Electric Power  
24 Coordinating Group. An interesting story about how we got  
25 that name but I'll spare you that at the moment. The FGC

1       being former, we continued the practice of setting our  
2       operating and our planning standards. We began setting  
3       reliability standards for planning the future electric  
4       system in Florida and this was a very successful operation  
5       over the years. This particular group, along with the  
6       Florida Public Service Commission back in 1976, established  
7       the Florida Energy Broker. This was a market mechanism that  
8       looked at the next hour's disparity in prices between all  
9       the market participants and we had computerized programs  
10      that allowed people to match up with the highest cost of  
11      supplier to the lowest cost and they sold to each other,  
12      both achieving economies. And so, we have had a very long  
13      history in that area, this particular function grew over the  
14      years and with the advent of the restructuring of our  
15      industry in the late 90's we discontinued that because the  
16      new marketplace came into being and our next hour  
17      marketplace was diminishing because of this new marketplace.

18

19      So we closed down that particular operation in the year  
20      2000. When we did close it down though, I'd like to add  
21      that it wasn't just an hourly marketplace between electric  
22      utilities, all of the market participants that were around  
23      in those days participated in it, namely the marketers and  
24      the generators. Back in 1968, you know that NERC was formed  
25      out of the 64 blackout. Initially, when NERC was formed in

1        1968, there were 12 regions of NERC. Four of those regions

1 were the Seven Company, Tennessee Valley Authority, the  
2 Virginia/Carolina Group and Florida Power Corporation, now  
3 known as Progress Energy Florida, that's a very little known  
4 fact. My boss happen to be the representative on NERC at  
5 that time and as most bosses do, he delegated a lot of  
6 responsibility to me to worry about the NERC activities in  
7 those days. Two years later however, these four entities  
8 merged and formed the Southeastern Electric Reliability  
9 Council or "SERC" as we all know it and all of the Florida  
10 utilities joined with Florida Power Corporation at that time  
11 and we formed the Florida sub-region of SERC and we have  
12 existed for many years in that category. During the time  
13 that we were a member of the SERC organization, there were a  
14 lot of reliability studies going on within SERC and Florida  
15 didn't participate in many of those studies. It was  
16 recognized by the Southern TVA/Virginia/Carolina Groups that  
17 they had a lot of very common problems with their  
18 transmission systems up there and they studied them to  
19 ensure they were liable between those sub-regions of SERC.  
20 Because of Florida's unique geography and the fact that we  
21 only had electrical ties to the north or on the borderline  
22 of Florida, and we had no thru-flows through Florida, there  
23 was little need for us to participate in the SERC-wide  
24 studies. We did, however, have extensive studies every year  
25 between Florida and the sub-serving sub-region of SERC.

1 After the Energy Policy Act, it became apparent to us in  
2 Florida that things were going to change, that there was  
3 going to be a national emphasis on setting reliability  
4 standards at the national level that would be mandatory and  
5 enforceable. Because we were a small subpart of SERC and  
6 because most of our -- a lot of our problems were very  
7 unique, which our SERC counterparts did not have, the FRCC  
8 made a conscious decision to become its own reliability  
9 council so that we could have a voice at the national level  
10 in helping to set the policies and the standards that we  
11 would be moving forward with. Thus, in 1996, we formed the  
12 FRCC and we petitioned NERC and became the 10th reliability  
13 region of NERC. So, all those many years, we used to be a  
14 member of NERC and now we are again. I'd liked to discuss a  
15 little bit about what the FRCC does from a reliability  
16 perspective. We have a very thorough security process here  
17 in the State and this is by necessity. Throughout these  
18 many decades, we did have to depend upon ourselves. We had  
19 very little assistance from the outside world in the 60's  
20 and 70's. We built our 500 KV lines in the 80s and the 90's  
21 and so we've had to worry with ourselves. We have  
22 established an FRCC security coordinator and this security  
23 coordinator monitors our electric system in FRCC on a  
24 moment-by-moment basis. We have over 400 data points that  
25 we scan every 10 seconds that goes into our real time model

1 and we run a state estimator or a "what if" type of a  
2 simulation to look at approximately 700 elements of our  
3 system and we ask ourselves, every five minutes, what if  
4 this line went out, and we do that for 700 elements of our  
5 system in order to test our system. If any of these tests  
6 prove that there is a condition that we have a reliability  
7 concern, our security coordinator is authorized to take  
8 action with any control area in the FRCC region to alleviate  
9 or mitigate those concerns that might happen. The key to  
10 this success is the fact that we have effective and  
11 immediate communications with all of the control areas with  
12 grid operators in the State. We have a private intranet  
13 communications network, we have a hotline to every control  
14 center in the State so when our security coordinator or any  
15 control center wants to talk to everyone else, he picks it  
16 up and everybody hears everything at the same time. We also  
17 have backup satellite phone systems to ensure redundancy.  
18 In addition, we have a computerized transaction management  
19 system that keeps all of our control areas and our security  
20 coordinator updated on the exact status of our transmission  
21 and our generation network. In addition to the above  
22 security measure that we've taken, we also have automatic  
23 detection schemes that are in place to isolate problem areas  
24 in the region if in fact a disturbance does happen. This  
25 minimizes the risk of a disturbance in one area cascading

1       into other areas of the State. I believe the Jacksonville  
2       situation last year was an excellent example of that  
3       particular system. Our security coordinator employs the  
4       most advance energy management systems there is today. It  
5       went into service last year and is an extremely advanced  
6       system. In addition, if that system were to fail or go down  
7       for whatever reason, such as hurricane Andrew coming through  
8       again, heaven help us, we have a backup security coordinator  
9       on the other coast of Florida. This backup security  
10      coordinator is currently installing a very sophisticated,  
11      new energy management system, which will be installed by  
12      next year. The security coordinator for the FRCC region is  
13      under contract to the FRCC. It's Florida Power and Light  
14      Company. Originally there were many concerns by market  
15      participants that having one of our big players in the State  
16      be the security coordinator for the FRCC that there might be  
17      some concerns about discrimination and things of that  
18      matter. To alleviate that, we established monitoring  
19      procedures. We have a very specific contract on what the  
20      security coordinator will do and we audit that particular  
21      contract every year and since change it to every two years  
22      unless necessary. And the reason we've done that is our  
23      first few audits of our security coordinator, we found that  
24      there were just really were not any issues; that things were  
25      running well, that they were doing their job of monitoring

1 the reliability well, the market type issues that people  
2 feared, we did not find any of those instances and I might  
3 add that when I say we, we have an audit team that descends  
4 on our security coordinator and the market team is members  
5 of my staff, originally myself and members of every segment  
6 of our community. Transmission companies, transmission  
7 dependent companies, marketers, independent generators, all  
8 of them were on our market team -- our audit team. As a  
9 matter of fact, the commission staff always had someone  
10 there as an observer and so when this team descended on our  
11 security coordinator to audit what they had been doing, and  
12 we found that they were doing a good job, I think what we  
13 found was our marketplace here in Florida became very  
14 confident in what is operating with the FRCC's security  
15 coordinator. I'll briefly describe what we do in this State  
16 in terms of generation and transmission adequacy. Each  
17 year, we compile a load and resource plan, looking at the  
18 next 10 years for the adequacy of generation. We present  
19 our findings to the Commission and we participate in a  
20 workshop that this Commission has to examine and review the  
21 generation adequacy. I might add that our results for our  
22 latest one indicate that we have a reserve margin of 20% or  
23 greater in the region over the next 10 years. In addition  
24 to that, we do extensive transmission studies. As a  
25 testimony to the reliability and adequacy of our

1 transmission system, this region has not had any  
2 transmission line loading relief or TLRs as NERC calls them  
3 since 1999. In 1999, we had two. I think that speaks to  
4 the adequacy of our transmission grid. And also, this  
5 region has the ability to import 3,600 megawatts, reliably,  
6 into the region. This represents about 9% of our peak load.

7  
8 At the current time, there is about 45% of this import has  
9 been contracted for firm capacity coming into the State  
10 leaving 55% of its capability available for other types of  
11 transactions. Now I'd like to get to your subject at hand  
12 today, and that's the regional transmission organizations.  
13 I was glad to hear Chairman Wood talk about, in my words,  
14 one-size-fits-all is not always the right way to do  
15 everything and I'm certainly glad to hear that. The FRCC is  
16 not taking a position on the merits of an RTO here in  
17 Florida. We're a reliability organization and I don't think  
18 we need to get into that but we do have a position about  
19 what an RTO -- if we have one, what should it look like and  
20 our position is, it should be a peninsula Florida only RTO.

21  
22 We have looked long and hard at Florida being -- from a  
23 reliability perspective, we've looked long and hard at us  
24 being a part of a large southeastern regional transmission  
25 organization. We feel that our electrical uniqueness and

1       our associated reliability needs compel us to be a  
2       standalone RTO rather than a small part of a larger RTO

1 where the control of our reliability issues lie outside of  
2 Florida; in Atlanta or Charlotte or wherever the security  
3 coordinator would be. And with that, I would open up the  
4 questions or whatever the moderators think.

5 MS. JABER: Mr. Wiley you made brief reference to  
6 the Jacksonville outage and the FERC commissioners may or  
7 may not be familiar with that outage last year but I think  
8 it would be beneficial to all of us frankly if you walk us  
9 through the role the FRCC played in ensuring that  
10 communication along all Florida utilities including JEA and  
11 just how that problem was isolated to the Jacksonville  
12 customers and didn't impact the rest of the utility  
13 customers. Could you walk us through a little bit more  
14 details briefly?

15 MR. WILEY: Well I'm not the detailed expert on  
16 that but I think I can give you what you're looking for.  
17 When things started happening in Jacksonville, they were in  
18 direct communications with our security coordinator and our  
19 security coordinator was monitoring the flows and what was  
20 happening as things were occurring up there. Once, and I  
21 might add, they took some action and I don't recall exactly  
22 what it was, but it was not too much that we could do in the  
23 rest of the State at that time to help Jacksonville.  
24 Jacksonville system, that they ended up with about, my  
25 recollection was about three instances, all working together

1       that caused that system to collapse and it's just something  
2       that no one could have ever predicted.  However, they do  
3       have what we call special protection schemes which look at  
4       circumstances that are happening in real time and then it  
5       began to isolate the system from the rest of the world and  
6       because of those special types of schemes and relay systems,  
7       Jacksonville had automatically separated itself from the  
8       rest of Florida.  What does that mean for the rest of  
9       Florida?  Well that means that there might have been a  
10      possibility of that disturbance spreading outside of the  
11      confines of the Jacksonville system and lucky it did not.  
12      Plus, it allowed JEA, Jacksonville to immediately begin its  
13      own restoration systems.

14                 CHAIRMAN WOOD:  Speaking of Jacksonville, what  
15      would it mean if you had them part of a different RTO than  
16      all the other members of FRCC.  What would it mean from a  
17      reliability angle if you had some members -- and I think  
18      Tallahassee maybe another one perhaps, with a different RTO,  
19      what does it mean from a reliability point of view to have  
20      different participations?

21                 MR. WILEY:  We haven't examined that discretely  
22      Chairman Wood.  Jacksonville and Tallahassee are right at  
23      that borderline between us and the rest of the world.  As a  
24      matter of fact, if we were to have a major disturbance in  
25      south Florida that were to separate Peninsula Florida from

1 the rest of the world, we would separate south of  
2 Jacksonville and south of Tallahassee. So guess my question  
3 to that answer is -- I mean my answer to that question is  
4 that we are not really sure what the effect would be. It  
5 would certainly have some operational impacts because JEA  
6 and the city of Tallahassee do share in our operating  
7 reserves and things like that. So it would affect those  
8 matters.

9 CHAIRMAN WOOD: Your connections are to Georgia  
10 Power, is that right?

11 MR. WILEY: Yes sir.

12 CHAIRMAN WOOD: Are there any Gulf Power going  
13 down the Panhandle?

14 MR. WILEY: There are some minor connections but  
15 basically those, I would view them as local backups to the  
16 western part of the FRCC region and to Gulf Power.

17 CHAIRMAN WOOD: Why were there never ties built  
18 to connect Peninsula Florida to the rest, I mean Panhandle  
19 Florida to Peninsula Florida?

20 MR. WILEY: Well I just happen to be the system  
21 planning engineer for Florida Power Corporation when those  
22 decisions were being made so I know some of those, the real  
23 reasons. It was a long distance, the economies of building  
24 high voltage transmission lines over that long distance just  
25 were not there, simply put.

1                   CHAIRMAN WOOD: Has that changed at all since  
2 then?

3                   MR. WILEY: I don't see that that has changed  
4 because when we are looking at the high voltage transmission  
5 in Florida, were talking 500 KV and for us to get more  
6 capability into Florida, we need to do it at 500 KV and we  
7 need to tie into some major load centers north of us which  
8 principally is the Atlanta area and there is just no heavy  
9 500 KV going down through the Panhandle.

10                  CHAIRMAN WOOD: What justify the original  
11 backbone in Florida? Was it connecting the urban centers in  
12 the State?

13                  MR. WILEY: The original 230 KV backbone was  
14 that, yes sir. The 500 KV system was, I guess it came into  
15 service about 1982/1983 and that was justified solely on the  
16 fuel differentials between some coal power in Georgia and  
17 our heavy dependence on oil at the time in Florida. As a  
18 matter of fact, this commission was most innovative in those  
19 days -- I'll probably have some of my folks in the back  
20 correct me when I get through but I think I'm close to right  
21 that this commission established what we called an oil back  
22 out clause which allowed the builders of these transmission  
23 lines to recover the cost of those lines over a eight or a  
24 ten year period. My memory is hazy, because the economics  
25 of building those lines, which was so fantastic with the

1 price differentials from some coal plants in Georgia versus  
2 the oil generation in Florida at the time. And that's why  
3 we have those lines, they were built for economic reasons.

4

5 CHAIRMAN WOOD: Let me ask you a couple questions  
6 about the actual FRCC organization. You answer directly to  
7 whom? You as the head of FRCC.

8 MR. WILEY: To the Board of Directors of FRCC who  
9 are members.

10 CHAIRMAN WOOD: And they are, I think you  
11 mentioned VRUs, plus communities, plus the broker group?

12 MR. WILEY: Plus independent power producers and  
13 market organizations.

14 CHAIRMAN WOOD: Okay and so how many staff people  
15 would be working with you?

16 MR. WILEY: There is 10 of us.

17 CHAIRMAN WOOD: And you've got a backup center on  
18 the gulf coast and then the main reliability center is?

19 MR. WILEY: Our main security coordinator is in  
20 Miami and our backup is in St. Petersburg.

21 CHAIRMAN WOOD: And your annual budget would be  
22 about what?

23 MR. WILEY: Two and a half million?

24 CHAIRMAN WOOD: Two?

25 MR. WILEY: Yes sir.

1

CHAIRMAN WOOD: All right. Thanks.

1 MR. WILEY: We're very efficient.

2 MS. JABER: Commissioners do you have any other  
3 questions before we move on? Ms. Bass.

4 MS. BASS: Thank you Mr. Wiley. Next will be Ms.  
5 Clark who will be describing Florida's statutory framework.

6

7 6

8 MS. CLARK: Thank you Mr. Chairman, Madam  
9 Chairman and Commissioners. Thank you for having the  
10 technical conference here and I appreciate the opportunity  
11 to be involved. I'm going to help set the stage for today's  
12 meeting by giving you a brief overview of Florida law  
13 governing the electric industry and how the regulatory  
14 framework work under which utilities operate and how new  
15 facilities, both generation and transmission facilities are  
16 sited. You should have a handout and I will go through that  
17 handout. The first slide is really just an overview of what  
18 I'm going to talk about. I'm going to talk about the  
19 regulation of the PSC of the rates, terms and conditions of  
20 service and best around utilities. The establishment and  
21 supervision by the PSC of utilities service territories, the  
22 regulation of Florida's grid from an adequacy and  
23 reliability standpoint, the 10-year planning process which  
24 leads to the identification of needed future electrical  
25 facilities and the siting of those facilities and finally,

1       the status of retail competition in Florida. The regulatory

1 laws governing Florida's utility industry have not changed  
2 materially in many years and they certainly have not changed  
3 since the passage of the Energy Policy Act in 1992, which  
4 provided the platform for many of the changes taking place  
5 in the industry today. Florida statutes call for regulation  
6 of investor-owned utilities, using a cost of service  
7 methodology. The regulatory compact is still very much in  
8 effect in Florida. The utilities are granted exclusive  
9 service territories and they have the obligation to serve  
10 all customers in that territory reasonably entitled to  
11 service and in return, they have an opportunity to earn a  
12 return, a reasonable return on their investment. And then  
13 the PSC has extensive and exclusive jurisdiction over  
14 investor-owned utilities, over their rates, terms, and  
15 conditions of service. Turning to the next slide on service  
16 territories, in 1951, the statewide regulation of electric  
17 utilities was established in Florida. The regulatory  
18 authority given to the Commission's predecessor was  
19 exclusive and it implicitly included the authority to review  
20 and approve territorial agreements that established service  
21 territories. The concept of exclusive service territories  
22 as we all know was designed to minimize and/or eliminate  
23 unnecessary and uneconomic duplication of facilities. Then  
24 in 1974, as part of what is known as the Grid Bill, the  
25 Legislature made explicit the PSC's implicit authority to

1 review and approve territorial agreements and also to settle  
2 territorial disputes. The Legislature also made it clear  
3 that this authority extended to municipal utilities and  
4 rural electrical cooperatives. Service territories in  
5 Florida are established through the PSC's approval of  
6 territorial agreements or the resolution of disputes and you  
7 actually have an order from the Commission so you no longer  
8 just have an agreement between the two entities. This is  
9 different than what is done in other utilities in Florida,  
10 for instance, in the water and wastewater industry, the  
11 commission actually issues certificates of territories but,  
12 the effect is the same and that is the establishment of  
13 exclusive territories. When utilities can not agree on the  
14 boundaries of their service territories, the Commission can  
15 step in and resolve the dispute. That dispute can either be  
16 brought by the entities involved or the Commission can  
17 declare a dispute on its own motion and resolve this  
18 territorial boundaries. Let me turn to the next slide,  
19 which is the coordinated electric grid. The same  
20 legislation that made the PSC's authority over territorial  
21 agreements and disputes also expanded the PSC's authority  
22 over all utilities including municipal and co-ops for the  
23 purposes of ensuring the adequacy and reliability of the  
24 statewide grid. The Grid Bill was the result of a  
25 legislative study that concluded a coordinated energy grid

1 would lead to more efficient energy use and help control the  
2 rise in energy cost. The Grid Bill made the PSC responsible  
3 for planning, development, and maintenance of a coordinated  
4 electric power grid throughout Florida to assure an adequate  
5 and reliable source of energy for operational and emergency  
6 purposes. In carrying out that responsibility, the PSC  
7 carefully monitors the State's generating capacity and  
8 reserve margins and as Mr. Wiley mentioned, the reserve  
9 margin for IOUs that serve Peninsula Florida is required to  
10 reach 20% by the year 2004. Gulf Power Company, because it  
11 is part of the southern system, maintains the 15% reserve  
12 margin. Going to the next slide, if the PSC becomes  
13 concerned about a utility or the industry --

14 MS. JABER: Commissioner Clark, I'm sorry to  
15 interrupt, but on that point, it may be that the -- and  
16 maybe you will get to this, I apologize, but it may be that  
17 the FERC Commissioners are not familiar with how we treat  
18 wholesale economic sales and excess capacity. Is that  
19 something you've covered or you want to take an opportunity  
20 and describe the sharing mechanism.

21 MS. CLARK: I'm not sure.

22 MS. JABER: The 80/20 and how we encourage  
23 wholesale economic sales and the sharing between customers  
24 and shareholders.

25 MS. CLARK: I think you have reference to what

1 was the broker system and in order to encourage utilities to  
2 make sales on the systems, the Commission allowed, there was  
3 the split savings between the seller and the buyer and then  
4 as between the utility and its customers, there was 80% went  
5 to the customers and 20% went to the shareholders as a means  
6 of incenting participation in a competitive market and that  
7 was the broker system.

8 MS. JABER: And that's still in existence?

9 MS. CLARK: Not so much anymore because of the  
10 changes in the market and as I understand from Ken's  
11 statement, there isn't much being done on the broker system  
12 these days but from about, I want to say 1978, through the  
13 early 90's, it saved maybe millions, maybe billions of  
14 dollars, almost a billion dollars so it was -- it did have  
15 the intended effect of saving Florida customers money by  
16 sharing capacity.

17 CHAIRMAN WOOD: What has filled the void?

18 MS. CLARK: What has filled --

19 CHAIRMAN WOOD: I said it's tapered off, what has  
20 taken its place to get that?

21 MS. CLARK: I believe its bilateral contracts.

22 CHAIRMAN WOOD: And it used to be a more -- the  
23 broker system was more of a centralized system that allowed  
24 everybody to --

25 MR. WILEY: The broker system was a computerized

1 system that allowed all of the market participants to  
2 "hourly" and when deregulation came and new market players  
3 came in, we found that there were just all kind of hourly,  
4 daily, weekly transactions going on at the wholesale level  
5 and people just weren't -- I guess they didn't see the merit  
6 in the hourly broker anymore since these other things  
7 evidently displaced the hourly savings. So it was a slow  
8 demise. Over the years from '76 until the year 2000, this  
9 system, we actually had computer program that documented  
10 this and it was about -- almost a billion dollars saved in  
11 the State over the next years as a result of this particular  
12 system.

13 MS. BROWNELL: So the savings they enjoyed under  
14 that system have been replaced by savings that they now  
15 enjoy because of the benefits of bilateral contract? Is  
16 that where you're going here?

17 MR. WILEY: I would say yes. I guess as a simple  
18 answer to that I could give you that. You would assume that  
19 people are making money and saving money under these  
20 bilateral contracts. When I say bilateral contracts, that  
21 doesn't mean it's formal because as you know there is buying  
22 and selling on the system, hourly, daily, weekly between all  
23 kinds of market participants today.

24 MS. BROWNELL: But overall prices have gone down  
25 as a result of that system so out of one saving mechanism

1 that was more formalized and able to be tracked has been  
2 replaced by another? I'm just trying to understand what's  
3 happened to the marketplace since that change.

4 MR. WILEY: Well when we had the broker system we  
5 could monitor the market and when we entered this new one,  
6 then obviously we're are going to sit back and one would  
7 think that people are going to go to the most efficient  
8 market system and the market system we've had for the past  
9 two years evidentially was more efficient than our broker  
10 system in terms of savings and profitability and that's  
11 where people migrated to.

12 MS. BROWNELL: But there is no real tracking with  
13 that?

14 MR. WILEY: No ma'am.

15 MS. BROWNELL: Okay, thank you.

16 MR. WILEY: Not by us.

17 MS. CLARK: Getting back to the PSC's authority  
18 over the grid. If the PSC becomes concerned as I said about  
19 the adequacy of or reliability of the grid, it does have the  
20 authority to require the installation or repair of necessary  
21 facilities to remedy the situation. It contemplates  
22 improvements both in generation and transmission. To my  
23 knowledge, I don't think the Commission has ever exercised  
24 that authority. For the most part, the utilities coordinate  
25 well and are putting in the necessary facilities to maintain

1 the adequacy of the grid. Certainly one of the things the  
2 Commission does -- and I'm on the next page, next slide --  
3 to make sure that Florida does not run into problems with  
4 reliability, has to do with the annual planning process.  
5 Each year, the utilities, including municipals and  
6 cooperatives must submit to the PSC plans for meeting their  
7 projected load over the next 10 years and the PSC reviews  
8 these plans and determines whether they are suitable or  
9 unsuitable for planning purposes. This is -- the Commission  
10 holds a workshop and then in the Fall, the Commission will  
11 review the draft report on the 10-year planning process  
12 which it will issue at the end of the year and that is the  
13 workshop that Ken mentioned that they also make a  
14 presentation at, the Reliability Council. Ultimately, this  
15 planning process serves as the basis for the utilities  
16 capacity selection decisions including the timing and the  
17 type of the capacity additions. In Florida, prior to  
18 building a generating facility that has a steam -- and I'm  
19 on the next page -- that has a steam generating facility  
20 component of more than 75 megawatts, the utility must apply  
21 to the PSC for a determination of need. It must be  
22 established that there is the need for new facility to serve  
23 Florida consumers. The determination of need is part of a  
24 one-stop permitting process called the Power Plant Siting  
25 Act and this Commission, prior to an investor-owned utility

1 coming in for a determination of need, this Commission  
2 requires that utility to go through a competitive bidding  
3 process. Once the utility files a need application, the  
4 Commission reviews it to determine whether the plant is  
5 needed and whether it is the most cost effective. On this  
6 slide, list those items the Commission must take into  
7 account in making their determination. The PSC's  
8 determination is specific with regard to the size, type, and  
9 location of the unit. After the PSC makes its  
10 determination, it is then up to the governor and cabinet  
11 sitting as the Siting Board to issue the site certification.

12

13 To be clear that site certification is actually proceeding  
14 is before the Florida administrator law judge and then the  
15 governor and cabinet gets a recommended order and then they  
16 will issue a final order approving or denying that site  
17 certification. Turning to the next page, the Transmission  
18 Line Siting Act is the companion to the Power Plant Siting  
19 Act. If you are going to build a line that is 230 KV or  
20 higher, 15 miles or greater in length, and cross county  
21 boundaries, you must go through the Transmission Line Siting  
22 Act. If it doesn't meet that criteria, it is permissive to  
23 go through that procedure. Again, a determination of need  
24 is required by the Public Service Commission and I again  
25 listed on the slide those things the Commission must take

1        into account when determining the need for the transmission

1 line. I'm on the next slide. Like the Power Point Siting  
2 Act, the transmission line siting process is coordinated by  
3 the Department of Environmental Protection. Reports are  
4 filed by affected states and local agencies and regional  
5 planning councils. A certification hearing is held before  
6 an administrative law judge that then issues the recommended  
7 order which the governor -- which goes to the governor and  
8 cabinet. Based on the timeframes in the statute,  
9 optimistically this process takes about 285 days. There are  
10 several -- turning to the next page -- I have listed the  
11 factors that the Siting Board must consider in approving a  
12 transmission line. In the interest of time, I know you can  
13 read it, so I'm not going to go through them. Let me turn  
14 finally to retail competition in Florida. As I indicated,  
15 we still, in Florida, have cost of service regulation  
16 instead of competition. As I indicated, the Grid Bill  
17 provides for exclusive service territories in Florida and  
18 several courts have found that the scheme of regulation in  
19 Florida meets the requirements for immunity from antitrust  
20 liability. Those requirements are that you have a clearly  
21 articulated state policy to displace competition with  
22 regulation and that policy is actively supervised and in  
23 this case, it is actively supervised by this Commission.  
24 There has been no legislative action to implement  
25 competition. The study commission that you testified

1 before, Chairman Wood, made some recommendations with  
2 respect to the wholesale market and made the additional  
3 recommendation that there not be a pursuit of retail  
4 competition until there are recommendations with respect to  
5 the wholesale market had been implemented. Thank you.

6 MS. JABER: I have two questions, three actually  
7 that have been designed really to bring out some of the  
8 factors that make Florida unique, as Roberta said earlier.  
9 Looking for information that the FERC commissioners may not  
10 hear at other conferences and the three areas I want to  
11 focus on, retail rate jurisdiction, which I know you were  
12 very passionate about when you were commissioner, and you  
13 still are and certainly we share that concern, the bid role,  
14 bringing out the changes to the bid role and then maybe the  
15 cost recovery proceedings, you could give the FERC  
16 commissioners a little bit more detail. Starting with the  
17 retail rate jurisdiction. Your position has always been in  
18 Florida, the Florida Commission has agreed that preservation  
19 of jurisdiction over retail rates is critical. Could you  
20 outline some of the advantages you see that Florida has in  
21 maintaining that jurisdiction? What are some of the things  
22 that you think have worked for Florida's advantage in that  
23 regard?

24 MS. CLARK: Well I guess -- let me sort of point  
25 to some things that you, the Sitting Commission recently has

1 done with respect to retail rates. It is a cost of service  
2 jurisdiction but I think this particular Commission has  
3 taken a number of steps to do other than strict cost of  
4 service regulation. You have done alternate -- I can't  
5 think of the word right now -- performance-based regulation  
6 --

7 MS. JABER: Incentive.

8 MS. CLARK: Incentive-based regulation where you  
9 have encouraged the parties to reach settlements with  
10 respect to revenue requirements and rates for utilities and  
11 as part of those settlements, there has been a sharing  
12 mechanism which encourages utilities to be cost effective  
13 and cost efficient and by being cost effective and cost  
14 efficient, they will share in some of the additional  
15 revenues that that can generate. I'm just not remembering  
16 the specifics with regard to that.

17 MS. JABER: Is a transition into the cost  
18 recovery proceeding, would you agree that that's another  
19 benefit that Florida has designed mechanisms that allow for  
20 recovery proceedings each year that avoid rate cases?

21 MS. CLARK: Right.

22 MS. JABER: And in answering that, would you  
23 describe what your understanding is of what companies file  
24 for those cost proceedings; fuel and environmental cost?

25 MS. CLARK: I guess in Florida we have the fuel

1 cost recovery, environmental cost recovery and as part of  
2 that there is the capacity cost recovery as well. So you  
3 don't go through an entire rate case. There are costs that  
4 are pure pass-thrust of an expense to the customers and I  
5 think it's done on a yearly basis now. We used to do it on  
6 a six months basis and it looked like at the time that there  
7 was not that much volatility in fuel prices that we could --  
8 the Commission could do it on an annual basis. I don't  
9 recall what percentage rates are part of the your fuel  
10 docket, but it's a large percentage. The other thing I  
11 would say going back to the rate, pure rate making outside  
12 the causes is this Commission has encouraged parties to  
13 negotiate settlements and use the negotiation arbitration  
14 process to reach mutually acceptable resolutions of those  
15 cases that are then approved by this Commission and I think  
16 you currently have at least two instances, Progress Energy  
17 and Florida Power and Light where there was a settlement of  
18 those rate investigations and the agreements called for the  
19 settlement to be in effect for three years and it did result  
20 in some reduction in rates to customers. I believe Gulf  
21 Power actually went through a rate proceeding but it was  
22 relatively weak rate proceeding compared to those the  
23 Commission used to have.

24 MS. JABER: And then my final question relates  
25 to, you mentioned earlier the Energy Commission a few years

1 back made some recommendations related to how the State  
2 could promote more competitive wholesale market, and as I  
3 recall, one of those recommendations related to the bidding  
4 process and just last year we did revise our competitive bid  
5 rule. Do you want to describe that a little bit?

6 MS. CLARK: Yes, I would say that what the 20/20  
7 Study Commission recommended with respect to the bidding  
8 process did contemplate it being part of other changes to  
9 the wholesale arena which included some volunteer  
10 divestiture of generating for investor-owned utilities. It  
11 would be the opportunity to transfer their generating assets  
12 but then there was a requirement of contracts back to the  
13 load serving and to ensure that retail rates were moderated  
14 and there would be no concern about an increase in rates as  
15 a result of transferring those generating facilities. With  
16 respect to the competitive bidding, the recommendations were  
17 made by the 20/20 Study Commission on that in contemplation  
18 of a different design for the wholesale market. But not  
19 withstanding that, this Commission recently investigated the  
20 bidding process and made changes to the bidding rule to make  
21 it more transparent so that those entities who wanted to bid  
22 can provide the capacity that was needed as evidenced by the  
23 ten-year site plans and the utilities planning process. The  
24 Commission set about requiring, I would summarize it by  
25 saying requiring more detail in the bidding process both as

1 to what they are looking for in terms of capacity and how  
2 they will evaluate the proposals they get. The other thing  
3 I think the Commission did was require, provide a process  
4 where once the RFP is issued, within 10 days, I think it's  
5 10 days after the issuance of the RFP, there is an  
6 opportunity for applicants to file an objection with the  
7 Commission alleging that the RFP does not comply with the  
8 requirements of the bidding rule and that bidding rule  
9 includes a requirement that the terms and conditions for  
10 bidding for that capacity are not onerous, anti-competitive,  
11 unfair or discriminatory. I think those are the four  
12 categories. Recently FP&L has issued an RFP, and objection  
13 -- some objections have been made to that RFP and FP&L has  
14 responded to it. The Commission has, as part of the  
15 revisions to the bidding rule, put in a very abbreviated  
16 process for the Commission to take an initial look-see at  
17 the objections and give its advisory opinion as to the  
18 validity of those objections and the Commission set aside I  
19 think, 30 days to make that determination. Those are the  
20 changes, the major changes to the bidding rule, all for the  
21 purpose of making it more transparent process so that there  
22 was more confidence of the fairness of the process.

23 MS. JABER: Commissioner you have questions for  
24 Ms. Clark?

25 MR. DAVIDSON: A couple of questions Chairman and

1       thank you for pointing out the recent example involving  
2       allegations that the bid process has not possibly worked out  
3       as intended. We've seen allegations that the process in  
4       general still tends to favor those issuing the bid and  
5       without going into the merits of those allegations, is there  
6       anything else that you would recommend that needs to be done  
7       to the bid rule to make the process better or do you feel  
8       that the process is set up and works fine as is? Try to be  
9       as objective as you can.

10               MS. CLARK: Well, I guess, having put a new bid  
11       rule out there, this is the first project you had come in  
12       under the new bid rule, I think it's important to see if it  
13       works. I mean you made some determinations as to what was  
14       appropriate after some very lengthy proceedings and I think  
15       its incumbent to find out if those changes produced the  
16       results you are looking for and I want to be specific that  
17       the competitive bidding process is designed to find the  
18       least cost additional capacity needed in Florida. It's not  
19       designed purely for competitive reasons. It is designed to  
20       bring the least cost to the customers and if that happens to  
21       be the self-build, then it's the self-build.

22               MR. DAVIDSON: Just one follow up, more of a  
23       philosophical question. In your view, is the wholesale  
24       energy market a local market or national market?

25               MS. CLARK: Well, I would say in Florida, it's a

1 Florida market.

2 MR. DAVIDSON: Is there a wholesale energy market  
3 of which Florida could or should be a part?

4 MS. CLARK: I don't see how because of the inner  
5 ties with Georgia are not there to import large amounts of  
6 power. It seems to me your natural market is Peninsula  
7 Florida.

8 MR. DAVIDSON: That's all, I've got no follow up.

9 MS. JABER: Commissioner Davidson, Mr. Wiley I  
10 think wanted to respond to your question as well. Is that  
11 all right?

12 MR. DAVIDSON: Sure.

13 MR. WILEY: I think there is a huge wholesale  
14 market going on in Florida as we speak. Just to make sure  
15 that you have that understanding. There is a tremendous  
16 amount of transactions going on within the State and  
17 additionally, 55% of our capability to the north of our  
18 transmission interconnections is being utilized daily to  
19 purchase non-firm type of energy across the state line and  
20 that 55% represents, you know, roughly 4 to 5% of our peak  
21 load in this state so it's not a trivial amount of  
22 transactions that are flowing across the state line and I  
23 might add in many instances, there is a lot of transactions  
24 of us selling north of Florida. We're not just buyers all  
25 the time. So please don't get the impression that there is

1 not a very robust wholesale market in Florida.

2 MR. DAVIDSON: Well I understand there is a  
3 robust market in Florida and I hope I'm not missing  
4 something basic and if Chairman Wood could help me out on  
5 this point. My understanding was there is at least in part  
6 a national wholesale energy market. Now is it your  
7 contention there is just a Florida wholesale energy market  
8 and we're really sort of stand alone in that capacity?

9 MR. WILEY: No sir. There is about, as I  
10 indicated, about 5% of our peak load in the state are, I  
11 guess it's about 1,500 megawatts of capacity that can flow  
12 daily into Florida and it does happen. There is load  
13 (inaudible) entities in Florida that buy daily on the  
14 wholesale market for market participants to the north. I  
15 mean it's not just from Georgia. They buy as far away as  
16 PGM as a matter of fact or sell to them.

17 MR. DAVIDSON: Thank you. Let me ask one follow  
18 up and then I will be quiet. If we assume that there is  
19 some national wholesale market, from which we could,  
20 Florida, we could benefit in some way, what would be on your  
21 top three list of requirements to marry off the notion of a  
22 national wholesale market to Florida's uniqueness which I  
23 think everyone in this room would agree we have.

24 MR. WILEY: Well the first of the common  
25 standards of this particular market which has been worked on

1 as we speak through this new NESBEY group that has been  
2 formed so common definitions and again, common reservations  
3 of the transmission system so that as you go from north,  
4 somewhere in the Mid Atlantic states to Florida that you  
5 have the same common practices about how to reserve  
6 transmission lines that you can get your power from one  
7 market to another and those types of standards are already  
8 in place to do it. The last would be the capability of the  
9 transmission system to come into Florida and currently as I  
10 indicated, that is limited to 3,600 megawatts of which 45%  
11 of it is already firmly committed for a few more years. And  
12 so, if you felt that the economic showed that that isn't  
13 enough and we need to have more power coming in  
14 economically, then I would say economically, you should be  
15 able to justify new transmission lines across the border.  
16 So it's a kind of a chicken and egg. I think you have to  
17 have the economics to justify it. The market situation is  
18 there. The mechanisms are in place and are coming into  
19 place.

20 MR. DAVIDSON: Thank you.

21 MS. JABER: Commissioner Brownell you had some  
22 questions?

23 MS. BROWNELL: Yes, just two quick follow up  
24 questions. You talked Commissioner Clark about whether that  
25 self-build option is still the reality and wasn't the

1 revision of the bidding rules, and maybe one of the current  
2 Commissioners would want to comment, designed to make sure  
3 that you were comparing apples-to-apples, wasn't one of the  
4 issues that the self-build wasn't necessarily expressing all  
5 the costs others might incur so you weren't comparing  
6 apples-to-apples when you evaluate?

7 MS. CLARK: Well I think there is still the -- I  
8 think the original bid rule and the current bid rule does  
9 make the appropriate comparison between the bidding of a  
10 price and when you look at what the utilities do, they are  
11 essentially telling you what their costs are going to be to  
12 build that facility. What the Commission -- the additional  
13 thing the Commission did with the bid rule was to say that  
14 if it is a self-build decision that the Commission will look  
15 very carefully at the final cost of what is built by the  
16 utility and the recovery will be what was found, the price  
17 that you proposed and the determination of need. To get any  
18 recovery over that, you have to demonstrate what is  
19 extraordinary circumstances -- I'm trying to remember what  
20 the bid rule is -- in other words to in effect hold the  
21 utility to the cost they said it would be in the same way  
22 that you would hold the bidder to their price.

23 MS. BROWNELL: And the second question was, I  
24 think you referred to recommendations for a wholesale market  
25 to include some divestiture. Was that by the 20/20 rule?

1 MS. CLARK: Yes, I don't recall all the details  
2 of it but it was the notion that utilities that had  
3 generation could transfer that generation to an independent  
4 affiliate with the requirement of having six year contracts  
5 for buying back that power at a set cost and it was the load  
6 serving entity that had the discretion to continue those  
7 contracts or discontinue those contracts if he found a  
8 better price in the market. And I recall there was some  
9 provision for the sharing if those facilities were sold  
10 above book value. It's been a while and I'm trying to  
11 remember the details of it.

12 MS. BROWNELL: So --

13 MS. CLARK: But there were other things in place  
14 as part of a scheme to allow that transfer of assets,  
15 generating assets and create that kind of market structure  
16 in Florida.

17 MS. BROWNELL: And I'm assuming that was to do  
18 with market power issues but they didn't want to order  
19 mandatory divestitures?

20 MS. CLARK: You know, I think one of the concerns  
21 that was on was what happened in California when you had the  
22 complete divestiture and the customers weren't protected and  
23 there was a desire to protect the customers from that kind  
24 of volatility.

25 MS. BROWNELL: And has any of that actually

1       happened?

2                   MS. CLARK:  No.

3                   MS. BROWNELL:  Thank you.

4                   MS. CLARK:  There was a proposal to do that and  
5       it did not make it to the legislative process.  It was --  
6       the timing probably wasn't right for it.

7                   MS. JABER:  Let's give it back to Roberta.

8                   MS. BASS:  Thank you Commissioner Clark for those  
9       comments.  Our next presenter is Mr. Naeve and he is going  
10      to give us a brief history of the GridFlorida proposal and  
11      the current status.

12                  MR. NAEVE:  Thank you Roberta.  Given the time, I  
13      think we are already 15 minutes past schedule so I'll try to  
14      be relatively brief on the history and governance issues.  
15      I'm first going to discuss the history of GridFlorida and  
16      then I want to address the governance structure of  
17      GridFlorida.  When one thinks of the history of GridFlorida,  
18      there are actually two separate processes that we have been  
19      through, the federal and deregulatory commission processes  
20      and then the state public service division process.  The  
21      Commission issued Order 2000 in, I believe it was in  
22      December 1999 shortly thereafter the Gird Florida and  
23      investor-owned utilities organized a series of stakeholder  
24      meetings to begin the process of preparing an application to  
25      file at FERC to become a -- create a regional transmission

1 organization. The Federal and Deregulatory Commission  
2 established a deadline, I believe it was October 16, 2000  
3 they had an application filed and they wanted an RTO up and  
4 running I believe by December 15, 2001. So the Florida  
5 participants attempted to develop a schedule that would have  
6 them meet those deadlines. The companies made an initial  
7 filing at FERC on October 16, 2000. It was not a complete  
8 filing, they actually had more details to work out through  
9 the stakeholder process and they made a supplemental filing  
10 in December 15, 2000. They completed the RTO filing for the  
11 companies. The October 16 filing was made early because  
12 even though the companies in the stakeholder process had not  
13 agreed on all the details of the RTO, they had reached  
14 general consensus on how the Board would be selected, what  
15 the qualifications would be for Board members and what  
16 limitations would be imposed on Board members and the  
17 companies recognized that if they wanted to meet the  
18 implementation deadline of December 15, 2001, they had to  
19 begin the process right away of selecting the Board. So  
20 they tried to move forward and get early review from FERC on  
21 their Board selection process so that they could begin the  
22 mechanics of identifying Board members, hiring search firms,  
23 and so forth, and get the Board up and running. So sooner  
24 than later, they can turn over control of the process to the  
25 Board. That was the October 16 filing. The Commission did

1 at the December 15th filing, the remainder of the governance  
2 provisions were filed as well as the other key elements of  
3 the RTO. The -- what made this RTO unique, I suspect not  
4 unique as there are a few other for-profit Transco's that  
5 were filed but GridFlorida was initially conceived as a for-  
6 profit transmission owning enterprise. It was structured in  
7 a way that the GridFlorida transmission owning --  
8 transmission providers could transfer actual ownership of  
9 their transmission assets to GridFlorida in exchange for  
10 non-voting equity interest in the company. It was this for-  
11 profit feature of the Transco that did create a number of  
12 very interesting governance issues and the stakeholder  
13 process and the application itself spent a greater of time  
14 and went through a great deal of detail but worked out all  
15 of these governance issues, potential conflicts of interest  
16 between the equity owners and the non-equity owners, how we  
17 protected investments and a variety of other issues. In the  
18 FERC issues in order of January 10, 2001, approving the  
19 process for selecting governors, the qualification for  
20 governors and the restriction on investments and so forth  
21 for the Board of Governors and the Board of Directors and  
22 then following that on March 28, 2001, FERC issued an order  
23 conditionally approving GridFlorida as an RTO. That order  
24 gave approval to the governance structure, to the planning,  
25 the majority of the planning protocol, the pricing for the

1 RTO, the manner in which existing contracts would be grand  
2 fathered, for how the market monitor would be established,  
3 for a physical rights system for managing congestion and for  
4 a process for allocating those physical rights. Other  
5 elements that were proposed, market design elements that  
6 were proposed by the GridFlorida companies were not approved  
7 in that order of FERC. Instead, the Commission asked the  
8 applicants to make a supplemental filing providing more  
9 information with respect to the market design components.  
10 On May 29, the applicants made that compliance filing. It  
11 addressed a lot of the questions the Commission had asked  
12 about market design. It also provided information about how  
13 GridFlorida would be managed prior to the selection of the  
14 Board of Directors, the kind of interim management of  
15 GridFlorida. It addressed some generation interconnection  
16 issues, it provided more information on the definition of  
17 flow gates for purposes of the physical rights, congestion  
18 management model and it provided more details on the  
19 planning process. Now as I mentioned, there were two  
20 procedures, the federal procedure and the state procedure.  
21 About this time, the state procedure came into  
22 consideration. The Florida Public Service Commission  
23 invited the applicants to file a petition for approval based  
24 on hopefully a finding that the applicants' participation in  
25 GridFlorida was prudent. The applicants in May of 2001

1 filed with the Public Service Commission a petition asking  
2 for the Commission to find that their participation in  
3 GridFlorida was prudent. They filed with the Public Service  
4 Commission the applications that had been filed at FERC.  
5 They asked for expedited consideration of their request for  
6 prudence finding and the Public Service Commission  
7 established procedure to expeditiously review it. In  
8 October of 2001, the Public Service Commission held hearings  
9 with respect to the applications from the applicants. In  
10 December 2001, the Public Service Commission issued an order  
11 in which it held first and foremost that the applicants were  
12 prudent to participate in GridFlorida and that -- but they  
13 also suggested various changes. The most important of which  
14 was that at this stage, they said that they would prefer  
15 that GridFlorida not be a for-profit transmission owning  
16 company but rather an independent system operator that did  
17 not own transmission assets. Secondly, they asked that the  
18 pricing structure be adopted that retained Public Service  
19 Commission jurisdiction over bundle retail rates. They  
20 asked that the companies come back to them for prior  
21 approval for certain changes such as changes in the  
22 organizational structure, changes in the requirements that  
23 there be a balanced schedule, changes in the physical  
24 transmission rights system or any changes in the manner  
25 which physical rights were allocated among the parties. The

1 companies in March of 2000 and again in June made compliance  
2 filings with the Commission and these compliance filings  
3 were largely to address the issues raised by the Commission  
4 to convert the company from a transmission owning entity to  
5 one that does not own transmission but rather manages  
6 transmission and after their initial compliance filing,  
7 there were a series of workshops in Florida in April and  
8 March and also the -- I'm sorry, there were workshops in  
9 May, May 29th in particular. Also about that time, FERC had  
10 issued both a working paper in March and then in April 10th  
11 an options paper dealing with standard market design in  
12 which more information was becoming available about new  
13 directions that FERC was going with respect to market design  
14 and other issues. In response to both the workshops and the  
15 new direction, guidance from FERC, the applicants made a  
16 supplemental filing with the Public Service Commission which  
17 they outlined the principles for yet another change to the  
18 market design. These new principles dealt with providing  
19 financial transmission rights as opposed to physical rights,  
20 voluntary day ahead and real time markets and they provided  
21 that sellers into these markets would get market clearing  
22 prices as opposed to the Commission's preferred approach  
23 would have been that sellers would get what they bid as  
24 opposed to the marketplace price. The Public Service  
25 Commission in August and September addressed these filings

1 and the Public Service Commission among other things asked  
2 that certain aspects of the filings be clarified, namely  
3 dealing with some governance and planning issues, vote of  
4 conduct issues and so forth, but they also established that  
5 there should be an expedited hearing on the proposed changes  
6 to the market design. Then of course, the applicants made  
7 various compliance filings and then in October of 2002, the  
8 OPC filed a notice of administrative appeal of the Public  
9 Service Commission September 3rd order and they filed it  
10 with the Supreme Court and on October 28th, the Public  
11 Service Commission abated the hearings on market design  
12 pending the resolutions the Supreme Court issued. Then  
13 finally in June of 2003, the Supreme Court dismissed the OPC  
14 appeal without prejudice. That kind of takes us up to where  
15 we are today on GridFlorida. Let me briefly discuss  
16 governance and then respond to any questions that you might  
17 have. As I mentioned, the original filing governance is a  
18 little bit complicated because we did have an entity that  
19 was controlling the markets and also in the transmission  
20 system and it was a for-profit company that was a  
21 transmission owner and it had participants who were equity  
22 investors who were also market participants, non-voting  
23 equity investors, but nonetheless equity investors. But  
24 nonetheless, we had worked carefully with our stakeholders  
25 on governance and FERC approved the governance structure

1 that we had put forward in that order. In response to the  
2 Public Service Commission's requirement that we revised  
3 GridFlorida so that it is not a transmission owning entity,  
4 the companies did make certain changes in the governance  
5 structure. I think from the point of view of the Federal  
6 Deregulatory Commission, these changes did not raise any  
7 significant issues relative to the governance structure that  
8 they had already approved. The changes were more or less  
9 related to the conversion of the entity from a transmission  
10 owning entity to a not-for-profit independent system  
11 operator. For example, in the Board Selection Committee,  
12 previously there were representative group and there were  
13 representative from divesting transmission companies and  
14 non-divesting companies. Well, now we didn't have divesting  
15 companies anymore, we only had non-divesting companies so we  
16 eliminated the category for the divesting companies. We  
17 changed the group from an eight-member group to a nine-  
18 member group with three members representing investor-owned  
19 utilities. With respect to the qualifications for  
20 investors, they were changed somewhat because the original  
21 Board of Directors was anticipated to operate a for-profit  
22 company. We hoped that it looked like a fortune 500-type  
23 company and we established criteria and qualifications for  
24 Directors that they would be the type of people who would  
25 serve on the Board of for-profit companies. Now that it was

1 going to be a non-for-profit company, some of the criteria  
2 that we had established for the Board members probably  
3 didn't fit so we eliminated some of those. We did  
4 nonetheless specify that the Board members represent a  
5 diverse background and talents and skills that they could  
6 bring to the organization. We decreased the Board from nine  
7 members to seven and we did this because our judgment was  
8 that if you have a not-for-profit company with a very large  
9 Board, the Board members may not pay much attention to  
10 what's going on. We wanted them to feel vested in this  
11 company, that they had a lot of responsibilities in their  
12 hands and so we wanted a Board that was going to be focused  
13 and tuned in, so we reduced it to a seven-member Board. We  
14 changed the nature of the Board meetings. Previously when  
15 it was a for-profit company, they would have to address a  
16 lot of issues, SEC filings and issues related to the --  
17 issues that might be considered confidential information on  
18 the security clause. Those Board meetings were not open to  
19 public scrutiny. Now that it was a not-for-profit company,  
20 we require that the Board meetings be held in the sunshine.

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MS. JABER: Mr. Naeve, just continue with your  
presentation in just a second but let me ask Mr. Regan and  
Mr. Green to go ahead and join us. We're going to go right

1 from your comments to the second panel.

1                   MR. NAEVE: All right. I think I'm just about  
2 through and indeed that, quite frankly, more or less, we do  
3 have an Advisory Committee as Order 2000 required. The  
4 Advisory Committee has 13 members, three from investor owned  
5 utilities, two from investor owned utilities that  
6 distributed retail, these are more municipals and co-ops and  
7 two that are representing G&T co-ops or municipal joint  
8 action agencies, two from generators, two from marketers and  
9 two from governmental or not-profit organizations  
10 representing end-users. Generally the Commission in this  
11 sense, Federal and Deregulatory Commission has already  
12 approved the governance structure and we think we have made  
13 some changes to accommodate the shifting from a for-profit  
14 to a not-for-profit company but we don't think those changes  
15 should raise any issues relative to independence or  
16 governance with FERC.

17                   MS. JABER: And that should serve a good  
18 transition to the Regional State Committee panel. What do  
19 you think? You're first up. Go ahead, you want to ask a  
20 question now?

21                   SPEAKER: Well, I'll save my question until all  
22 three presenters do their presentations.

23                   MS. JABER: Go right ahead and then Commissioner  
24 Davidson you've got something?

25                   MR. DAVIDSON: I just have one question I wanted

1 to throw out now. If you were the benevolent dictator and  
2 taking into account the basic risk and rewards nature of a  
3 market, which approach makes most market sense to you; an  
4 asset-owning entity or a not-for-profit independent system  
5 operator, if you made all the decisions, which would you  
6 prefer and why?

7 MR. NAEVE: I originally was quite enamored of  
8 the asset-owning entity. Generally my bias is that people  
9 take better care and husband better resources that are their  
10 own. The idea of turning over significant resources to a  
11 not-for-profit enterprise always struck me as perhaps, not  
12 the most efficient way to manage resources and I think I'm  
13 still generally biased in that direction. There is a little  
14 bit of a conundrum though because with RTOs we expect them  
15 to not only manage and husband and control these resources  
16 whether they own them or they are somebody else's, but also  
17 to operate markets and there are a lot of issues raised  
18 relative to potential conflict of interest between the  
19 enterprise if it was a for-profit enterprise that owned and  
20 operated transmission assets and provided transmission  
21 service but also operated power markets that affected  
22 generators and itself. I'm still inclined to prefer the  
23 for-profit transmission owning entity but I have to admit,  
24 there are interesting and complex issues that come up when  
25 that entity is also given responsibility of operating

1 markets.

2 MS. JABER: Commissioner Deason.

3 MR. DEASON: Madam Chairman, realizing we are  
4 running behind schedule, I just have one quick question at  
5 this point and it is for Mr. Wiley. Mr. Wiley, in your  
6 presentation, you covered the fact that we've seen a  
7 transition in Florida away from the broker system towards  
8 more of a market approach. You also made reference to the  
9 fact that Florida's unique, limited capability of import and  
10 export but there is some significant capacity there in that  
11 they are wholesale transactions taking place. I think you  
12 even referenced that it was a robust market. You also made  
13 reference to the fact that, in your opinion that when the  
14 economics dictate, there will be additional capacity,  
15 transmission capacity built but we've not seen any of that  
16 and I guess my question is, since we've seen the wholesale  
17 situation shift where it's just a market and it's not  
18 something that is currently actively monitored by  
19 regulation, how do we gain a sense that if there are  
20 economic transactions out there that would take place and if  
21 there are enough of those economic transactions that it  
22 could justify additions to the transmission system. How do  
23 we get that information? How do we make a judgment and who  
24 is responsible for that?

25 MR. WILEY: I'm not sure who is responsible but

1 I'll answer the other part first. I think, when I look  
2 around the southeast Florida, I don't see terrific fuel  
3 price differentials nowadays going on and then, I know that  
4 large fuel price differentials is what spared us and Georgia  
5 to make tremendous investments in our 500 KV  
6 interconnections and I've just got to feel that the  
7 participants in the market out there are going to see the  
8 need, after a time, to do that. I'm just a firm believer in  
9 that type of a system. Just a little history on the 500 KV.  
10 I was a large proponent, a really big proponent of 500 KV  
11 while (inaudible) was built. I even lead a task force of  
12 four companies in that state to try to get Georgia Power,  
13 back then, a part of this other company to build 500 KV down  
14 to us because we needed it for liability. We had very  
15 little economic justification and obviously we could not  
16 find an incentive for Georgia to come to the table to build  
17 down to us and that incentive did not come until we saw some  
18 large price disparities between the market north of us and  
19 in Florida. And all of a sudden Georgia saw that and had an  
20 incentive to come. So until we see people in Florida and  
21 people outside of Florida find the incentive to bring to the  
22 table to make a large investment like that, then I guess it  
23 won't get built until both sides have the incentives.

24 MS. JABER: Any other questions? Roberta.

25 MS. BASS: Thank you. I had some comments I'm

1 going to be very brief in this. When the original SMD in  
2 April was issued, it discussed regional state advisory  
3 committees. Over time that has changed a little bit with  
4 the issuance of the White Paper. They are now called  
5 Regional State Committees and their roles and their specific  
6 responsibilities have been more defined. I guess our  
7 continuing concern would be how, because it is a regional  
8 state committee, how those committees would be structured,  
9 how they would operate and how they would be staffed when  
10 operating within a single state ISO, such as GridFlorida.  
11 And that was kind of the question that was posed to the next  
12 presenters on Regional State Committee. So I'll turn it  
13 over to them. Our first presenter is Mr. Mike Naeve, who  
14 again, is speaking on behalf of the GridFlorida applicants.  
15 Following him will be Mr. Ed Regan, he is from Gainesville  
16 Regional Utilities and as municipal utility and then Mr.  
17 Mike Green with the Florida Partnership for Affordable  
18 Competitive Energy or (PACE). This is an organization that  
19 represents several independent power producers. So, Mr.  
20 Naeve.

21 MR. NAEVE: I think I'm speaking on behalf of the  
22 GridFlorida applicants which are themselves largely  
23 investor-owned utilities. I think more than probably any  
24 other group of market participants, investor-owned utilities  
25 have a strong interest in smooth and consistent and seamless

1 coordination between state and federal regulators. Regional  
2 State Committees in my mind serve a couple of functions and  
3 one function they serve and it's an important function  
4 potentially, is to eliminate differences in policies between  
5 different states that are part of an RTO. So if you have a  
6 multi-state RTO, there needs to be coordination amongst the  
7 states, a device for bringing these states together to try  
8 to develop system policies and approaches, siting and so  
9 forth. If there is a Florida-only RTO, which is the  
10 recommendation of the GridFlorida companies, then I think  
11 that function becomes less problematic. The second function  
12 that these regional committees can form is really try to  
13 develop smoother integration between federal policy and  
14 state policy as well. And I think that is where the  
15 opportunities present themselves here as I say from the  
16 point of view of the regulated investor-owned utilities,  
17 they have an interest in that consistency in those  
18 policies because obviously, to the extent there is a  
19 divergence in the view of state and federal regulators, we  
20 are torn between regulators and we can have policies in  
21 which we're asked by one regulator to go in one direction  
22 then have difficulty recovering the cost for that movement  
23 from another regulator. There is a variety of ways in which  
24 the companies could find themselves disadvantaged. So, as a  
25 general rule, we're strongly supportive of consistent

1 policies and close integration cooperation. Now as I said,  
2 we believe that Florida is the right geographic definition,  
3 Peninsula Florida is the right geographic definition for an  
4 RTO. GridFlorida is designed to fit that bill and we think  
5 because it would be a single state enterprise, that the  
6 Regional State Committee would in fact be before the Public  
7 Service Commission and we don't see a need for there to--  
8 we think in this case, the selection of the committee and  
9 the funding of the committee and all of that is less  
10 complicated because you don't have multiple states to deal  
11 with and how one chooses among the states and how one funds  
12 a multi-state enterprise and how you allocate cost among the  
13 state, you develop cost. So, our recommendation would be  
14 that the Regional State Committee would indeed be before the  
15 Public Service Commission. We think that certainly  
16 minimizes the risk that there be different policies between  
17 our state committee and our state regulators. We'd like  
18 there to be a uniform policy there. If in fact we move in  
19 this direction, and we believe that we should, that means  
20 that GridFlorida, as it's presently designed, needs to be  
21 adjusted to our governance structure and other features of  
22 GridFlorida need to be amended to factor in the role of the  
23 Regional Committee with respect to resource adequacy and  
24 planning and rates and the other factors which in the White  
25 Paper FERC identified for resource committees. There are

1 still difficult issues out there, jurisdictional issues  
2 between the Public Service Commission and FERC and how the  
3 cooperation between the federal and state regulators in  
4 practice can be achieved but again, our goal is to see as  
5 much uniformity of view as possible because it makes life  
6 better for us, to be candid. And I think that's probably  
7 all I'll say. There are a number of ways in which the  
8 companies could be disadvantaged with respect to cost  
9 recovery and others. If there is no uniformity of policy, I  
10 don't think we need to go through all of those.

11 MS. JABER: Commissioners do you have any  
12 questions before we move on?

13 MS. BASS: Thank you. Mr. Regan.

14 MR. REGAN: Good morning. My name is Ed Regan  
15 and I'm the Assistant General Manager for Strategic Planning  
16 and Control Area Services for Gainesville Regional  
17 Utilities. I'm here actually representing the Florida  
18 Municipal Group, which is a group of four municipal electric  
19 utilities, including Lakeland Electric, the City of  
20 Tallahassee, Kissimmee Utility Authority, and Gainesville  
21 Utilities. We are all vertically integrated generating sub-  
22 serving utilities. We are not what you would consider  
23 transmission dependent utilities but we are very concerned  
24 and involved with the State grid for reliability and  
25 economic reasons. So, we have a vital interest in this

1 whole proceeding. We formed the Florida Municipal Group  
2 strictly as a vehicle for sharing information on our members  
3 and participating in the proceedings pursuant to the FERC  
4 Order 2000. I'd like to begin by saying that we are open to  
5 the idea of Regional State Committees as presented in the  
6 White Paper. We envisioned that they would be comprised of  
7 public utility commissioners themselves and we think that  
8 that structure would have several important benefits, very  
9 similar to what Mike eluded to. They could enhance regional  
10 planning, they would improve coordination in the (inaudible)  
11 formation process among the various policies and we also  
12 think they could have a valuable function in making sure  
13 that consumer interests are represented in that whole  
14 proceeding. As we read it, the White Paper has a very broad  
15 range of advisor responsibility for the ROCs and this gives  
16 them a special status as a stakeholder in all aspects of the  
17 RTO formation. But what's new now is that the White Paper  
18 doesn't need any ROCs is having some primary  
19 responsibilities in a number of areas. I'd like to get to  
20 that really quickly so that some of the comments related to  
21 that. ROCs will have primary responsibility over rate-  
22 making features, some of the key aspects of market design,  
23 including license plate rates, postage stamp rates,  
24 participant rolling funding and how to allocate transmission  
25 rights. ROCs will have primary responsibilities for

1 determining economic criteria for enhancement of the  
2 transmission system. They will have primary  
3 responsibilities for the standards and criteria for resource  
4 adequacy and reliability and they will have the primary  
5 responsibility for determining the timing of implementation  
6 of the RTOs. Clearly, these are key aspects of any RTO  
7 proposal. This leads us to concern about the criteria that  
8 the ROCs will form their own governments and voting  
9 structure. We talked and talked quite a bit about that and  
10 I guess coming from the municipal world, we all know that  
11 the Voting Committee will tend to be more efficient and move  
12 ahead with the agenda and get things done but a consensus  
13 sort of formation tends to have more opportunity to come to  
14 a win-win solution but it takes a lot longer, usually. So,  
15 we see this playing out in two arenas. In the GridFlorida  
16 arena, as Mike eluded to, basically the Public Service  
17 Commission, the Florida Public Service Commission as one  
18 committee will be the ROC. It's not a big an issue as the  
19 multi-state ROC. Maybe the reason why we are so worried or  
20 thinking about this is one of our members has the  
21 opportunity to be a member and C-Transit is considering it.  
22 So we're looking at GridFlorida versus the C-Trans. So the  
23 Public Service Commission could be participating in a multi-  
24 state and probably will be participating in a multi-state  
25 RTO as well. Governance and structuring, that scenario is a

1 lot more critical and there is a sole but we think profound  
2 provision in the first White Paper that we want to call to  
3 attention as maybe something that need some thought. Under  
4 this provision, if your ROC is delayed in making a decision,  
5 the sponsors of an RTO are directed to go straight to FERC  
6 and so that sort of circuits the whole process and if the  
7 ROCs are going to be effective, if they are not going to  
8 rush to decisions and if they take a consensus approach, we  
9 think that that part of the White Paper might be  
10 problematic. We also came up with a couple of questions  
11 about how a multi-state ROC would work in terms of its  
12 precedence and governance. And our concern is related to  
13 what if any rights and responsibilities are implicated by a  
14 public utility commissioner being involved in an ROC. For  
15 example, how would PSC Commissioners be designated to serve  
16 as members of an ROC and yet preserve their full independent  
17 review authority back home in Florida? One extreme  
18 interpretation that we've heard, not that we're suggesting  
19 this, is that each state's PUC might have to have a full  
20 evidentiary hearing on an issue before its admissible to the  
21 ROC. That would certainly satisfy any concern. But the  
22 bureaucracy boggles the imagination and that could be a  
23 problem. So we think that's an issue that needs attention.  
24 And the second one is, if the public utility commissioners  
25 participating on ROC, they're representing very different

1 amounts of load and customers in that particular RTO. And  
2 depending on how the voting -- is the voting going to be  
3 weighted and it may really affect these influence, that for  
4 instance the Florida Public Service Commissioner would have  
5 in the RTO. And that is particularly important because we  
6 think that in terms of the seams between various RTOs and  
7 the public utility commissioners of the states where those  
8 seams occur, really need to have strong words. We think, in  
9 particular, we would like to see a structure form where the  
10 Florida Public Service Commission, for example, will be able  
11 to prevent the adoption of any kind of a seams policy that  
12 would be detrimental to the continuation of the flow of  
13 power between Georgia and Florida which is a very important  
14 part of our market here in Florida. In summary, we are open  
15 to the proposal for the Regional State Committees and the  
16 (inaudible) that would be divested to them. We are  
17 concerned about the potential consequences of the limits  
18 based upon the ability of the multi-state ROC to directly  
19 manage the outcome of the RTO design because of the ability  
20 to short circuit the process. And we think that the degree  
21 of success of the ROCs will be directly dependent upon the  
22 degree in which these issues are addressed and dealt with on  
23 the front end. Thank you for your time this morning.

24 MS. JABER: Thank you Mr. Regan. Commissioners  
25 do you have any questions before we move on? Commissioner

1 Brownell.

2 MS. BROWNELL: I want to take this opportunity,  
3 and by the way you've brought up really interesting  
4 questions and as we work through this, we appreciate the  
5 thoughtfulness with which you approach it. We now have a  
6 website on ROCs which you can link by going to the FERC  
7 website and look at the evolution of ROCs in our  
8 marketplaces and I think it's interesting as we anticipated,  
9 they are developing differently in each region of the  
10 country. So it's a great example of regional differences  
11 but I would encourage you to take a look and we've even  
12 talked, I don't know if Steve is here, about having some  
13 kind of a chat room where people can bring up issues and  
14 work through them as they are developing that. So I'm not  
15 sure where we are in that part. Steve not there yet, but  
16 will be.

17 MS. BASS: Thank you very much Mr. Regan for that  
18 comment. And now Mr. Mike Green with PACE.

19 MR. GREEN: Thank you Roberta. Chairman, I'm  
20 glad to be here. I appreciate the opportunity to be here.  
21 I share Chairman Jaber's surprise that Bill Walker didn't  
22 wear a tie because he advised me I did not need to wear a  
23 tie. So the tie that you see on me now you will see in this  
24 afternoon's session with Mr. John Or when he gets up and  
25 it's a red tie with blue and beige stripes on it, just to

1 demonstrate the efficiency with which Florida PACE operates  
2 with very little budget.

3 (LAUGHTER)

4 I probably keep my comments fairly brief and try  
5 not to repeat things that perhaps have already been said so  
6 if I ramble a little bit, forgive me a little bit. Florida  
7 PACE represents several IPPs in state so there is no shock  
8 to anyone. We are a very supportive, properly designed,  
9 robust, competitive, wholesale markets and we feel they  
10 would be good for Florida consumers. Both the State and  
11 FERC have critical roles in fostering that competition I  
12 speak of in those competitive wholesale markets. FERC  
13 cannot and should not do it alone. I think everybody  
14 understands that. Some meaningful participation from State  
15 regulators through some regional state committee makes a lot  
16 of sense. Properly structured regional state committees  
17 would seem to offer the most cost-effective forum for that  
18 RTO or ISO decision-making process regardless of how broad  
19 that RTO is. And as I share Mike Naeve's comment that if it  
20 is only a Florida or only the Peninsula Florida's RTOs then  
21 perhaps the "regional" state committee is the PSC. I'll  
22 probably offer one caveat to that in a minute but that seems  
23 to make a lot of sense and that seems to be the most cost-  
24 effective way to do it. I think the -- even if it is a one-  
25 state RTO, the considerations and the, I guess elements and

1 evaluation and things that are mentioned in the White Paper,  
2 relative to region or state committees would apply even to a  
3 one-state committee. I think they are good elements to be  
4 addressed on broader liability issues and I think even if  
5 it's a one-state RTO, those elements should be embraced by a  
6 one-state committee. I'll try not to -- I probably won't  
7 give a lot of answers but maybe give some guiding principles  
8 on how I think the regional state committee for Florida RTO  
9 might evolve. The FERC White Paper appears to give broad  
10 discretion in determining member participation,  
11 organizational structure and function as well as governance  
12 on the other committee. As I said, probably the PSC is the  
13 right form of the committee but in whatever form that is,  
14 it's got to make sure that the PSC or the Stats Committee in  
15 Florida has truly meaningful participation. If it's not  
16 meaningful, the game just won't work. I think the FERC  
17 White Paper envisioning these committees providing policies  
18 and resource adequacy, transmission planning and cost  
19 responsibility issues. I think I got those right. And the  
20 formation of a regional committee look in Florida, assuming  
21 this is going to be a single state, Peninsula Florida RTO  
22 system, should continue and parallel with the formation of  
23 the RTO itself. I don't think you should have to wait for  
24 one to start to start thinking of how to establish the  
25 interfaces that you will on the committee. I think they run

1 parallel. PACE believes in effective wholesale market must  
2 be, again, robust and have four bilateral markets working in  
3 tandem with property function spot markets. And probably it  
4 differ from some earlier comments. I'm not sure Florida has  
5 a lot of those two elements in today's wholesale market in  
6 Florida. So, obviously PACE has an urgency to keep the ball  
7 moving forward as quickly as possible, towards this  
8 competitive wholesale market. My caveat I mentioned before  
9 in the PSC, being on the Florida committee, I think is  
10 perhaps there is some prudence to having some representation  
11 from the RTO to the north on this Florida regional  
12 committee. As Mr. Wiley mentioned earlier, I think the 500  
13 KV line backbone into the State back into the 80's is  
14 justified on the disparity of fuel prices but you had to  
15 bring Georgia to the table, there had to be something in the  
16 game for them to come to the table to make that occur.  
17 There is clearly some disparity in fuel prices today, some  
18 volatility that may or may not be worthy of review, but I  
19 think to have a truly viable discussion on the possibility  
20 of bringing more transmission into the State of Florida,  
21 you've got to bring some representation into this committee  
22 from Georgia. I guess another guiding principle I would  
23 suggest on this interface between the federal government and  
24 the State of Florida Regional Committee was that consistent  
25 with the Sunshine laws of Florida that we would hope that

1 the Florida Committee would have open meetings such that all  
2 the stakeholders would be able to participate and give their  
3 and/or our views on the issues. Good decisions comes from  
4 the analysis of all the data and to ensure that all the  
5 players have an opportunity to provide the Committee with  
6 this information seems to only make sense. And most  
7 importantly, I'll encourage everybody at the table in front  
8 of me just to make sure that the responsibility between FERC  
9 and this State Committee or this Regional Committee,  
10 whatever it turns out to be are crystal clear that the  
11 interfaces are clear, the roles are clear, if clarity is not  
12 achieved, the consumers in the State will not benefit from  
13 the competitive wholesale market because we will be on a  
14 continual re-look, re-clarification, re-definition of roles  
15 and responsibilities and that won't be to the benefit of the  
16 consumers. And with that I'll stop my comments and thank  
17 you for the opportunity.

18 MS. JABER: Thank you Mr. Green. Chairman Wood  
19 and Commissioner Brownell, before we go to questions, I  
20 wanted to summarize what the PSC has said in previous  
21 comments related to the regional state committees. First  
22 we're pleased that you've taken a second look at calling it  
23 an Advisory Committee because you may recall one of the  
24 comments we sent on to you is because we have jurisdiction,  
25 ultimate jurisdiction over the retail rates, we felt like

1 the PSC had to preserve the state jurisdiction that's been  
2 given to us by the Legislature. So, we commend you for that  
3 and I think we envisioned also through those comments that  
4 as it relates to GridFlorida, there would be an affirmative  
5 statement that the PSC, would, in effect be the regional  
6 state committee or perhaps an acknowledgement that a  
7 regional state committee per se wasn't necessary as it  
8 related to GridFlorida. So I hope that there is an  
9 affirmative statement related to that issue alone. But the  
10 second request I have stems from something Mr. Regan said.  
11 I thought he brought up an excellent point about figuring  
12 out just how the Florida PSC will interact with C-Trans and  
13 whatever regional state committee comes out of C-Trans and  
14 frankly, the Florida Commissioners internally needs to  
15 discuss that. I don't think we've even entertained how we  
16 envision how that would work. But what I ask of you is a  
17 commitment that you encourage your staff and yourselves to  
18 continue to work with us on that issue as we go forward. I  
19 thought that was a very good point that frankly, I  
20 personally have not yet figured out and look forward to  
21 discussions amongst ourselves about that. Commissioners do  
22 you have any questions or comments? Commissioner Davidson.

23 MR. DAVIDSON: Thank you Chairman. I have one  
24 question for Mike Green. You were in the audience earlier  
25 and you heard my question to Commissioner Clark and my

1 question to you is, is there, in your opinion, a national  
2 wholesale energy market or only a local wholesale energy  
3 market?

4 MR. GREEN: I think I was changing from my tie  
5 during that question but in answer to your question,  
6 certainly there is a national wholesale market out there.  
7 Florida doesn't get to participate in that national  
8 wholesale market very much due to transmission constraints.  
9 You can bring in 2,000 megawatts/3,000 megawatt, it's got a  
10 4,500 megawatts system. A robust wholesale competitive  
11 market has lots of buyers and lots of sellers. You have a  
12 fair amount of buyers in Florida, you have very few sellers  
13 in Florida and so, do you have a robust competitive  
14 wholesale market in Florida? You have the makings of one.  
15 You don't have one today, in my opinion. Is there a  
16 national wholesale market? Certainly there is. You bring  
17 in energy from Georgia and as far away as PJM on certain  
18 days. There is not much flow to the north though. You  
19 don't see many people wanting to displace the low-cost coal  
20 and nuclear power in the southern system with some higher  
21 price natural gas overpowered generation on them, on the  
22 margin that's here. So most of it flowing south from the  
23 north but the market does exist. It's not robust now in my  
24 opinion in Florida but there are possibilities.

25 MR. DAVIDSON: Thanks.

1 MR. GREEN: Yes sir.

2 MS. JABER: Commissioners if there are no other  
3 questions, how about we take a very short five-minute break  
4 that will allow the next panel group to come on up and we'll  
5 try to pick up on time.

6 (BREAK)

7 MS. JABER: Mr. Dean, go ahead, get us started.  
8 Panel three.

9 MR. DEAN: My name is James Dean and this panel  
10 is going to discuss participant funding. We have -- we're  
11 really crunched for time so I'll keep my comments very  
12 short. The Florida Public Service Commission has filed  
13 comments with respect to our position on participant  
14 funding, a number of dockets going back to the  
15 interconnection dockets where we first kind of -- our  
16 thinking first started to develop on this topic. This  
17 participant funding issue has not been taken up on any  
18 formal docket so we as staff were also very interested to  
19 hear what the parties have to say because we don't know what  
20 people's position is on this. We have taken the position  
21 that (inaudible) were paying models with the appropriate  
22 economic and transmission and financial rights, physical  
23 rights associated with those upgrades is the preferred  
24 model. We understand there is a lot of gray area on what  
25 kind of improvements are eligible, who will make the

1 decisions. To address some of those questions today, we  
2 have with us three panelists. The first panelist we have is  
3 Mr. Bill Ashburn, he is the Director of Pricing and  
4 Financial Analyst. He will be representing the GridFlorida  
5 applicant. Our second panelist is Mr. Bob Williams, who is  
6 the Director of Engineering for the Florida Municipal  
7 Electric Authority and then third, we have Mr. Tim Eves who  
8 is Vice President of Marketing and Sales for Calpine  
9 Corporation. And the three questions we posed to the  
10 panelists are, first what type of transmission upgrade  
11 should be deemed appropriate for participant funding,  
12 second, who will decide which of these upgrade will be  
13 participant funded, and third, what rights or benefits  
14 accrue to those that are paying for such upgrades. I'll  
15 turn it over to Mr. Ashburn for our first comments.

16 MR. ASHBURN: Thank you Jim. Commissioners my  
17 name is William Ashburn, I'm Director of Pricing and  
18 Financial Analysis for the Tampa Electric Company. I'm  
19 speaking on behalf the GridFlorida applicants regarding the  
20 subject of participant funding. First, I'd like to describe  
21 our understanding of the concept of participant funding to  
22 the GridFlorida applicants. The concept of participant  
23 funding is applied to certain transmission expansion  
24 projects that benefit only a certain party or parties. In  
25 such cases, participant funding will require that such

1 expansion projects be funded by those parties or parties in  
2 exchange for acquiring the associated rights and benefits to  
3 that transmission expansion project. Second, I want to make  
4 it clear that the current GridFlorida design does not  
5 include the concept of participant funding. In the current  
6 design, funding of transmission expansion projects is  
7 assumed to be made by transmission owners but the costs of  
8 all new transmission expansion facilities are recovered  
9 through a system-wide transmission rate applied to all load.  
10 Participant funding concept arose nationally after  
11 GridFlorida was first filed with FERC and talked about at  
12 the PSC, and is still evolving. The GridFlorida applicants  
13 wanted to make it clear that the participant funding issue  
14 has not been as pressing in Florida as it has been  
15 apparently in the androgen southern companies regions. In  
16 those areas, significant generation is being sited. To the  
17 extent that generation is seeking to export power outside of  
18 those systems, the cost of new transmission expansion to  
19 accommodate such power exports is an issue that participant  
20 funding has been put out to address. While this has become  
21 an important issue nationally, the geographic and  
22 configuration of electrical system in Peninsula Florida,  
23 which you have already heard about, makes it less likely  
24 here that generation that sites here, could export any  
25 significant amount of power out up north. To my knowledge,

1       there have been no such large generation project sited in  
2       Peninsula Florida with the main intent to export power out  
3       of the Florida region. The GridFlorida design does,  
4       however, include the concept of enhanced facilities.  
5       Enhanced facilities are defined in GridFlorida as  
6       transmission expansion facilities designed at the request of  
7       customers, in excess of standard construction design.  
8       Examples of this might be more esthetic facilities such as  
9       heavily landscaped substations or facilities designed for  
10      high reliability that is required to meet standard service.  
11      In GridFlorida, the cost for enhanced facilities will be  
12      directly assigned to the customers requesting such  
13      facilities. Although the GridFlorida proposal does not  
14      include the concept of participant funding, the GridFlorida  
15      applicants expects GridFlorida would adopt to changing FERC  
16      policies and rules regarding pricing and assignment of  
17      expansion costs as they developed over time. So what are  
18      the GridFlorida applicants current positions regarding  
19      participant funding? All three applicants have taken  
20      positions at FERC supporting that the cost of transmission  
21      expansion required to interconnect new generators to the  
22      Grid should be borne directly by those causing the need for  
23      that expansion. Although direct assignment of costs does  
24      not directly implicate funding responsibilities, the  
25      applicants also support the funding of such should be the

1 responsibility of the party to whom costs are assigned.  
2 Responsibility of funding and costs of expansion projects  
3 due to interconnecting new generation is only one component  
4 of participant funding. Expansion projects for reduction of  
5 congestion is another component that the GridFlorida  
6 applicants have not specifically addressed. The GridFlorida  
7 applicants and the other stakeholders in the GridFlorida  
8 process have not had the opportunity to get together and  
9 address this particular participant funding issues while we  
10 are waiting for this (inaudible). The GridFlorida  
11 applicants generally support the concept of participant  
12 funding, however, specific implementation in the GridFlorida  
13 proposal would have to be addressed in conjunction with  
14 associated issues such as planning, pricing, and market  
15 design, which you will hear some more about market design  
16 later. Thank you. Thank you very much.

17 MS. JABER: Commissioners are there any questions  
18 at this point?

19 MR. DEAN: Thank you Mr. Ashburn. Our next  
20 commenter will be Tim Eves of Calpine.

21 MR. EVES: Well first, Chairman Jaber and  
22 Chairman Wood, Commissioners, it's my pleasure to be hear in  
23 front of you today and Jim, I would like to thank you for  
24 inviting Calpine to participate on this panel because the  
25 establishment of GridFlorida is critical to the development

1 of a competitive market here in Florida, one that benefits  
2 all the right players of the State, that will provide lower  
3 cost wholesale power, enhanced system reliability and reduce  
4 the pollution in the air that we breathe. A little bit  
5 about Calpine. We're an independent power producer, we have  
6 22,000 megawatts of combined power plants in operations with  
7 some other 8,000 in construction, which makes us by far the  
8 largest combined cycle generator in the country. So it's  
9 important that we participate in these workshops. And my  
10 comments today therefore will be from the perspective of a  
11 generator. I'd like to start by saying that Calpine is open  
12 to participant funding. However, there are several very  
13 important structural conditions which are paramount and must  
14 be included in GridFlorida. The first will be that the  
15 control of the transmission system must be transferred to an  
16 independent transmission operator. Transmission decisions  
17 must be removed from the vertically integrated utilities and  
18 move to the independent operator, who will be in a better  
19 position to more fairly allocate cost associated with the  
20 upgrades. Calpine does not support participant funding if  
21 the vertically integrated utilities make the transmission  
22 decisions, because they too are generation competitors and  
23 have an incentive to discriminate in determining what  
24 upgrades are required and setting the costs associated with  
25 those upgrades. The second important structural point is

1 that the independent transmission operator must complete an  
2 integrated resource plan, IRP, with input from all  
3 interested parties, including the generators, IPPs, IOUs,  
4 and the load serving entities. Then the IRP must identify  
5 the most cost-effective solutions to addressing congestion  
6 and to meet ever-increasing loads. The IRP process is  
7 included in GridFlorida. The third point is that all  
8 generation participants must be treated equally and the  
9 fourth point is that in the event of a generation solution  
10 to congestion, all parties must be allowed and encouraged to  
11 make proposals on that specific location. If it is owned by  
12 a utility and has been paid for by the rate payers. Jim's  
13 first question was what type of transmission funding should  
14 be deemed appropriate -- what type of upgrade should be  
15 deemed appropriate for transmission participant funding? I  
16 would say the participant funding means the beneficiaries of  
17 the upgrade pay. And of course, every upgrade needs to be  
18 paid for. Therefore, I think the question is probably, who  
19 is the beneficiary? That's a very complex question. The  
20 system benefits removes suppliers who are attached to the  
21 Grid. The system benefits from more efficient and cost  
22 effective power is permitted to displace more expensive  
23 generation. The system benefits from new cleaner generation  
24 facilities are operated, displacing all the units with  
25 higher emissions. But ignoring the complex nature of

1 determining the beneficiaries, I would say there are simply  
2 two types of upgrades. One, it's required to address the  
3 needs of the system that have been determined through the  
4 IRP process to be necessary for system reliability or to  
5 meet the needs of growing demands, and the second type of  
6 upgrade, would be those upgrades required to support a  
7 specific generation project such as new lines or upgrades of  
8 an existing line. In the case of upgrades that the IRP  
9 process determines are required, beneficiaries of these  
10 upgrades are the system and the transmission operator should  
11 pay and recover the costs through a roll in to their tariff.  
12 And the cost of -- in the case of upgrades that support a  
13 new generation facility, the owner of the facility benefits  
14 and should pay for the upgrades. Our generation solution,  
15 whether they are built but an IPP or an IOU, must be treated  
16 identically. If the new facility requires transmission  
17 upgrades, the owner of the plant must bear the cost. If it  
18 is determined that a specific existing IOU site will provide  
19 a generation solution to congestion, then all interested  
20 parties must be allowed to offer proposals to provide the  
21 generation solution at that site. Because once again, the  
22 site has been paid for by the rate payers and therefore  
23 belongs to the rate payers. If a generation project is more  
24 effective than an IOU's proposed project, that more  
25 effective solution should be the one that we go forward

1 with. The second question was, who decides which upgrades  
2 will be participant funded? I would say quite simply, that  
3 it is going to be the function of the independent  
4 transmission operator. As this is a very difficult  
5 determination, it is imperative that a non-market  
6 participant makes this determination. Independence is  
7 critical if the process is going to be fair and non-  
8 discriminatory. Today, the overwhelming majority of  
9 transmission operators across the country, including here in  
10 Florida, are vertically integrated utilities with an  
11 economic interest in retaining their monopoly positions over  
12 both transmission and generation. Imposition of unfair  
13 financial burdens on IPPs is an effective for the vertical  
14 integrated IOUs to minimize competition. There should be no  
15 participant funding without independence. It's kind of a  
16 tough decision listening to the other presenters and the  
17 questions. There have been a couple questions. Chairman  
18 Wood, you asked about the new bid process and Commissioner  
19 Davidson you asked about RTO governance structure. I think,  
20 you know, that point on independence really runs all the way  
21 through. All of our thoughts on all these things for this  
22 really to be fair, the parties making the decision need to  
23 be independent. And the third question was, what rights or  
24 benefits should accrue to those paying for the upgrades?  
25 I'd say the answer is financial transmission rights. They

1 should accrue to the party who pays. However, it's a catch-  
2 22 because an upgrade is required to get around a congested  
3 point. If you have an FPR across a congested point, then  
4 your upgrade has value. Once you've paid for an upgrade,  
5 you have reduced or eliminated the congestion, therefore  
6 your financial transmission rights across that congested  
7 point has been minimized in value. However, even in the  
8 case of uncertain valuable financial transmission right, we  
9 do support they should accrue to a party paying. The  
10 beneficiary who pays will receive the benefit, earning a  
11 return on its investment. If it's a transmission operator,  
12 then the transmission operator should be allowed by FERC to  
13 earn a reasonable return on its investment. If it's a  
14 generator, then the transmission upgrade will allow the  
15 generator to provide power to the system, potentially  
16 earning a return on its generation. I just once again like  
17 to thank you for letting us participate on the panel and  
18 look forward to working with FERC and the Florida Public  
19 Service Commission and all the stakeholders in designing and  
20 implementing GridFlorida.

21 MS. JABER: Do you have any questions at this  
22 time? Thank you Mr. Eves.

23 MR. DEAN: Thank you. And our last speaker, and  
24 I must apologize, is Bob Williams and he is Director of  
25 Engineer for the Florida Municipal Power Agency. Bob.

1                   MR. WILLIAMS:    Thank you Jim.  Yeah, we do have  
2                   another organization called Florida Municipal Electric  
3                   Association in the State and some people do get it confused  
4                   and it's not uncommon.  I wanted to thank the Commission for  
5                   inviting us to speak here and I'll try to make my comments  
6                   brief since a lot of what's been said already by these two  
7                   before me is part of what I was going to say.  FMMPA is a  
8                   municipal transmission dependent utility that's responsible  
9                   for load in cities from Jacksonville Beach to Key West.  
10                  Transmission dependent utility is an important term of ours  
11                  in that we are depending on the transmission systems of  
12                  others to get our generation to our load.  FMMPA has  
13                  participated in transmission access issues since the  
14                  Agency's inception about 25 years ago.  My comments today  
15                  were intended to cover three areas, answering the questions  
16                  in a little different fashion that Jim asked.  What is  
17                  participant funding?  I think we've got some good  
18                  definitions on the table for that.  What it is not and is  
19                  participant funding good for Florida?  We provided some  
20                  brief written comments to the Commission and I'll try to  
21                  summarize those here.  Participant funding is a relatively  
22                  new concept and it's touted to solve problems of some  
23                  transmission providers of other regions.  The main argument  
24                  is that -- that I've seen, is, it's for through and out  
25                  transmission that raises rates within the region.  We don't

1 have much through and out transmission in Florida so  
2 therefore number one, it shows we might not need it unless  
3 we get it tied to Cuba, maybe, I don't know. But, you never  
4 can tell what is going to happen in the world. The  
5 transmission lines that are supposedly going to be funded by  
6 participant funding are those that I would quantify are not  
7 needed by the integrated resource planning process of the  
8 GridFlorida. The planning process is supposedly going to  
9 give us the lines we need to reliably serve the load  
10 generation in the region. In exchange for providing that,  
11 of course, the argument that you get the transmission  
12 rights, but if there is no congestion, there may not be much  
13 value in the rights. Participant funding is also tied of  
14 course to market design and it's also tied to the need to  
15 have an independent regional transmission operator. One of  
16 the things we see, the problems we see with participant  
17 funding is that in looking at the transmission, and I've  
18 worked in this area for 35 years in all the different phases  
19 of transmission, it's difficult to identify the purpose,  
20 effects, and beneficiaries day one. It's more difficult to  
21 identify the participants purpose, effects, and  
22 beneficiaries day 10. As time goes on and things change,  
23 everything affects everything else in the transmission grid.  
24 So it's just a really, really difficult problem. One  
25 example I'd written down and I'll give it to you, the two

1 500 KV lines from Georgia to Miami. One could argue that  
2 those provided direct benefit to FPO customers in the  
3 generation in Miami, so that sounds like those are the  
4 beneficiaries. One could also argue that those lines  
5 provide a reliability benefit to others, even though they  
6 couldn't use the lines, well they couldn't use them but they  
7 got benefits. These lines were rolled in an FMPA, our  
8 members have paid their load ratio share of those lines and  
9 are paying those today. So, it's complex. What participant  
10 funding is not. We have some serious concerns as a small  
11 player in this big game we're playing here of trying to  
12 figure out how to change the business is that participant  
13 funding is not an opportunity to avoid comparability.  
14 Upgrades for load growth, new network resources must be  
15 treated equally for transmission owners and transmission  
16 dependent utilities. Without that, we have no justice as  
17 far as we are concerned. Participant funding is not an  
18 expansion of direct assignment. Direct assignments were  
19 facilities that are not for the integrated grid and we have  
20 definitions in the GridFlorida documents to address direct  
21 assignment facilities. Is participant funding good for  
22 Florida? Participant funding is designed for problems  
23 Florida doesn't have. We don't have a flood of merchant  
24 generators that built here because there is fuel available  
25 and we don't need them for our regional load. The

1 generators don't seek to export output and require  
2 transmission upgrades within our region. They build to sell  
3 here, they don't build to sell elsewhere. Florida is an  
4 import state, interestingly enough, if you turn participant  
5 funding around on the other side, it could mean that Florida  
6 would have to pay more for participant funding transmission  
7 in Georgia if we were to build another coal plant in Georgia  
8 to import it to Florida. So we might actually have to pay  
9 more if that were the case. We think it unfortunate for  
10 Florida certainly, it could be a step backward. It's an  
11 untested concept and may well discourage prompt construction  
12 of needed upgrades. We are very concerned about the prompt  
13 construction of needed upgrade and reliability be  
14 maintained. We think Florida laws rules already emphasize  
15 approval of efficient multi-purpose upgrades. Participant  
16 funding will require the RTO to draw a bright line between  
17 reliability upgrade and economic upgrade. The 500 lines we  
18 talked about a minute ago, those were really desired on a  
19 reliability basis, built on an economic basis. Interesting  
20 fact. If the region doesn't need to build participant  
21 funding lines, then how can a need be justified. I don't  
22 see how a person can justify building a line in Florida with  
23 our rules and regulations if it's not needed. I just don't  
24 think it can happen. Building in generation our  
25 transmission in Florida is already a very serious challenge

1 and participant funding we think will not make that easier.  
2 More important to Florida is the adoption of a planning and  
3 expansion process that facilitates prompt construction of  
4 efficient, multi-purpose upgrades at the lowest cost to all  
5 Florida consumers and the environment. And again I would  
6 like to thank you for inviting me.

7 MS. JABER: Mr. Williams, just to follow up on  
8 something you said and ask you a question that I'd like the  
9 other two panelists to address as well. If FERC or some  
10 sort of Congressional legislation does require some  
11 definition of participant funding, something that's  
12 ultimately called participant funding, have you, the  
13 industry as a whole, thought about a collaborative similar  
14 to the collaborative mechanism that was used in the initial  
15 GridFlorida proposal? And I'll tell you why I'm asking that  
16 question. You acknowledge, and I don't think there is a lot  
17 of disagreement with you that the beneficiary is all  
18 relative in the sense, where you are in the timeline of  
19 upgrades, the beneficiary on day one may not be the  
20 beneficiary on day 30th or year 10 for that matter and  
21 ultimately, I'd like to think it's the retail rate payer  
22 that is the beneficiary but I haven't, hopefully, none of  
23 you are advocating that the customers foot the entire bill.  
24 Is recognizing that it's all relative, then isn't there an  
25 advantage to coming up with a consensus approach to how

1 participant funding should be (1) defined, and (2) accounted  
2 for?

3 MR. WILLIAMS: Well the simple answer to that I  
4 think is that the devil is in the details. I agree that we  
5 ought to define it and work together on that and the  
6 GridFlorida process that we had going in Florida and  
7 unfortunately we lost a lot of momentum on that. We made  
8 very, very good progress coming together and working  
9 collaborative to try to define the governance and the rules  
10 of GridFlorida. I think we have a lot of work left to do  
11 and this would be one of those issues that I think we could  
12 address.

13 MR. ASHBURN: I would echo that. I think what we  
14 wanted to say in our comments was that the stakeholder  
15 process had a lot of value in GridFlorida development so  
16 this is an issue that you could get keyed up for that  
17 process and get all the minds together working on it before  
18 you come up with the real proposal.

19 MR. EVES: And we feel the same way. We always  
20 participated in the collaborative process. We've seen some  
21 good successes and we will be right there working in that  
22 process along with all the other stakeholders.

23 MS. JABER: Commissioners do you have any  
24 questions? Okay, Chairman Wood.

25 CHAIRMAN WOOD: I wanted to just have a short

1 observation. This is probably the most like (inaudible) and  
2 many of the regions outside of Texas and, you know, you've  
3 got to deal with how to pay for the interconnections in and  
4 out of the state, which I know actually was parking within a  
5 case before so we're going to deal with soon but, finally,  
6 but it is, it does seem like a great big solution looking  
7 for a problem. It's just an observation. It think there  
8 are some definite things down on the -- I think you  
9 mentioned and I remember reading the original GridFlorida  
10 document did have kind of a carved out loaf of the supped up  
11 enhanced facilities. Is that right? And then also did have  
12 pretty clear rules on direct assignments that I think most  
13 people in the country would agree are the right ways to go.  
14 You know, I would just say this might be one you all think  
15 long and hard about, you really need to go through that.  
16 It's an option I can tell you FERC won't mandate it anywhere  
17 we've made pretty clear in the White Paper that some region  
18 of the country might want it and a lot of regions may not.  
19 We're going to leave that up to regional choice and so, that  
20 stakeholder process would be very helpful with the guidance  
21 of the Commission, I think kind of whatever you all come up  
22 with is what it's going to be. But it is important for  
23 transmission planning and expansion which I know is a state  
24 growing at this pace is going to need somewhere down the  
25 line. That it be decided in advance with some certainty.

1 This is how a transmission project would get paid for, you  
2 know, in the coming decade here in Florida. So an answer is  
3 10 times more important than exactly what it is.

4 MR. ASHBURN: Chairman Wood I would just add that  
5 the stakeholder process here included the PSC and staff as  
6 well so that was very beneficial.

7 CHAIRMAN WOOD: Great.

8 MS. JABER: Thank you Chairman Wood. Mr. Ashburn  
9 since you're here, I need you to clarify something for the  
10 record because I don't want to leave the FERC Commissioners  
11 with the understanding that we are not doing wholesale  
12 economic sales. The question I asked earlier, I think we  
13 need to clarify. I'm not talking about the old broker  
14 system sales. As I understand it, we ordered last year that  
15 if the IOUs reach a certain threshold, looking at a three-  
16 year average, we've directed a sharing mechanism that's  
17 80/20. Would you elaborate on that? And then we're going  
18 to take a one-hour lunch break.

19 MR. ASHBURN: That's correct Chairman Jaber.  
20 Although the ruling was that we would look at a rolling  
21 three-year average of what our un-separated off system sales  
22 and purchases would be, look at the profits from our off  
23 system sales in that three-year average. To the extent in  
24 any particular year we exceeded average number, we would  
25 share 80/20 with that amount in above of the three-year

1 average.

2 MS. JABER: And it's the customers that receive  
3 80%?

4 MR. ASHBURN: That's correct, 80% for customers  
5 and 20% the company retains.

6 MS. JABER: And that's -- the customers receive  
7 that benefit through a credit during our fuel clause  
8 proceeding each year, is that right?

9 MR. ASHBURN: Right. The 80% is flowed back to  
10 rate fares through the fuel cost.

11 MS. JABER: And I'm putting you on the spot but  
12 my final question is, as I recall from last year's  
13 proceeding, that's a significant number in terms of what  
14 goes back to the customers.

15 MR. ASHBURN: It has been in the past. I mean  
16 now there is this three-year average and the three-year  
17 average amount 100% will go back to rate fares so it's  
18 probably even better, from the rate fares perspective.

19 MS. JABER: Commissioners, if you don't have any  
20 other questions, let's take a one hour lunch break, we'll  
21 come back here at 1:30. Thank you.

22 MS. JABER: For the record, I want to take the  
23 opportunity to remind the panelists because the court  
24 reporter has reminded me appropriately so that I need each  
25 panelist to identify himself/herself for the record before

1 starting to speak. And let's see, Jim Dean I think you are  
2 going to be the moderator for the market design panel. So  
3 let's go ahead and get started on that panel.

4 MR. DEAN: Thank you Chairman. As you heard  
5 earlier this morning, as part of the process, the Florida  
6 Public Service Commission in the approval of the GridFlorida  
7 docket agreed with the company's use of a number of market  
8 design features. Among these features that we initially  
9 approved were the use of balanced scheduled and physical  
10 transmission rights and that this would be an appropriate  
11 foundation to move gradually to a more competitive market.  
12 However, the Commission disagreed with the use of the market  
13 clearing prices as proposed in the original GridFlorida  
14 filing and instead required that you adopt, a get what you  
15 bid approach to these services. Many interveners to the  
16 proceedings suggested that market design issues such as  
17 transmission rights, market power and market clearing prices  
18 should be addressed by the FERC. On July 2nd, the  
19 GridFlorida companies filed a revision to their market  
20 design which would incorporate some of the new features as  
21 proposed in the SMD (inaudible) including financial  
22 transmission rights, location marginal pricing, a voluntary  
23 day ahead and real time markets with unbalances schedules  
24 and market clearing prices with a portion of the gain and  
25 the sales being returned to the utilities. These items were

1 not formally voted on and the PSC set these issues for a  
2 hearing pursuant to the order. One additional area that  
3 requires thought is the timing of the market monitor  
4 function and the level of detail that would be established  
5 prior to the operation of GridFlorida. Today we have three  
6 panelists that are going to talk about some of these market  
7 design issues as GridFlorida moves forward. The three  
8 panelists today have been asked to address the following  
9 questions. One, what are the day one recommended market  
10 services that should be included in GridFlorida? Question  
11 two, how are transmission rights to be allocated initially  
12 and on a going forward basis? And third, what levels of  
13 market monitoring should be in place prior to the day one  
14 operation of GridFlorida? Our three panelists joining us at  
15 the table today is Mr. Greg Ramon. He is with Tampa  
16 Electric Company but will be speaking on behalf of Grid  
17 Florida applicants. Mr. Ramon is the Director of  
18 Transmission Policy at Tampa Electric. The second speaker  
19 is Mr. John Orr of Reliant Energy. John is the Director of  
20 Asset Commercialization for Reliant and then our third  
21 speaker is Tim Woodbury, he is Vice President of Strategic  
22 Services for Seminole Electric Cooperative. And our first  
23 speaker will be Greg Ramon.

24 MR. RAMON: Good afternoon Commissioners. My  
25 name is Greg Ramon. I'm Director of Transmission Policy for

1 Tampa Electric. I'm speaking on behalf of the GridFlorida  
2 applicants regarding the subject of market design. The  
3 GridFlorida market design has been a long and arduous  
4 journey through uncanibal (phonetic) applicants and  
5 stakeholder meetings and I've bought John and Tim breakfast  
6 and lunch and Tim even brought mine one time. The subject  
7 is contentious and emotional because we are designing a new  
8 set of market with significant implications on reliability  
9 and business. Some of the unforgettable debates or more  
10 unforgettable debates concern the subjects of balance,  
11 schedules, hierarchical control area, flow gates with the  
12 use of physical rights versus L&P and financial rights, a  
13 payers bid versus market clearing prices, real time and day  
14 ahead markets, capacity markets, and Tim's favorite subject,  
15 market power.

16 MS. JABER: What was your second one?

17 MR. RAMON: Hierarchical control area. The first  
18 milestone in this journey was the original design  
19 conditionally approved by the FERC and then later by the  
20 Florida Public Service Commission in their December 2000  
21 order which consisted of balance schedules, a flow gate,  
22 it's own congestion model, the physical transmission right  
23 were we would allocate to existing users and auction off  
24 excess rights. And that consisted of the hierarchical  
25 control area and a regional-wide real time balancing market.

1 The second milestone in our journey was an alternative  
2 GridFlorida market design filed by the applicants with the  
3 Florida Commission on September 19th of last year with a  
4 petition and testimony. This design is pending before the  
5 Florida Commission and would require a hearing. The Florida  
6 Public Service Commission will require prior approval before  
7 changing significant aspects of the original market design,  
8 namely the change from flow gates and physical rights, and  
9 changes to the balance schedule requirements and payers bid  
10 pricing. The major factors that lead the applicants to file  
11 an alternative market design was the issuance of FERC's SMD  
12 proposal and the May 29, 2002 Florida Commission workshop on  
13 GridFlorida compliance plan where there were numerous  
14 stakeholder concerns. And as mentioned sometime before, and  
15 I'll be brief, the pending market design is based on the  
16 following six principles. The use of nodal or LMP, pricing  
17 with financial rights, voluntary day ahead and real time  
18 markets, where we had mechanisms to protect against undue  
19 reliance on the real time market. The third principle, the  
20 market clearing prices paid on a nodal basis and substantial  
21 portion of gains allocated to retail customers. The fourth  
22 principle will be mechanisms to ensure resource adequacy and  
23 that mechanism would be consistent with the Florida  
24 Commission's planning reserve requirements and there would  
25 be an allocation of those reserve margin requirements to

1 individual load serving entities. The fifth principle is  
2 the allocation of financial transmission rights to existing  
3 users and an annual reallocation for new resources and load  
4 growth. And sixth, but certainly not least, market power  
5 mitigation measures and the market monitor tariff and rules  
6 would be in place before the market goes live. In this  
7 journey, we've had this interlude here of over some great  
8 amount of months with the Florida Supreme Court process and  
9 changes at FERC and possibly nationally in Congress. So  
10 many events had, and are, as we speak, transpiring at FERC  
11 and possibly in Congress, which may yet again impact the  
12 GridFlorida wholesale market design. A couple quick  
13 examples. One example is that the FERC on the SMD proposal  
14 subsequently we had an option and working papers come out on  
15 that with more flexibility for the regions. There was  
16 issuance of transmission incentive pricing. All that has  
17 happened since we filed the alternative market design. The  
18 applicants' major message today from a market design is that  
19 subject to the Florida Commission's direction, we will again  
20 review the pending market design and any other design  
21 changes, such as the participant funding that was discussed  
22 in the previous panel. The GridFlorida market design next  
23 steps would be for the GridFlorida companies to evaluate  
24 market design in the light of the change in direction,  
25 flexibility and conditions and the flexibility mentioned

1 before about the FERC White Paper. We all know the devil is  
2 in the detail and the good GridFlorida companies will and  
3 should develop the detail market line and market power  
4 mitigation detail rules which will be subject to the Florida  
5 Commission rule which we will then ultimately file with  
6 FERC. So the GridFlorida breakfasts, lunches, and religious  
7 debates will continue but we should not despair because we  
8 are reinventing wholesale competition in Florida and in the  
9 nation and we must be diligent and take necessary time to  
10 evolve the market structure. In Florida we have the  
11 advantage of electric isolation and market stability during  
12 the last two years of unprecedented problems but also gains  
13 in the nation with the introduction of competition and we  
14 feel fortunate at this juncture to be assimilating the  
15 industry experience and look forward to continuing the good  
16 Florida journey. This concludes my remarks and I would be  
17 glad to answer any questions.

18 MS. JABER: Thank you Mr. Ramon. Commissioners  
19 do you have questions? At the end, okay. Mr. Orr, is that  
20 the next speaker Jim?

21 MR. ORR: Hello I'm John Orr with Reliant Energy  
22 and first of all, let me thank you for inviting me to speak  
23 to you, I'm very honored to get to speak to all the  
24 Commissioners plus from FERC and the FPSC and I just wanted  
25 to let you know that even though it's difficult sometimes to

1 get to Tallahassee, I always look forward to coming down  
2 here and meeting with you all. First let me start off with  
3 a couple things before I -- I'm going to answer the  
4 questions directly that Jim mentioned and the first thing I  
5 want to do is talk about two, just kind of overall concepts  
6 here that I want to make sure get out on the table. First  
7 is, you know, there is a lot of talk about, or concern, I  
8 think here about jumping off the cliff and to LPM day two  
9 market and into what we call a fancy market design right off  
10 the gate here. And we don't need to do that necessarily.  
11 That's not been done in other places. I mean PJM didn't  
12 start there, MISO isn't there yet. New England didn't start  
13 there, New York -- everybody kind of goes through a  
14 transition. So, transition is good and it's okay and what  
15 you want to build in as Commissioners I think, is a place to  
16 stop. You want to make sure that you have your finger on  
17 the pulse here where you get to the point that you're  
18 comfortable and that things are working and that you've got  
19 the benefits for your consumers on a consistent timeline  
20 here, is what I would say. And so what I'm saying in  
21 essence here is, it's okay to go slow, it's okay to get us  
22 off the ground and do what I call the transitional period  
23 where you turn over control of the transmission assets here  
24 in Florida and operate under what I would call 888 style  
25 world. Which is effectively what MISO is doing right now

1 and all the priorities are done. We're not asking you to  
2 throw everything out the window here and start over from a  
3 day one type structure. The second thing is, all the RTOs  
4 that I know of so far, in their development have essentially  
5 allowed. There are people who want to be vertically  
6 integrated and have a regulatory structure in place in their  
7 state to continue to exist and function in that structure.  
8 Which means that if you have things like the capacity market  
9 that Greg mentioned, or if you have things like FTRs or day  
10 ahead market, none of the existing RTOs bar people from  
11 doing essentially what I call bilateral transactions with  
12 themselves. And so you can -- what you want to do is make  
13 sure that you build this RTO here in Florida, if you don't  
14 want to have, I'm going to say retail competition, if you  
15 don't want to go there, which is fine, what you want to do  
16 is build the vehicles within the RTO that will allow you to  
17 essentially replicate your structure at the retail level  
18 that you have today. And so, the question comes up, if you  
19 start thinking about that, well why do I want to do this RTO  
20 then, you know? What good would it do me if I'm not heading  
21 down that path? Well, I think there is one big thing. And,  
22 you know, this gets back to why does this matter to  
23 consumers then? Well, what this does, is it gives the  
24 regulators another tool in their toolbox, because you've  
25 created a transparent market where you know you're getting

1 the best deal for your consumers here in Florida. That's  
2 the bottom line of this, is we create transparency in a real  
3 market. I think you heard Mike Green's answer to an earlier  
4 question today where, you know, the market is not very  
5 robust. It's kind of thin. Bilateral is hard to -- I want  
6 to use the word police -- you know, kind of hard to know  
7 what's going on there. I think there was a question asked  
8 of Mr. Wiley earlier, well do you track that bilateral  
9 market? And the answer was, well no, we really don't have  
10 that information. RTO get you out of a lot of that. You  
11 get a very good picture of what's going on and what the  
12 alternatives available to your consumers are. In addition  
13 to, you get tools to manage the risks consumer face going  
14 forward and that means tools that are technological and  
15 financial. So I wanted to emphasize those two points, it's  
16 okay to go slow and kind of, you can replicate the services  
17 if you don't want to jump to retail on the table. Because  
18 they have been kind of overlooked in earlier discussions  
19 here today and we were all around that map. Okay, so now  
20 I'll answer the questions that were laid out. The first one  
21 was, what are the day one recommended market services that  
22 should be included in GridFlorida? I'm going to clarify  
23 definitionally something here. Most places call day one the  
24 888 style world that I referred to and that normally include  
25 something like an 888 type oasis administration, security

1 coordination provided by the single entity transitioning  
2 from multi control areas systems to a single control area  
3 type system. The RTO or whatever we want to call this  
4 entity becomes the provider of last resort for imbalance  
5 energy. May run an imbalance market accept bids and offers  
6 for that as well as other ancillary services they go  
7 procure. They do congestion management in today's world  
8 using TLR, not some market base mechanism. And then what  
9 they really do is, they're really providing the back stop of  
10 what I call bilateral market coordination outside of the--  
11 through facilitating scheduling, which is outside of running  
12 a centralized market. So they are they transmission  
13 administrators and operators, that's the big picture way of  
14 looking at this. So that's what I call day. So in my mind  
15 what happen is, if you go to enter that world and then, the  
16 timeline, kind of a moderately aggressive timeline I'd say  
17 is a year to 18 months into that and all during the time  
18 that you've been in that world, what you do is you work on  
19 what I call your day two market design and that day two  
20 market design I think needs to have these things and we can  
21 discuss it, at your discretion of course, you know, why you  
22 want these things but I'll just kind of list them off. Day  
23 ahead and real time energy markets, L&P congestion  
24 management with a market clearing price mechanism, not a  
25 payers bid mechanism. If you're going to have a safety net

1 bid cap, kind of a price cap on offers and the like, you  
2 need a resource adequacy provision which can be addressed in  
3 a market construct with your -- that sync up with the  
4 requirements that you impose as a state commission for  
5 reserve. I think this is very consistent with what the  
6 White Paper has said about RSCs will set resource adequacy  
7 levels and have a big hand in that role. So you get to  
8 control how much reserves you carry on the books here in  
9 Florida essentially. And the reason I say the day ahead in  
10 this resource adequacy is, people think this is because this  
11 is about giving fixed cost back to people that invested in  
12 the market, in light of mitigation and price caps. Well  
13 that's partially true and it is, that is a feature that  
14 falls out of this. The primary reason you want this, and  
15 you want to put these two things together is because it  
16 encourages forward contracting and limits the volatility  
17 that will occur in real time and the price spikes that none  
18 of this room want to live with. Is that putting people into  
19 the forward market makes them plan ahead and encourages  
20 behavior that will limit prices in real time getting out of  
21 control. So that time is up. Some other features of day  
22 two that I will quickly reel off here are, I think you want  
23 to simultaneously optimize your market for both energy  
24 ancillary services and congestion management and the reason  
25 why and I think this has actually happened in New York is

1 that you're not careful when you design this. You can  
2 create arbitrage and opportunities for people to capture the  
3 arbitrage between the energy market and certain forms of  
4 that ancillary services market particularly the spinning  
5 reserve market. Kind of technical but important to think  
6 about that as you're constructing this day two market, you  
7 need to string these things together to eliminate those  
8 arbitrage opportunities. The last thing -- the other two  
9 items in day two, I would say you need some type of RMR.  
10 There is many levels to this. You're going to have to  
11 address the issue of localized market power. People do it  
12 with contracts, people do it with proxy, new economic  
13 analysis. There are a lot of ways of slicing this piece of  
14 bread and come out with something, something we need to  
15 address. How much of this you have here in Florida, remains  
16 to be seen.

17 MS. JABER: Tell me what RMR is.

18 MR. ORR: Oh, I'm sorry.

19 MS. JABER: It's okay. I think someone else  
20 doesn't know.

21 MR. ORR: It is -- I call that reliability must  
22 run but the easy way to think about that, that's a very  
23 specialized term that people came up with for the situation  
24 in California, units in California that had to be run to  
25 keep the lights on. They were the only alternatives so

1       therefore there wasn't competition to offset them. They  
2       knew they had to have them so by definition they had market  
3       power in a very localized area. The last thing is, I think,  
4       you've got to have reactive and black start services in this  
5       market. they are real things that you need, especially in  
6       light of the fact you're in Florida with hurricanes and  
7       adverse weather conditions at times and I think the easiest  
8       way to deal with that at the outset of day two is you deal  
9       with that via contracts. That's how PJM has handed that up  
10      to this point. Now, I'll jump to the next question. How  
11      are transmission rights to be allocated initially and on a  
12      going forward basis? Before I say anything else, I'm going  
13      to say, this is a day two issue. We don't have to fall on  
14      our sword right now about this. Nobody in the room does and  
15      the first thing is, you don't have to jump off the cliff if  
16      you're not comfortable either. All right. This goes there  
17      too and that is, I agree with these folks here that out of  
18      the gate, you ought to allocate these transmission rights to  
19      existing firm users of the system and we'll call this FTRs  
20      and people ought to get basically what they have. Now, that  
21      is subject to one limitation and that is a simultaneous  
22      feasibility test which means that if you're going to do  
23      financial transmission rights, what you're making sure is  
24      that the potter dollars that are collected via congestion  
25      charges is equal to the potter dollar or roughly equal

1       because it never works out equally the way the math of L&P  
2       comes out, that you have enough dollars in it to pay back  
3       people that are hedged. What I'm saying here, to simplify  
4       more is, you don't want to oversell the system with FTRs.  
5       You want to hand out more FTRs that you can cover with the  
6       energy market, the math of the energy market. So you have  
7       to do this test so that you're not handing out more than you  
8       can actually cover from a hedge perspective. And think  
9       about that. That means you don't want to sell people hedges  
10      that aren't really hedges and then have to socialize the  
11      hedging that you did, because you didn't do yourself any  
12      good then if you did that. Now, that said, that out of the  
13      gate, I think going forward to realize the full benefit so  
14      the RTO, what you have to do is auction these but the big  
15      hang up that a lot of folks have, like my friend sitting  
16      next to me here, Mr. Woodbury, I know the munis have  
17      expressed this to me in here in Florida is, well how do I  
18      know what to bid in this auction for these things? Well,  
19      that's the reason I say, you don't jump out of the gate and  
20      do this. You establish a L&P price history, you come up  
21      with basis differentials, you see where the congestions are,  
22      people will start getting a feel for what the value of these  
23      items are going forward. And that's the reason I say that  
24      you should go ahead and hand them out and do an allocation  
25      at the gate but you should work towards an auction at some

1 point so that you are sending long term price signals so  
2 that people know where the site generation, site  
3 transmission and are able to hedge themselves on a going  
4 forward basis. The last topic that was asked was, what are  
5 the levels of market monitoring that should be in place  
6 prior to the day one operations of GridFlorida? I think the  
7 day one that I described, the 888 style world, what you want  
8 is a market monitor that is doing three things, well really  
9 four things. One, they're monitoring the conduct of all the  
10 sellers in the market, they're monitoring the conduct of all  
11 the buyers in the market, and they are monitoring the RTO  
12 itself for things that produce anomalies in the market, that  
13 are not consistent with true economic results. That's what  
14 you want them doing in what I call day one oasis  
15 administration 888 world. The other thing you want them  
16 doing during that time is being an active participant in  
17 reviewing the market design. Now I realize there problems  
18 with having them sit at the table and design the market hat  
19 they are going to be the ones that are going to kind of  
20 provide your initial level of screening and oversight, but  
21 what you don't want is something to be really messed up by  
22 the collaborative, say among us three sitting here at the  
23 table. And then you guys go approve it and what happens is,  
24 the market monitor comes back and say, I've got a big  
25 problem with this. So you want to build in some mechanism

1 that as you're developing day two, the market monitor is  
2 forced to be involved enough to at least be some check on  
3 that before it comes to you, I think. The last thing is, in  
4 day two, the market monitor I think, this is the principle I  
5 would apply, is that any mitigation mechanism should be  
6 objectively applied, there needs to be an objective test  
7 that is defined ahead of time which is conducted on an  
8 extant basis and they should allow to send whatever  
9 mechanisms you pick as mitigation mechanisms, they need to  
10 allow the market to send the proper price signal both in  
11 times of surplus and in times of scarcity. They need to  
12 make sure that they have mechanisms to reflect that  
13 directly. If you don't, you will not send the right  
14 investment signals long term. Thank you. That's my  
15 comments.

16 MS. JABER: Commissioners, questions at this  
17 point? Okay, Mr. Dean.

18 MR. DEAN: Our last speaker will be Tim Woodbury  
19 of Seminole.

20 MR. WOODBURY: Madam Chairman, Mr. Chairman,  
21 Commissioners, I appreciate the opportunity to be here. For  
22 the record my name is Tim Woodbury, I'm Vice President of  
23 Strategic Services for Seminole Electric Cooperative. Well,  
24 in my younger days I received some advance training in the  
25 dismal science. I'm not here today to talk to you as a

1 market theoretician, but instead as a senior utility  
2 management representative that represents a consumer-owned  
3 company that represents roughly 10% of the consumers in the  
4 State of Florida. I come to you with almost 25 years of  
5 utility experience in this State and I have fought the good  
6 fight as some of my friends in the audience will know  
7 relative to transmission access and I have been heavily  
8 involved in acquisition of power supply for my Cooperative.  
9 As the State Commission knows, we have been very active in  
10 that area in terms of our bidding program. As a Cooperative  
11 representative, I come to you with a consumer perspective.  
12 I realize that it is with the consumers' interest at heart  
13 that the Florida Regulatory Commission has pursued solving  
14 certain problems through the thru market mechanisms and I  
15 applaud the motivation. But I am hear to sound the warning  
16 that without a proper foundation, market based solutions in  
17 Florida will likely do more harm than good and consumers  
18 will suffer the consequences. Expressed differently, the  
19 implementation of market-based solutions in Florida without  
20 significant changes to the existing business environment is  
21 tantamount to, if I can use a boxing analogy, leading with  
22 the consumers' chin. My company is a transmission dependent  
23 utility. We are also active in the wholesale power supply  
24 acquisition business. We've got roughly 50% of our members'  
25 needs, capacity needs are with purchases from non-Seminole

1 owned resources. We support wholesale competition and  
2 welcome the development of a vibrant wholesale market in  
3 this State. Having said this though, we've got to  
4 understand that we've got a long way to go before this dream  
5 can become a reality in this state since there exists major  
6 obstacles to the establishment of such a market. Pancake  
7 transmission charges, balkanized transmission planning, lack  
8 of independence of transmission ownership, legislative  
9 barriers to entry, which you heard about this morning. They  
10 weren't characterized as barriers to entry but that's what  
11 they are. Regional interface capability, limited,  
12 extremely. High market concentration ratios for market  
13 dominant suppliers and the absence of price responsive  
14 demand, all serve to make this state a poor proving ground  
15 for experiments in market making. Wholesale competition  
16 will not come to this state with the touch of a regulatory  
17 wand. As we've seen in other parts of the country, the  
18 wrong kind of touch in that regard can have pretty poor  
19 consequences for consumers. We must take measured steps in  
20 moving forward to competitive wholesale markets in this  
21 State. In short, we must think things through. We've got  
22 to crawl before we walk, we've got to walk before we run.  
23 And most important of all, we shouldn't lead with the  
24 consumers' chin by attempting to apply market mechanisms in  
25 an environment where reason and judgment would suggest that

1 failure is inevitable. Well then what needs to be done?  
2 First, we need to change our thinking about a simultaneous  
3 or close to simultaneous commencement of RTO operations in  
4 market-based mechanisms to congestion management and  
5 generation services. We need to stop thinking in terms of a  
6 day one, day two approach with day two occurring within one  
7 year as the White Paper seems to suggest, as I read the  
8 white paper, looking at approximately one year post the  
9 implementation in RTO, I think we need to leave that date  
10 open and we need to look and see how the market in the  
11 particular area that you're talking about has developed.  
12 Whether the structure is really there to accommodate day two  
13 but it shouldn't be hard wired. Regarding day one, an RTO  
14 has been needed in Florida for some time now. I love  
15 talking about RTOs. I've been doing it in this State now  
16 for too many years. An RTO will, through centralized  
17 regional planning, provide a solid foundation for the  
18 development of a sound transmission infrastructure. That's  
19 a necessary prerequisite for greater reliance on market  
20 forces for pricing generation services. An RTO will also  
21 help ensure that all users of the system are treated  
22 comparably and will provide with greater clarity, the rules  
23 of the road -- regarding the rules of the road for new  
24 entrance and existing users of the grid. By treating all  
25 transmission owners on a comparable basis with regard to

1 transmission credits. An RTO will encourage participation  
2 by all transmission owners of the State. An RTO will also  
3 eliminate pancaking of transmission which results in  
4 generation related inefficiencies and higher cost to  
5 consumers. All these features of an RTO will help create a  
6 business environment that will encourage, or at least not  
7 discourage as the current system does new generation  
8 investment to the State. Where do we stand with regard to  
9 an RTO in Florida? Well, several years go, I thought we  
10 were getting close. The Federal Deregulation Commission  
11 provisionally approved the GridFlorida order on March 28,  
12 2001, that order has been pending rehearing since April of  
13 2001. In the meantime, the Florida Public Service  
14 Commission reviewed that same filing as we heard earlier  
15 today, reached some conclusions in terms of approving an RTO  
16 with some significant modifications to what had been filed  
17 at FERC, essentially creating a not-for-profit ISO rather  
18 than a for profit Transco. So at the present, we appear to  
19 have dueling RTOs; one at FERC and one at the Florida Public  
20 Service Commission. More importantly, neither one of them  
21 is going anywhere fast. Seminole believes that it is  
22 imperative at this juncture for both the FERC and the FPOC  
23 to proceed cooperatively and with a sense of urgency to  
24 ensure that the RTO becomes operational in Florida without  
25 any further delay. Regarding day two. The question is what

1 needs to be done before we seek to establish competitive  
2 market for generation services? First and foremost, market  
3 power in Florida must be addressed. The State is now  
4 dominated by two giant sellers of power, they control  
5 roughly 60% of the generation in Peninsula Florida and I  
6 realize dealing with that issue poses significant legal  
7 concerns, they're very complicated. But the bottom line is,  
8 is that there is really no way for markets to function  
9 efficiently with such concentrations of power, until at  
10 least they remove or are substantially mitigated. Secondly,  
11 the evolution of competitive wholesale markets will continue  
12 to be hampered by the Florida Power Plant Siting Act  
13 effective prohibition of highly efficient merchant  
14 generation. The elimination of barriers to entry is another  
15 prerequisite for the implementation of market-based pricing  
16 mechanisms in the State. Third, the existing transmission  
17 infrastructure in the State including the almost non-  
18 existing import capability into Florida. We heard earlier  
19 that it was roughly 45% of 3,600. I think it -- I'm going  
20 to have to talk to our marketers, the people who work for  
21 me, because we think it's only around 400 megawatts that  
22 we're talking about, being able to get, but even if it was  
23 half of the 3,600, you're talking about a 40,000 megawatt  
24 system in Florida. So let's say that you've got 1,500  
25 megawatts that you can play with through the interface. I

1 think we're splitting hairs as to whether it's 400 or 1,500.  
2 1,500 is one year's load growth for the State, so it's  
3 really not worth talking about. So we do have to look at  
4 the infrastructure of the State and see what can be done to  
5 improve it. And while it is true that the State does work  
6 in terms of trying to make sure that the transmission system  
7 is structured properly for the way the State is currently  
8 configured, as Mr. Wiley talked about, I don't know how  
9 robust it is when we're talking about opening up entry and  
10 getting a lot of new market players into the State.  
11 Finally, price response of demand mechanisms need to be  
12 established so that consumers are not forced to be price  
13 takers in the market. Without these fundamental changes, we  
14 don't think that markets will work effectively in Florida.  
15 A related concern goes to the effectiveness of behavioral  
16 rules to prevent the use and abuse of market power.  
17 Consumers have to be protected against abuses of market  
18 power and other anti-competitive behavior. We can't afford  
19 any death star, get short, ricochet, let's not forget fat  
20 boy or other creatively named schemes designed to gain  
21 markets and ultimately defraud consumers. In recent  
22 comments to FERC, we hear of certain large sellers  
23 contending it will all be well if we get greater clarity and  
24 specificity regarding the applicable behavioral rules. If  
25 we've learned anything from the experiences elsewhere in the

1 country is that some market participants see it as their  
2 fiduciary responsibility to their owners to exploit any and  
3 every crack in the applicable rules in order to enhance  
4 their bottom lines. More detail just mean they have to work  
5 harder to finding the cracks but find them they will. The  
6 simple fact of the matter is that the competitive markets  
7 are very complex creatures and we are simply not smart  
8 enough to think of all the behavioral rules that will be  
9 required to ensure that firms with market power behave as if  
10 they did not have such power. That is why we need the  
11 functionally competitive markets to discipline behavior.  
12 And while behavioral rules may be a necessary supplement,  
13 they cannot replace having large number of sellers in the  
14 market, each with no ability to properly set prices through  
15 economic or other forms of withholding or to engage in what  
16 has been termed other forms of felonious market behavior.  
17 The Federal Trade Commission submitted on August 28, 2003 in  
18 FERC docket EL01 118 made essentially the same points as  
19 follows and I'm quoting from the Federal Trade Commission:  
20 "We recognize that the misconduct of some suppliers in the  
21 western energy markets in 2000/2001 may motivate FERC to  
22 impose additional behavioral rules on these and other  
23 electrical power marketers. Nonetheless, we urge FERC not  
24 to lose site of the goal of developing structurally  
25 competitive markets. Long experiences has thought antitrust

1 enforcers that competitive markets that exhibit ease of  
2 entry are more likely, than behavioral rules imposed on  
3 market participants to protect consumers and result in  
4 efficient pricing output and investment." In brief while  
5 Florida is ready for an RTO, it is far from ready from the  
6 kinds of markets being promoted in standard market design  
7 and we implore the Commissions not to impose any sort of  
8 market oriented approach to resolving congestion or  
9 establishing market clearing prices for generation services  
10 until these serious prices that I have noted earlier have  
11 been addressed. The FERC correctly observed that the outset  
12 of its April 28, 2003 White Paper, that its core mission,  
13 I'm quoting from that White Paper, "Its core mission under  
14 the Federal Power Act is to achieve wholesale electricity  
15 markets that produce just and reasonable prices and work for  
16 consumers." Clearly Florida is not ready for reliance on  
17 markets if just and reasonable rates are the desire, and I  
18 might add the required outcome. Standard market design, as  
19 most recently discussed in FERC's White Paper, while it may  
20 work in other areas of the country, will not work in Florida  
21 until circumstances have changed dramatically and market  
22 power mitigation, frequently mentioned in the White Paper is  
23 as important aspect of market will not suffice in Florida.  
24 As long as Florida remains an electrical island, with two  
25 dominant generating sellers and a legislative prohibition of

1 merchant plant competition, the problem is way beyond market  
2 power mitigation. The problem is that without legislative  
3 change, permitting competitive merchant plants to be built  
4 without an independent examination of the need for new  
5 infrastructure that might, among other things permit greater  
6 reliance on imports from the north, without price response  
7 of demand, in other words, without the rudiments of a  
8 competitive market, market power mitigation is a meaningless  
9 term. The FERC's White Paper recognize the unique needs of  
10 the Pacific Northwest. I implore you to recognize also the  
11 unique needs of the State of Florida. Having said this, I  
12 want to reiterate Seminole's long-term support for FERC's  
13 RTO initiative and simply remind it that RTOs can be of  
14 great value even if implement prior to the implementation of  
15 wholesale markets. Don't throw the baby out with the bath  
16 water. The fact that Florida is not ready for reliance on  
17 wholesale markets on day one to produce just and reasonable  
18 rates, does not mean that it is not past ready for RTO  
19 implementation to accomplish many of the goals set forth in  
20 Order 2000 in the White Paper. Thank you.

21 MS. JABER: Thank you Mr. Woodbury.  
22 Commissioners do you have questions?

23 MS. BROWNELL: I do. Mr. Woodbury. Thank you  
24 for your thoughtful comments. I just want to clarify and  
25 make sure I understand that given kind of the various

1 barriers you see to a fully developed market, you never the  
2 less still support the development of an RTO with the  
3 transparency that begins and ends maybe some or all of the  
4 provisions that John articulated as a day one set of  
5 responsibilities for the RTO and then some period of time  
6 longer than a year but shorter than my lifetime to get to  
7 the evolving market as I assume some of the other fixes  
8 happen in terms of legislation of whatever. Does that  
9 correctly characterize your position?

10 MR. WOODBURY: I think there are several fronts  
11 we have to move on. Get the RTO up and running. It's ready  
12 to go. We just have to choose which one we're going to  
13 implement now. We've got a very good governance structure  
14 up at FERC that I think the investor-owned utilities and the  
15 rest of us around the table worked really hard on and I  
16 think most people are pretty comfortable with that. Let's  
17 get the RTO up and running. Let's look -- things that are  
18 beyond your control are the imperious (phonetic) entry that  
19 we deal with legislatively. That's something we've got to  
20 try to deal with here. Once you get that RTO up and  
21 running, you can get an independent look, an independent  
22 look at how the transmission infrastructure is in this State  
23 to see how it could accommodate that. Get a market monitor  
24 up and running. Get them looking at the markets in Florida  
25 to see what has to be done to put in the rudiments for an

1 effective market so what when day two comes, as John said,  
2 you don't have to rush to day two, we can get a lot of the  
3 benefits of the an RTO in place right away and let the  
4 markets come later when we're pretty confident that we're  
5 not going to be leading with consumers' chins. That's  
6 basically my approach.

7 MS. JABER: I think, and I don't want to speak  
8 for the rest of the Commission and Pat can certainly speak  
9 up for himself, that's pretty much the message that we're  
10 hear to deliver, that the evolution need not take a lifetime  
11 because there are points of vulnerability and cost issues  
12 involved in that but that's exactly what we're suggesting  
13 and what the White Paper envisioned. Perhaps not with the  
14 clarity that we would like. We're only surprised that we  
15 haven't made it as clear as we would like it to be but --

16 MR. WOODBURY: We read that into the White Paper.  
17 We did see almost a hard wiring of a one year date but it  
18 was, you know, obviously you're in a preliminary stages with  
19 regard to what the final rule would look like but we're  
20 cautioning that - don't hard wire that date. Give markets a  
21 time to develop and they'll work themselves out. There are  
22 a lot of motivation.

23 CHAIRMAN WOOD: I want to just echo Nora. I mean  
24 I've heard from all of you as I've heard today and also  
25 informally offline with my colleagues and also with some of

1 the market folks here, the sequencing needs to happen  
2 differently here and I think I've second her point that, and  
3 it sounds to me like there is a pretty close, if not  
4 directly overlapping link between those (inaudible) specific  
5 John, Tim and Greg you all got your filings and what have  
6 you so you probably are constrained a little bit by what you  
7 can say there but the day one approach, let's worry about  
8 the transmission infrastructure business. The energy  
9 markets, half of standard market design will come when it's  
10 ready to come but you're right, don't make it worse by  
11 sticking it on an organization that's not ready for it, and  
12 you said it as articulate as anybody I've heard in my two  
13 years on the job so thank you. But, you're right, I checked  
14 your site to the one here and I thought, I know that's not  
15 in there. That is overridden by our difference to the RSC  
16 about what the schedule, the cost benefit of when certain  
17 terms are implemented but I apologize for that being there  
18 because we had talked about that long and hard that really  
19 one of the changes we wanted to make based on the comments  
20 we heard from Florida and from others, was the need to step  
21 these in according not to an arbitrary timeline, but to,  
22 well, as we say in 271 on the phone site, step it on  
23 according to what you see in the marketplace. So we are  
24 committed to that and I know I can speak for our third  
25 colleague on that issue too.

1 MS. BROWNELL: But we will surely do a better job  
2 than number 271 on the phone site, I promise you.

3 CHAIRMAN WOOD: Bad phone joke for you energy  
4 guys.

5 MS. JABER: Commissioners, FERC Commissioners, if  
6 I can put you on the spot a little bit as it relates to this  
7 panel because these are the issues that we all have to  
8 revisit in due course and since we're in the spirit of  
9 making affirmative statements, I wonder if I can get greedy  
10 and ask where the other areas of state flexibility might be  
11 and certainly with your pending proceeding, you may not be  
12 able to do this but someone made reference to dueling RTOs,  
13 and again as it relates to the FERC rulemaking, we have  
14 GridFlorida in terms of governance and FERC had  
15 conditionally approved that. So can we at least put to rest  
16 for ourselves, for the state commissioners but also for the  
17 industry as a whole that we really are looking at  
18 GridFlorida as approved by the PSC.

19 CHAIRMAN WOOD: Yes, I think we've got -- the  
20 reason why there has not been a rehearing -- and John or  
21 Tim, I think Tim said it, right, I mean, we're not done.  
22 And these folks are wonderfully communicating what's going  
23 on in Florida but shortly after that, I guess it was after  
24 the big southeast mediation in the summer of '01, it became  
25 clear to us that some aspects of GridFlorida may change. So

1       rather than, quite frankly, we're lazy, doing a rehearing  
2       won't matter. We just will wait until it's updated, moot the  
3       old rehearing and base it on what the current proposal is.  
4       So the current proposal, I would hope, and it's really up to  
5       the Commission here leadership, but as you guys now have the  
6       remand back from the Supreme Court and it's back to the  
7       State Commission there, that you all, I hope we can provide  
8       some wisdom here today but give you some guidance about  
9       where we are on FERC, as our policy, particularly on the  
10      White Paper, really represents where we are, can come back,  
11      build on what you've got, take the greatest bits of what you  
12      did file earlier and what you did file late, work that out  
13      with the Commission. We'll be here participating with staff  
14      help and from commissioners to help that effort, but I'd say  
15      get that through here and then at that point, it will be a  
16      while lot easier for us to take it and say everybody in  
17      Florida has come to accommodations on where they want this  
18      RTO to be, at least where they are today and maybe lay the  
19      ground work for what criteria should be set for, you know,  
20      future evolutions in that market. What should guide that  
21      evolution and to bring that, and will hopefully build it as  
22      soon as possible so all those regulatory issues get out of  
23      the way and the business issues can come forward.

24                   MS. JABER:    As it relates to standard market  
25      design, I know that some of the concerns raised by our own

1 state commission and other state commissions in the industry  
2 and the consumer advocates has been, it's not a one-size-  
3 fits-all approach and I've heard each of you as you speak  
4 informally or in public settings, recognize that it is not a  
5 one-size-fits-all approach. As it relates to GridFlorida,  
6 is there a comment you would like to make -- and actually  
7 subsequent to the White Paper, I think you did issue  
8 something that says, you recognize regional differences. Is  
9 there any other feedbacks you would want to give us or the  
10 industry in that regard?

11 CHAIRMAN WOOD: I think we did put out a piece  
12 and what Lila was referring to was on July 7th, we had, it  
13 was actually particularly for the Midwest, Commissioners  
14 there who were just forming their regional state committee  
15 and it's a large region, I don't know, about a dozen or so  
16 states and the just wanted some thoughts okay, the White  
17 Paper, thank God it was readable, 20 pages but at some stage  
18 you do want some detail and what have we learned, what has  
19 FERC learned from its experiences across the country. And  
20 so, this paper that's on our web page, went out on July 7th  
21 and said, we took the eight elements of the sub-platform on  
22 the White Paper and said, here is what we've seen, here are  
23 some options that the staff generated that Commissioners can  
24 consider when they're looking at market design issues and  
25 want to weigh in -- again it's not an exclusive paper, but

1       it's meant to kind of stimulate discussion in each region.  
2       And the audience was not just the Midwest, that was the  
3       predicating event, but I think from what I've heard back is  
4       that people found it to be relatively detailed and pretty  
5       helpful as to -- at least what we've learned across the  
6       country. Because I now it's hard to look at every other  
7       region in the country when you're putting one together, but  
8       we wanted to offer some of the guidance from the Midwest,  
9       Northeast, the West, what we've seen in the Southeast, there  
10      are a lot of what you heard between what Greg mentioned and  
11      what John mentioned on day one/day two is pretty much what  
12      we heard in Atlanta about what the C-Trans proponents are  
13      proposing, look a lot like the combinations of day one and  
14      day two. Of course, they had issues unresolved about  
15      timeline. But I mean the general market structure was very  
16      similar to a lot of the things that we saw in the refiling  
17      of GridFlorida and in what John as articulating a few  
18      moments ago. So I mean the greatest tip is that we are  
19      learning. I think our initial -- as I mentioned this  
20      morning, one of the things we're trying to put out there is,  
21      let's not make these mistakes again. Let's learn from it,  
22      let's learn from what we did wrong in California, let's  
23      learn from what's going right elsewhere and what's going so  
24      so elsewhere and see if we can get it better. But that's  
25      what standard market design was all about and again, as

1 amended by the White Paper, that's where I hope we are still  
2 and I quite frankly think you all here have a real  
3 opportunity to kind of take that and run with it and we want  
4 to support you all the way on that.

5 MS. BROWNELL: Let me just echo and give you the  
6 cautionary tale. We approved California on the basis of  
7 regional differences. So when you look at regional  
8 differences, make sure they're real and you're being  
9 disciplined and you're not in any way, and I don't get that  
10 sense, compromising those core principles, which is, as Pat  
11 said, what SMD was all about. Reliability, customer  
12 benefit, independence, independence, independence, and true  
13 operational control, which I think we've seen some  
14 variations on that theme which may have some impacts that we  
15 didn't anticipate and I think we'll see more about that in  
16 the coming months. So, regional flexibility is terrific but  
17 it must be based on the realities of your marketplace and  
18 not on the wish list of any one particular part of the  
19 sector. Because there is a cost to regional differences as  
20 we've seen in seams. So, be surgical about those regional  
21 differences and certainly there are unique circumstances  
22 here but just make sure you understand the impact of those  
23 decisions.

24 MS. JABER: Thank you.

25 CHAIRMAN WOOD: And that's why I brought up the

1 deal about C-Trans since you were going to be really  
2 surrounded on the north by that market, it's real helpful I  
3 think to consider their proposed market design and their  
4 timelines as you go forward with yours so that those seams  
5 issues, like we saw between New York and New England, which  
6 are being resolved by some really hard ironing, don't ever  
7 show up in the first place.

8 MS. JABER: Okay. The final clarification I  
9 would like to have, I know it's come up in our comments in  
10 the past, relates to perhaps a mis-concept of FERC  
11 exercising unintentionally or not, jurisdiction over retail  
12 rates and retail rate structure and I wonder if you would  
13 take an opportunity to comment on that and again, the  
14 concern has stemmed from market design in the sense that if  
15 we start accepting all of the SMD proposals. Are we giving  
16 away our retail rate jurisdiction?

17 CHAIRMAN WOOD: This was the first issue that we  
18 addressed in the White Paper. Let me just actually quote  
19 from it because we did spend quote a bit of time talking  
20 about this among the three of us at the Commission.  
21 Pursuant to Order 888, the Commission currently asserts  
22 jurisdiction over wholesale transmission service and  
23 unbundled retail transmission service by public utilities.  
24 In the final rule, with respect to bundled retail service,  
25 which is where this SMD White Paper is going, we will

1 continue our existing practice for RTOs and ISOs of  
2 distinguishing between the non-price terms and conditions of  
3 transmission service and the rates for transmission service.  
4 As we've discussed in Appendix A, which was in your nice  
5 notebook here for us, the non-price terms and conditions of  
6 the RTOs tariff will apply equally to all users, including  
7 those who take service to meet their obligations to serve  
8 the bundled retail customers. However, the Commission will  
9 not assert jurisdiction over the transmission rate component  
10 of bundled retail service, thereby avoiding unintended  
11 issues raised by a new assertion of jurisdiction. In  
12 English, everybody takes service under the GridFlorida  
13 tariff. The co-op, the competitor, the traditional utility,  
14 the muni. So the service is provided on a non-  
15 discriminatory basis because everybody is taking GridFlorida  
16 transmission service. Now those services we get today to  
17 you, you want to decide how those transmission rights are  
18 allocated. Again, that's one we've indicated we'll defer to  
19 the regional state committee for the guidance on that. I  
20 think you heard pretty clear from John, you don't really get  
21 to that issue until you get to quite a bit more mature  
22 market and I would agree, based on my experience in Ercon  
23 (phonetic) and elsewhere in the country that those  
24 allocation issues while important, do not really show up as  
25 what I call headaches until you get to the day two market

1 and you do a L&P or market-based congestion rights, for  
2 example. But that's our interest. Our interest are in  
3 saying the non-right terms and conditions are that everybody  
4 operates under the same rules of the road. How you folks  
5 want to set your retail rate, how you folks want to actually  
6 decide how cost to be allocated, we want to defer to that.  
7 Strong deference to that, although ultimately if there is a  
8 competitor, like say we heard in some other states that are  
9 concerned, then okay if the RSC says we're going to allocate  
10 cost this way and they make a decision. Do I ever get my  
11 day in court? As a legal matter, yes. This came up in our  
12 discussions with the Southwest power pool commissioners.  
13 What we said is we want the RTO to file what the regional  
14 state committee has agreed would be the cost participant  
15 funding, take that as an issue, then you make a decision as  
16 to how new transmissions are going to be paid for. That's  
17 filed by the RTO but somebody might not agree with that. So  
18 we've got, under section 205 of our Power Act, listen to  
19 those comments. Yes I think there is a very strong  
20 rebuttable presumption that what the RTO file is just and  
21 reasonable but people do have the right to make that  
22 argument for those issues. That has nothing to do with  
23 rates though. That rule has a lot to do with the terms and  
24 conditions of the service, apart from rates. But we wanted  
25 to make sure that the rate issue -- and recognize the

1 downside of us disclaiming jurisdiction over the rate is  
2 that -- and I know that's not the case here -- but if there  
3 were reasonable punitive commission involved, then it could  
4 result in a utility not getting sufficient cost recovery to  
5 make their investment. In which case, we know they just  
6 won't invest anymore in transmission. But that's more of a  
7 case with multiple states where you might have Stat A saying  
8 well, I'm not going to let you pass through anymore than X  
9 and State B, you know, doing the proportionate share, well  
10 the utility as a whole is not going to make its revenue. So  
11 that's the downside of us disclaiming jurisdiction is that  
12 protection that is generally been afforded to utilities on  
13 their transmission tariffs but we thought it was important  
14 to do that in the interest of working with the states, that  
15 the states do handle rates pretty darn well from my  
16 experience and that's really why we wanted to not thread  
17 into that water.

18 MS. JABER: Thank you Mr. Chairman.  
19 Commissioners do you have any other questions? Okay, now  
20 you need to catch a flight so I wanted to take an  
21 opportunity, and my colleagues agreed to thank you for being  
22 here. We really appreciate your input. We appreciate the  
23 trek to Tallahassee. It isn't easy to get in and out of  
24 Tallahassee, but we are awfully glad that you came and  
25 willing to dialogue as always. So I appreciate it. Have a

1 safe flight and come back.

2 MS. BROWNELL: Thank you. It was great to be  
3 here. We will because we miss downtown, which I gather is  
4 beautiful, so it's may be tough to get here, but it was  
5 worth the trip and this is the best meeting room I've ever  
6 been in.

7 MS. JABER: Well great.

8 MS. BROWNELL: Thank you one and all.

9 MS. JABER: Thank you. Okay Jim, you want to  
10 take us into the next panel? Jennifer, go ahead.

11 MS. BRUBAKER: Good afternoon. I'm Jennifer  
12 Brubaker with the Commission staff. We've heard today a  
13 little bit about the origination and current status of  
14 GridFlorida and I'm here to make just a few brief comments  
15 about the next steps. No so much in terms of substance,  
16 more in terms of procedure. That's within the context of  
17 the existing GridFlorida docket. The first and most  
18 immediate step that we've discussed is to take in the  
19 information, especially what we've heard today, and have the  
20 commission staff meet with the stakeholders to talk about  
21 that and discuss what the possible outcome of that  
22 information is going to be. We anticipate meeting with the  
23 stakeholders within the next few weeks of conclusion of this  
24 meeting and certainly, when I time and place is selected, a  
25 notice will be issued to that effect. Hopefully, at the

1 meeting, we can kind of continue the collaborative process  
2 we begun with the initial step of GridFlorida, and whether  
3 the outcome is to pursue an informal resolution of any  
4 outstanding disputes or whether it's to continue with the  
5 previously scheduled administrative hearing track, that will  
6 be up for discussion I think at that time and the  
7 information we gather at that time, I think will help set  
8 the timeframes and guidelines as to how this docket will  
9 continue and resolve itself. There are some other matters  
10 which I expect will possibly influence and inform the  
11 continuing evolution of GridFlorida. Some of which has  
12 actually been touched on briefly today. For example in his  
13 opening comments this morning, Chairman Wood mentioned that  
14 there are currently scheduled through the end of the year,  
15 three additional conferences, I believe San Francisco, New  
16 York, and Phoenix are the locations and staff has always  
17 found that monitoring these conferences whether they are  
18 specific to GridFlorida or to other RTOs, we gather very  
19 important information that helps us understand the goals and  
20 issues that are involved in forming RTOs and so we will be  
21 continuing, and I expect the stakeholders will also continue  
22 to monitor these conferences and to glean from them the  
23 information that may be useful in helping us continue  
24 development of GridFlorida. Also of immediate importance is  
25 the energy bill and there are other related legislation

1 pending in Washington. Again, development of legislation is  
2 expected to impact the future of GridFlorida so we will  
3 continue to monitor that and take it into account as we  
4 continue our process here in Florida at the Commission. And  
5 also of note are the repercussions of the northeast  
6 blackouts of August 14 and 15. I believe Governor Bush  
7 recently expressed his concerns on behalf of the State to  
8 the U.S. Department of Energy regarding these blackouts that  
9 Florida be allowed to ensure sufficient generation  
10 transmission to provide safe, reliable service to Florida's  
11 consumers at the lowest reasonable cost. And I also  
12 understand that the FERC is working with the Department of  
13 Energy to investigate the events, which contributed to the  
14 August blackouts. And so, with this in mind, it may be  
15 prudent to address the types of concerns raised by the event  
16 to see how that plays into the development of GridFlorida.  
17 And certainly the staff hopes and anticipates that the next  
18 weeks and months will help and be instructive in that  
19 regard. With that said, I'd like to introduce Mr. Ken  
20 Hoffman who is here on behalf of the GridFlorida applicants  
21 and to afford him the opportunity to offer any additional  
22 comments he may wish to make or if it's a preference to go  
23 ahead and open the floor up for further discussion to take  
24 questions. This section will be a little different. Some  
25 of the other topics of discussion we've had where we've

1 talked about where we've been and where we are, what we're  
2 really looking at at this point is an anticipate of where we  
3 go from here and whether that's in terms of substance, which  
4 we may not really know until the procedure kicks into effect  
5 a little further and we reconvene the process the with the  
6 stakeholders. You know, it's my hope personally, that the  
7 questions and comments we receive today will help inform  
8 both the process, as well as the substance and with that --

9 MS. JABER: Mr. Hoffman, let me interject here,  
10 really for the benefit of the Florida Commissioners. You  
11 may recall Commissioners on the prehearing office are on the  
12 GridFlorida docket. I have asked staff not to bring me an  
13 order revising the hearing schedule until they've met with  
14 the industry and the consumer advocates and all of the  
15 stakeholders in the original proceeding because I'd really  
16 like to have the benefit of that input before we determine  
17 what the appropriate hearing schedule is. What I envisioned  
18 is that everyone cooperates to the full extent possible Mr.  
19 Hoffman as I know you will and you've done it in the past,  
20 to make the hearing schedule be as realistic as possible, if  
21 any. That's why I asked the question about consensus early  
22 on and collaboration. My hope is that the collaborative  
23 process start up again as it relates to market design and  
24 some of those issues that we discussed today. So, I want  
25 you to know I'm not looking for an order in the next month

1 or two, on the other hand, in the next month or two, I'm  
2 looking for a very collaborative, fully informed,  
3 facilitative role that has industry, consumer advocate,  
4 PSC's staff, perhaps FERC staff and anyone else that's  
5 considered a stakeholder in the process. And staff to  
6 report back to us on how those meetings are going and how  
7 the dialogue is before any sort of decision is made on  
8 starting the hearing process again. Mr. Hoffman.

9 MR. HOFFMAN: Commissioners, Chairman Wood, my  
10 name is Ken Hoffman. I have the honor of appearing on  
11 behalf of the applicants this afternoon. I can be very  
12 brief because I can begin by stating that I concur with your  
13 comments and approach and I concur with everything that Ms.  
14 Brubaker had to say on behalf of staff. I can add very  
15 briefly just this, that the GridFlorida companies wish to  
16 maximize the benefits of the discussion that has taken place  
17 today. You've heard some very interesting and intriguing  
18 comments and I personally think that the dialogue has been  
19 productive. Just by way of example, whether it's on state  
20 regional committees, Mr. Naeve pointed out that if the  
21 Commission fulfills that role, it would appear that we need  
22 to consider amendments to the GridFlorida governance  
23 structure and perhaps other features of GridFlorida. Mr.  
24 Ramon in his GridFlorida market design presentation reminded  
25 you that it's probably appropriate for the companies to go

1 back and evaluate what has been put on the table in light of  
2 the flexibility that FERC is now affording under its White  
3 Paper. Mr. Woodburn, in a very thorough presentation  
4 pointed out that when you look at implementation of an RTO,  
5 take for example the prospect of the market monitor. What  
6 are the costs that may be involved in implementing a market  
7 monitor and what market would the market monitor market.  
8 Would the costs outweigh the benefits? And of course I  
9 agreed with what staff has said. Staff has pointed out to  
10 you that there are a number of related court proceedings,  
11 conferences, that will be held, not to mention of course,  
12 the potential for energy legislation before Congress. So,  
13 all of that said, the GridFlorida companies believe that it  
14 is appropriate to step back and digest what we've heard  
15 today and ask the staff to use its good resources to convene  
16 a meeting of the parties and give us a chance to talk about  
17 what issues are on the table and what issues are not on the  
18 table in light of the time that has passed since the appeal.  
19 What are the pending motions that remain to be resolved and  
20 basically from a procedural standpoint, where we go from  
21 here. So, I think that is the essence of what Ms. Brubaker  
22 was recommending and from the GridFlorida companies'  
23 perspective, we support that.

24 MR. DEASON: You mentioned the appeal and that's  
25 something I guess at some point we're going to have to

1 discuss and any comments on that I would appreciate it. My  
2 understanding is that the decision was basically not to make  
3 a decision now, that it's premature, it's not right for a  
4 decision and that, depending on the results of the process  
5 from here, there may be a future appeal. Of course we don't  
6 know that until that time comes but have you given that any  
7 thought? Are you anticipating an appeal at some future  
8 time? And what's the timeframe surrounding that?

9 MR. HOFFMAN: The only thing I can say in respond  
10 to that Commissioner Deason is I interpreted the court's  
11 order to basically say, to the office of public council who  
12 took that appeal. As office of public council, we're not  
13 going to make a decision on the merits of the issues that  
14 you brought before us. But our preference would be that the  
15 Public Service Commission not take a piecemeal approach to  
16 the GridFlorida dockets. So we're going to send your issue  
17 back without any waive of your rights to take an appeal and  
18 at some point in the future, when the proceeding is  
19 completed, you public council, or for that matter, any other  
20 participating substantially affected party, they wish to  
21 take an appeal. Now, I would expect Commission Deason that  
22 that may take place following the issuance of a final order  
23 in this proceeding. But I will say, Commissioner, that I do  
24 have some concern that I think that this at some point need  
25 to be discussed with staff. We do have an order that was

1 issued September 8th on the reconsideration motions.  
2 Technically, that would be an appealable order, and so I  
3 don't think any of the parties want to stumble over the fact  
4 that that's an appealable order. So perhaps that may need  
5 to be discussed amongst the parties and staff.

6 MS. JABER: Mr. Hoffman, I got the impression  
7 that the court viewed it, and I think our legal staff viewed  
8 it this way, whether it was the order that was initially  
9 appealed or the September 8th order that they were  
10 interlocutory in nature, that it really didn't dispose of  
11 the proceeding and therefore non-final in action and, you  
12 know, while I recognize --

13 MR. HOFFMAN: I think you're right.

14 MS. JABER: While I recognize companies or public  
15 council may appeal the final decision that is dispositive of  
16 the proceeding, but isn't it a fair characterization that  
17 the court looked at it as interlocutory in nature?

18 MR. HOFFMAN: Yes and I think the court was  
19 basically saying without saying it, not yet. Go back and  
20 let the Public Service Commission complete this proceeding  
21 and if anyone has an appeal that they wish to lodge, we'll  
22 take it up at that time.

23 MS. JABER: Commissioners, any other questions?  
24 Thank you Mr. Hoffman. I think what I'd like to do now  
25 Roberta is go to public input and then we'll come back to

1 Commissioner dialogue. As I understand it, I'm aware of two  
2 entities that want to speak, JEA and Mr. Zambo I believe,  
3 right, on behalf of the CoGen (phonetic)?

4 MS. BASS: Yes, those are the two that I know  
5 about. I haven't spoken with anyone else but I know those  
6 two expressed an interest in making comments.

7 MS. JABER: Okay, JEA.

8 MR. PARA: Thank you for letting me speak. I'm  
9 Bud Para, Director of Government Relations for JEA, JEA is  
10 the municipal electric utility that serves the City of  
11 Jacksonville, Florida. I'm going to comment on three  
12 things. I'd like to respond to a question that Chairman  
13 Wood asked earlier about JEA and comment on the status of  
14 GridFlorida and a suggestion for next steps. Chairman Wood  
15 you asked out the JEA outage last year might have been  
16 different if JEA had been in C-Trans instead of in the FRCC.  
17 FRCC did come to our aid, they came effectively and did  
18 exactly as they were expected. We think they did a good  
19 job, they helped us. We think that if we had been under a-  
20 - if there had been a C-Trans security coordinator at that  
21 time and we had been in C-Trans, we don't see how C-Trans  
22 could have done any better than FRCC and certainly in the  
23 short run, we've been with the FRCC companies for ever and  
24 C-Trans would have a lot of learning to do, so certainly our  
25 operators would be very nervous about trading to any other

1 security coordinator. JEA of course sets at the interface  
2 between two proposed RTOs, C-Trans and GridFlorida. And JEA  
3 is attempting to be actively involved in the development of  
4 both of those RTOs. However, while C-Trans is inclusive of  
5 different utility ownership forms, GridFlorida is purposely  
6 exclusive. Within C-Trans, JEA is one of four municipals,  
7 three investor-owned utilities, and two cooperatives who are  
8 the sponsors of C-Trans and you see the names of all nine of  
9 these utilities on the FERC dockets on C-Trans. This  
10 diversity makes it harder for us to make decisions. Either  
11 there is more people around the table with more different  
12 things to consider and it takes a lot longer than we would  
13 like it to. However, we think that would result in a very  
14 robust RTO design and one that can be supported by all the  
15 different segments of our industry. In contrast, the  
16 GridFlorida applicants have chosen to limit full  
17 participation to the three investor-owned utilities in  
18 Peninsula Florida, and to those three IOUs only. Although  
19 JEA has repeatedly asked to be accepted as a co-applicant,  
20 GridFlorida has refused. Jacksonville is a part of Florida  
21 and we're a charter member of the FRCC. JEA would prefer to  
22 be in a properly constituted RTO with the rest of Florida.  
23 However, we are not likely to join a RTO that is designed  
24 solely by the IOUs, not if we have another choice. And JEA,  
25 unlike most of the utilities in Florida, has another choice.

1 JEA owns and operates significant transmission in Florida,  
2 69, 132, 230, and 500 KV, including about one-third of  
3 Florida's total transmission import capability. The next  
4 step for GridFlorida in our opinion should be to accept that  
5 the IOUs are not the only owners of transmission in Florida  
6 and that all owners of significant transmission should be  
7 invited to join, in particular, JEA should be a co-applicant  
8 in GridFlorida. And once again, we ask the GridFlorida  
9 companies to invite us in. Thank you.

10 MS. JABER: Chairman Wood.

11 CHAIRMAN WOOD: Well, that naturally invites me  
12 to ask if there is someone from GridFlorida who would like  
13 to may be pipe in as to why they aren't. Mr. Naeve.

14 MR. NAEVE: I think this may depend on --

15 MS. JABER: Identify your self for the record.

16 MR. NAEVE: Mike Naeve on behalf of the  
17 GridFlorida companies. I think it depends on the definition  
18 of what it means to be in. GridFlorida was designed for all  
19 transmission owners to be in it. And indeed, it was  
20 structured in a way for all transmission owners to  
21 contribute their assets to the RTO and participate in the  
22 RTO. I think what we're hearing here is that JEA wants to  
23 be an applicant who files with FERC under section 205 for  
24 transfer and control of their assets. But JEA is a non-  
25 jurisdictional entity so what the structure of the process

1 in Florida I think is, positionally identical to where it's  
2 been in every other part of the country, except perhaps C-  
3 Trans where the transmission owners have been the ones who  
4 made the filings because they are the jurisdictional entity  
5 so they file previously under 203 and 205, now maybe under  
6 205. But those are the jurisdictional entities making the  
7 filings and the non-jurisdictional entities have not made  
8 filings. One of the concerns we've always had, or I think  
9 JEA has had in this process is that they own a substantial  
10 piece of the interface as does Florida Power and Light and  
11 other companies. With respect to the jurisdictional owners  
12 of the interface, their rates are subject to FERC  
13 jurisdiction on the cost of service basis. JEA's rates are  
14 not subject to FERC's jurisdiction and they perceive a  
15 market value for their share of the interface. And they  
16 would like to structure rates so that they get to capture  
17 that market value as opposed to having cost regulated rates  
18 in the process. So that's been kind of a stumbling block to  
19 their participation, but I don't think that there is any  
20 basis for saying that the GridFlorida was designed in any  
21 way to exclude municipal-owned participants or co-ops, or  
22 for that matter, anybody. And indeed, one of the features  
23 of GridFlorida is that it would permit a rolling in of the  
24 transmission facilities of all the entities of Florida,  
25 irrespective of whether those facilities are integrated with

1 the Grid. It was kind of an inducement or incentive for  
2 them to participate in the process. So I think our view is  
3 that we set it up to actually create a sweetener or  
4 incentive for people to want to put their facilities under  
5 the control of the RTO and participate in the RTO.

6 MR. PARA: I would not be so foolish as to try to  
7 debate Mr. Naeve on this but I think you understand clearly  
8 what we mean when we say we want to be a part of the  
9 development of these RTOs, to help make those RTOs fit for  
10 municipal utilities as well as for investor-owned utilities.  
11 Being on the outside giving advise, is not the same thing as  
12 being on the table helping to design. As we are -- and it's  
13 true that C-Trans is unique as far as I can tell in the  
14 United States and yes, we're spoiled by being part of an RTO  
15 that accepts municipals and co-ops as full members.

16 MS. JABER: But to make sure the record is clear  
17 with regard to what happen and I don't want to get into the  
18 merits of our pending docket but, I think that it is  
19 accurate to represent you proposed an adder to capture the  
20 revenue stream that was going to be associated with the loss  
21 of what Mr. Naeve call market value, but I call it the loss  
22 of revenue stream associated with the transmission invested  
23 on behalf of your own customers. And as I recall, I'm  
24 speaking off memory, we rejected that proposal and is it  
25 fair to say that that made the decision for you with respect

1 to whether you participate in GridFlorida right now or  
2 continue to participate in C-Trans?

3 MR. PARA: That's certainly a disappointment to  
4 us but in C-Trans, we actually have the choice to  
5 participate fully. In GridFlorida we don't and that's what  
6 --

7 MS. JABER: What do you mean by that though?

8 CHAIRMAN WOOD: Can I ask Mr. Woodbury what the  
9 nature of your participation is so I can have a benchmark  
10 here?

11 MS. JABER: Yes please. And while Mr. Woodbury  
12 is coming up, tell me what you mean by fully participate.  
13 Did C-Trans allow that adder to be -- is that the choice you  
14 have that you're referring to?

15 MR. PARA: No. C-Trans -- well of course we are  
16 in a different situation with C-Trans because they are on  
17 the north side of the -- so there we're dealing with the  
18 regional through and out where you wouldn't have that on the  
19 import coming into GridFlorida. So what we mean by  
20 participating is that we mean instead of coming to a meeting  
21 and making request, we would be involved in the decision-  
22 making process, as we are in C-Trans, in the negotiations  
23 and actual writing of the documents, as opposed to, as  
24 strictly as a stakeholder who comes and makes requests and  
25 then we wait to see what the GridFlorida companies, in this

1 case, what they do with that request. For example, June of  
2 last summer when we were surprised to see GridFlorida come and  
3 say we want to change to L&M, which JEA is a support of but  
4 we had no -- there was no discussion of that rather major  
5 change in -- that decision was made by the applicants, the  
6 GridFlorida applicants. We applaud the decision, we don't  
7 applaud the process.

8 CHAIRMAN WOOD: That's Mr. Woodbury, just so I  
9 have a frame of reference, what is the nature of your  
10 participation in the GridFlorida application process?

11 MR. WOODBURY: For the record, my name is Tim  
12 Woodbury. Seminole does not have the same concern that JEA  
13 has that's being expressed here. I think Seminole has--  
14 this is not to say I'm coming to the defense of the  
15 investors-owners, I'm not good at that, so hang on.

16 (LAUGHTER)

17 CHAIRMAN WOOD: I'm not asking you to do that.

18 MR. WOODBURY: But, we have worked with them, we  
19 don't always -- we're not in their separate meetings, they  
20 do have separate jurisdictional issues that they need to  
21 weigh. They have -- I was the Vice Chair of the GridFlorida  
22 Advisory Committee, John Orr was the Chair. We were on the  
23 Board Selection Committee to select the new Board before it  
24 dissolved, but we were surprised that relative to the L&P  
25 issues that we've been taken back once or twice, but as I

1 indicated during my discussion, the governance structure,  
2 when these IOUs put their minds to cooperating on an issue,  
3 you can get it done and the governance structure, I think  
4 was a classic case in point. There are still some hard  
5 spots, clearly, but I would have to say that Seminole's  
6 voice has been heard and Seminole goes into these things,  
7 recognizing it's not going to get everything it wants. But  
8 we like to try.

9 CHAIRMAN WOOD: It was all unchartered waters  
10 setting these up, every one has kind of grown in their  
11 different way. I was kind of struck by the first thing you  
12 said though in response to the formation of my earlier  
13 question, it did change a little bit but it did, I think the  
14 word was, you'd be nervous with another security  
15 coordinator, but yet, an RTO, one of their four core jobs is  
16 to be the security coordinator. So how is that going to  
17 work? You all just become part of the new -- I think what  
18 I'm hearing is you would like to be part of Florida if you  
19 could be at the table and part of the game, what Chairman  
20 Jaber said was an interesting fact that I wasn't aware of  
21 about an adder but, you know, is there a shot here at having  
22 you stay part of the Florida FRCC's evolving into  
23 GridFlorida or is that kind of a decision that's made and  
24 this is just good information for us?

25 MR. PARA: No, it's not a decision that's--

1       you've asked me several questions there -- it's not a  
2       decision that's made until we see what your commission and  
3       what Florida says about it at the end, what GridFlorida is  
4       and for that matter what C-Trans is. JEA and all the other  
5       utilities won't know what it is we're being asked to make a  
6       decision on whether we join or not. So until we get all the  
7       way through that, we don't know whether C-Trans or  
8       GridFlorida will work best for JEA. And we are trying our  
9       best to make both of them, or at least one, something that  
10      we can live with and something that we can choose to join in  
11      and better for our customers. Now back on the security  
12      coordinator. Whichever security coordinator you're under is  
13      your security coordinator and we would accept that. Though  
14      the question that I was trying to answer was -- what I had  
15      thought that you had asked was, how would it have been  
16      different with C-Trans, of course C-Trans doesn't have a  
17      security -- there is no C-Trans yet, and of course there is  
18      not GridFlorida, but there is an FRCC, which has the  
19      security coordinator responsibility for us today and what I  
20      was trying to say is that FRCC has done a good job with that  
21      and we've been in the FRCC and its predecessor as a security  
22      coordinator forever and any operators would be nervous to  
23      move to a new security coordinator -- say we moved into the  
24      Southern Company, that's not even a C-Trans, our people  
25      would be nervous about moving into -- even though it would

1 be a very responsible and experience security coordinator,  
2 they don't know us as well as Florida does. And I think  
3 that was what I was trying to across.

4 MS. JABER: Commissioners you have any other  
5 questions to JEA? Thank you.

6 MR. PARA: Thank you.

7 MS. JABER: Thanks for being here. Mr. Zambo,  
8 and if there are any other folks that want to appear in the  
9 public input section of our workshop, please come over and  
10 let Robert Bass, give her your name. Mr. Zambo.

11 MR. ZAMBO: Madam Chairman, Mr. Chairman,  
12 Commissioners, I appreciate the opportunity to speak to you  
13 today. My name is Rich Zambo, I'm appearing here today on  
14 behalf of the Palm Beach County Solid Waste Authority and  
15 the City of Tampa. They are Q-ups, we generate the  
16 electricity through the use of Municipal Solid Waste and  
17 also on behalf of the Florida Phosphate Fertilizer Industry  
18 who generates electricity using waste heat from the  
19 manufacturing process. We are talking earlier, a lot of the  
20 speakers today have been talking about things and ways that  
21 Florida is unique and one of the ways we're unique is, as I  
22 understand it, we have the largest concentration of waste  
23 energy facilities of any state in the country. I think  
24 we've got upwards of 450 or 500 megawatts and with respect  
25 to waste heat generation from the fertilizer industry, we

1 have also in the range of 450 to 500 megawatts. We have  
2 been interveners in the GridFlorida proceedings here before  
3 the PSC and we have filed comments in the standard market  
4 design over at FERC and also in the supply margin assessment  
5 screening docket. We like to think of ourselves as the  
6 original independent power producers in the State. I think,  
7 based on the latest information I saw, is, we may be the  
8 largest segment of independent power producer that current  
9 exist here. I think it's about 3% -- I think the number I  
10 saw was about 3% of total and I think we may make up about  
11 half of that amount. Besides being the original independent  
12 power producer, we also have a couple other factors that we  
13 believe set us apart. We are not only producers of  
14 electricity, we are also significant consumers of  
15 electricity. The local governments produce their powers  
16 and basically sell it on the Grid but they buy back  
17 significant amounts of power. So we're concerned as both  
18 the producer and a consumer, likewise the fertilizer  
19 industry, which uses most of the electricity they generate.  
20 They use it internally but they are connected to the Grid  
21 for purposes of stand-by power and for purposes of  
22 delivering excess into the Grid. So we also have one other  
23 characteristic that sets us apart a little bit. And that is  
24 our fuel supply is such that we can't necessarily turn our  
25 generators to a certain megawatt rate and keep it there. In

1 the case of Municipal Solid Waste, the fuel quality and  
2 quantity can vary seasonally. It's real wet, we get wet  
3 fuel, we don't get as much energy production. If it's dry  
4 and it's during the tourist season, we get a lot of high  
5 quality fuel, lot of McDonalds wrappers and a lot of those  
6 sort of things. In the fertilizer industry, our generation  
7 is really relied on the process and how much of a particular  
8 product we may be producing at any given time. So with that  
9 background, I want to make a few comments that may give you  
10 a little bit different perspective on some issues than what  
11 you've heard today. I'm trying to tailor my comments to  
12 take into account the other comments so I don't go over too  
13 many things. But one of the big issues for us under the  
14 standard market design noper (phonetic) is the treatment of  
15 unobstructed deviations from scheduled. And I think what  
16 that means is, if we don't produce as much as we say we're  
17 going to, or if we produce more than we say we're going to,  
18 there is a potential in the noper for some penalties being  
19 assessed. As I mentioned, this is pretty much beyond our  
20 control, it's the nature of our process and what we would  
21 encourage the Federal Energy Regulatory Commission to do is  
22 adopt the same type of policy used in natural gas pipeline  
23 cases. I think you basically say no harm, no foul and what  
24 we'd like to see is that same approach adopted here with the  
25 ability to exchange imbalances in kind, if we are over-

1 producing in one hour and under-producing the next hour or  
2 visa versa and make that up. We'd like to see you provide  
3 for trading of imbalances. Now all imbalances are  
4 necessarily bad. There may be times when over or under  
5 producing may be good for the system or there may be times  
6 when one of our companies might be over-producing and  
7 another under-producing. We'd also like to see a tolerance  
8 band for deviation so that unless you get beyond that  
9 tolerance band, the question of penalties doesn't even  
10 arise. And we would also like to see penalties limited  
11 strictly to those cases where it appears to be intentional  
12 behavior on the part of the generator. In other words,  
13 attempts to game the system. In the case of Municipal Solid  
14 Waste and Waste (inaudible) Recovery, we know from history  
15 that our generations are going to move up and down  
16 regardless of our attempts to keep it steady. Another issue  
17 we have is that we are concerned that simply by  
18 implementation of the RTO that we may be stuck with some  
19 additional fees and charges that we hadn't contemplated, you  
20 know, 15 or 20 years ago when we put our facilities in  
21 operation. Just by virtue of the fact that we are connected  
22 to the Grid and we would urge you to reject any such fees or  
23 charges unless there is a causation, a direct causation to  
24 our particular facilities. We are also concerned that we  
25 currently deliver electricity primarily to our native

1 utilities so there is really no transmission where wheeling  
2 of power, as we traditionally refer to it, I'm not smart  
3 enough to know under the RTO whether this is going to be  
4 considered wheeling or transmission if we just go from our  
5 facility to our native utility. And again, we would urge  
6 you to take whatever steps are necessary so that we are not  
7 hindered with an additional charge to basically do what we  
8 have been doing for the last 15 or 20 years. We have some  
9 concerns with market monitoring as well but I'm not going to  
10 get too deeply into that other than to say we pretty  
11 generally support the comments of Mr. Woodbury. We are  
12 concerned that Florida has very steep entry barriers in  
13 terms of the Power Plant Siting Act. We also have, as  
14 everyone spoke, limited -- at least in some folks opinion--  
15 we have fairly limited import capacity from out of state.  
16 And until those two things change, we can't really envision  
17 a robust competitive market. So I was happy to see they  
18 were looking at phasing in, and maybe we don't face SMD and  
19 we don't face the need for competitive markets until some  
20 time in the future. But one of the things we would like to  
21 suggest in terms of market monitoring is that that market  
22 monitor possess the authority to take action retrospectively  
23 in terms of ordering refunds and making parties whole, if  
24 it's determined that anyone was affected by the abuse of  
25 market power. And, although I don't think I've heard

1 anybody say it today, we would think that the Public Service  
2 Commission would be in the perfect position to act in that  
3 role of market monitor. My recollection of the GridFlorida  
4 filing, and it's been a while since I've looked at it, it's  
5 slightly voluminous, but I don't recall if that issue had  
6 been addressed as to who that market monitor would be, other  
7 than it would be independent. We agree with the notion that  
8 it be independent and we would support the Public Service  
9 Commission in that role. We are also somewhat concerned  
10 about what happens to the authority over the transmission  
11 Grid. We know the Public Service Commission is vested under  
12 the Grid Bill as Susan Clark discussed with you this morning  
13 to be sure we maintain an adequate and reliable electric  
14 grid. I'm not sure what happens to that authority when we  
15 go to an RTO. I guess the question and a suggestion to the  
16 Commission would be that we would like to see the Florida  
17 Commission retain some sort of oversight authority or even  
18 some jurisdictional authority to require the RTO or the  
19 individual utilities to take specific action when this  
20 Commission, looking at the State and at the interest of the  
21 rate payers of the State see a need for transmission  
22 enhance, modification, expansion, or whatever the case may  
23 be.

24 CHAIRMAN WOOD: That's not intended to be  
25 changed. Whatever the current state of the law is and I

1 think Commissioner Clark laid that out this morning. We  
2 don't have authority to change that, quite frankly.

3 MR. ZAMBO: Is there any concern about your  
4 preemption once you take control of the RTO? I presume the  
5 RTO would be subject to federal jurisdiction.

6 CHAIRMAN WOOD: But what you go to is expansion  
7 and these folks here, and I think ultimately the Governor  
8 and his Cabinet are the deciding specialist here. Now I now  
9 there are some discussions about the backstop authority for  
10 FERC or whoever at the federal level. But that's (a) not  
11 law yet and (b) probably wouldn't impact here since that  
12 applies to interstate transactions. So I think the planning  
13 process, yes. I mean ideally the RTO would be with the  
14 engineering expertise and their understanding of the system,  
15 much like what we heard from the FRCC gentleman this  
16 morning, those are the professionals, that having walked in  
17 these shoes, I know that you look for an objective analysis,  
18 do you really need this line? That kind of analysis would  
19 be done to the RTO looking at Florida-wide. We've looked at  
20 not just FP&L's needs but look at all of them collectively.  
21 Which I understand from the first witness today, seems to  
22 happen a lot already. So it's not a whole lot of new  
23 ground. It just could be -- and then that recommendation is  
24 provided to the State Commission, are provided to the  
25 utilities who then have to come see commissioner, I think it

1 was a certain size or bigger from the State Commission,  
2 which then goes through your siting process and the  
3 Governor.

4 MR. DEASON: If I could just add one thing. I  
5 don't disagree with that but I think there are two things we  
6 need to consider. One is we have the requirement to act as  
7 part of both the Power Plant Siting Act as well as the  
8 Transmission Line Siting Act when an application is filed to  
9 go through statutorily make sure it meets all the criteria  
10 and then say that there is a need for this facility. But I  
11 think in the Grid Bill and you know that Bill probably  
12 better than anyone in this room, we have the authority if we  
13 find that there is some deficiency to require that an  
14 enhancement be made or some addition to a facility or power  
15 plant actually be built now. I'm not sure if we've ever  
16 exercised that authority, but it's there. And then the  
17 question on an RTO situation, would we retain that ability?  
18 Would we retain that ability to say, if we determine there  
19 needs to be some enhancement to a transmission line to  
20 require that and if we do have that ability, do we require  
21 the jurisdiction utility, the vertically integrated utility,  
22 even though they have relinquished control of those assets,  
23 do we still have the authority to require the enhancement or  
24 the construction of a new facility? I think those are the  
25 questions we going to need to address at some point. I

1       assume you would agree that those are questions that --

2               MR. ZAMBO: Absolutely. As a matter of fact, the  
3       last question you raised there, this RTO, I'm not sure the  
4       RTO would be considered a utility subject to that Grid Bill  
5       jurisdiction. I think the individual companies would still  
6       be but I'm not sure the definition will pick up on this non-  
7       profit corporation.

8               CHAIRMAN WOOD: I think with the ISO format  
9       that's I think less of the stretch. I think (inaudible)  
10      Transco as the original proposal there might be an issue  
11      there. But I would just say removing the ambiguity, just  
12      put that in the tariff you file and make it a condition of  
13      the Commissioner's approval here and that will make that an  
14      issue and we would adopt that in our Order and then it would  
15      not be -- even a question on preemption or anything like  
16      that.

17              MR. ZAMBO: Okay, and the last comment I have is  
18      following up on some discussion earlier about perhaps a need  
19      to increase the import capacity. The notion occurred to  
20      some of my clients that maybe that could be addressed sort  
21      of like the utility does with capacity where they maintain a  
22      reserve margin, perhaps one of the Commission or the  
23      Commissions could establish a number at which the utilities  
24      or the RTO would maintain, as a percentage of annual peak  
25      demand, maybe 10%, 15%, whatever the appropriate number is

1 to help jumpstart the competitive markets and assure an  
2 adequate supply of power coming in from out-of-state. And I  
3 guess also I wanted to, in talking about preemption, we  
4 talked about the day one and day two phasing in the RTO  
5 first and go on to standard market design second, there has  
6 been some concern expressed which I share, that we won't  
7 have a robust competitive market and we should delay SMD  
8 until we can take down some of the institutional barriers  
9 and I would suggest -- we had filed in our comments to the  
10 FERC last year and the SMD that perhaps you could exercise  
11 your preemption authority to preempt those portions of state  
12 law which present barriers to entry. In this case, the  
13 definition that prevents anyone from applying other than the  
14 utility. And with that I will close my comments. Thank you  
15 for the opportunity.

16 MS. JABER: Well you can ignore that last  
17 comment.

18 CHAIRMAN WOOD: I thought, you know, it's funny,  
19 two years ago I was here, I thought they were on the cusp of  
20 getting rid of that law and it's still around. So.

21 MR. ZAMBO: Things happen slowly in Florida, as  
22 you can see from the RTO process. But they're well debated  
23 and we only move forward when we fully understand the impact  
24 of what we're doing.

25 MS. JABER: That's a good sign.

1 MR. ZAMBO: That's the positive.

2 MS. JABER: What some people call slowly, others  
3 like me and hopefully my colleagues consider very measured,  
4 deliberative approach to ensure things are done correctly on  
5 behalf of the Florida retail rate payers.

6 MR. ZAMBO: Absolutely.

7 MS. JABER: I want to go back to one of your  
8 first comments because I didn't understand it and this is my  
9 own naivety, I apologize. You said one of the things, I  
10 think you want FERC to address, the unobstructed deviation  
11 from a schedule and you read the noper to include penalties.  
12 Is that something you want FERC to address?

13 MR. ZAMBO: Yes.

14 MS. JABER: Or is that something -- okay. And do  
15 you have a proposal? I'm just not familiar with that whole  
16 argument. Is there a proposal you think they should  
17 entertain related to that?

18 MR. ZAMBO: Yes. As I mentioned, there is a  
19 similar situation or scenario that arise in the gas pipeline  
20 cases and as I understand FERC's position or policy in that,  
21 it's a no harm, no foul, there may be under-deliveries but  
22 if you can't put your finger on a harm or a detriment that  
23 occurred, there is no penalty. I think the primary -- our  
24 primary intent is we don't want to get caught up in a rule  
25 that's designed to prevent other folks, who might be trying

1 to game the system by scheduling and delivering more and  
2 less than, you know, playing the margin and we just don't  
3 want to get caught up in that because we've been doing that  
4 for years, because it's just part of how our process  
5 operates.

6 CHAIRMAN WOOD: The similar intermittent  
7 resources wind, we had dealt with in the California ISO a  
8 pretty favorable tariff provision for wind generators that  
9 they actually are very interested and want to take national.  
10 Is that the same? Are you familiar with that?

11 MR. ZAMBO: Yes I am, I am. I have to go back  
12 and look at it but when I ready that I though that would be  
13 most appropriate to apply to our types of situation as well.

14 CHAIRMAN WOOD: I mean clearly, with the proper  
15 mandate, we do want to make sure that our -- the markets  
16 that we have in the U.S. do not penalize different  
17 technologies of power generation, which yours would  
18 certainly be one of the newer ones in history and so we want  
19 to -- we heard a lot about that during the wind issues that  
20 have come up a lot at our Commission.

21 MR. ZAMBO: I would think they have exactly the  
22 same concerns and that solution should work in our case too  
23 but I would like to reserve the opportunity to just review  
24 that.

25 MS. JABER: Thank you Mr. Zambo.

1 MR. ZAMBO: Thank you.

2 MS. JABER: Ms. Bass.

3 MS. BASS: Chairman Jaber, we have one more  
4 individual who wants to speak and that's Mr. John McQuarter.

5 MS. JABER: Mr. McQuarter.

6 MR. MCQUARTER: My name is John McQuarter. I'm  
7 here with the Chin Group, that is not a Chinese tong, that  
8 is the group that Mr. Woodbury referred to as consumers.  
9 You have heard principally today from suppliers and not from  
10 consumers. I'll be very short because it doesn't take me  
11 long to tell you that we endorse everything Mr. Woodbury  
12 said. We are strongly in favor of an independent regional  
13 transmission organization. We think that will be a great  
14 boom to consumers in the State of Florida and we hope that  
15 you would move forward with it. We have some concern about  
16 locational, marginal pricing and other market design issues  
17 but as Mr. Woodbury suggested, as long as those play out and  
18 people have a fair opportunity to explore how it's going,  
19 that would be good. With respect to the wholesale market in  
20 Florida, transferring electricity by telephone calls between  
21 utilities, in our opinion is not the same as an open market  
22 where people have an understanding of the price and it's an  
23 open market where people knew what the price is and you  
24 don't have confidentiality that conceals the prices being  
25 paid. We think transparency in the market is extremely

1 important. Earlier someone asked, we had a competitive  
2 wholesale market in Florida? I think it's interesting. I  
3 will supplement history before Susan Clark's presentation.  
4 We had a very competitive market in Florida from the  
5 initiation of the electric industry until 50 years ago when  
6 Chapter 366 was enacted. And when Chapter 366 was enacted,  
7 it began to control the rates of Florida Public Utility,  
8 there was still competition. The competition was  
9 principally between, of course, the municipal utilities and  
10 the investor-owned utility, but it was rampant and it was  
11 very good for customers. If you happened to be a large  
12 customer near the borderline of two utilities, you got  
13 pretty good prices. Utilities recognize that situation and  
14 didn't like the competition, so they entered into non-  
15 compete agreements, which are now going under the acronym of  
16 territorial agreements and Florida became de facto, like  
17 many other states are, where you have registered franchise  
18 areas. The City of Barto complained about that to the  
19 Justice Department and the United States Justice Department  
20 came to Florida and said you two utilities that divide up  
21 the territories and agreed which one would serve Barto are  
22 violating the Sherman Antitrust Act and as an outgrowth of  
23 that case, we passed the legislation that now appears in  
24 Chapter 366.04 that establishes territorial agreements under  
25 the supervision of the Public Service Commission and the

1 Public Service Commission of course rigorously monitors  
2 those and I hope that it will rigorously monitor the  
3 independent system operation when it begins and we hope it  
4 will begin soon and be very successful and thank you for  
5 your time.

6 MS. JABER: Thank you sir. Commissioners, I  
7 think at this point, if you have questions, closing  
8 comments, feel free. Feel free to interject your thoughts  
9 since this is the part of the program, I think Ms. Bass  
10 where you are encouraging Commissioner dialogue and closing  
11 remarks. And if there are none, I want to take an  
12 opportunity to reiterate something I said earlier, Chairman  
13 Wood, which is, we may philosophically agree at the end of  
14 the day, we may not, but I think that everyone appreciates  
15 your willingness and the staff's willingness, the FERC  
16 staff's willingness to always answer our questions, to make  
17 sure that the process is open, and one that allows for  
18 dialogue and I think at the end of the day, regardless of  
19 what decision we make, it makes for a better decision. We  
20 are all informed, we all understand each other's positions  
21 and certainly I think our goals are mutual. We have the  
22 same goal in mind, which is to benefit the consumers across  
23 the country and from our perspective, certainly the  
24 consumers of the State of Florida. I can't thank you enough  
25 for being here. We didn't really know how you would handle

1       our invitation to have a Florida-specific technical  
2       conference but it's exceeded our expectations and I think  
3       there were a lot of messages that were going back and  
4       reading the transcript again because you really heard what I  
5       heard and certainly I'll be reading the transcript again and  
6       I appreciate your candor today. So with that, thank you all  
7       for being here and for sticking -- absolutely, absolutely.

8               CHAIRMAN WOOD: I just want to say you're welcome  
9       and thank you for letting us use this forum to also meet our  
10       needs and our promise in the White Paper to go to the RTO  
11       regions of the country. We are fully committed as our  
12       Commission was even before I got here, to seeing the  
13       GridFlorida move to, I think clearly, it seems to me walking  
14       away from here that we might, I guess be so bold as to say,  
15       expectation because there is pretty broad consensus about a  
16       day one RTO that would be independent, that would do  
17       Florida-wide planning, that would look at a Florida-wide  
18       transmission tariff that would talk about how the  
19       transmission expansions get paid for. I think, I just would  
20       offer, as one who did this summer issue in ERCA (phonetic),  
21       we took the FRCC equivalent there and really build upon  
22       that. They may not want that -- you all may not want that  
23       but I would say it's been done before to pretty good effect  
24       that you've got institutions that are dealing with the grid  
25       as it is, not just the economic issues on the grid, but the

1 reliability issues of the grid and they are not, despite the  
2 public debate in our country, those are not choices. They  
3 are things that can't rally be separated. Competition and  
4 reliability are just the way it's going to be. Now  
5 admittedly the level of competition here is probably less  
6 because of the statute and because of the market power in  
7 the market, but nonetheless, you do have a diversity of  
8 ownership of generators here that I think do merit some  
9 independent operation of that system, not only for  
10 reliability but for economics and so, the day two issues, I  
11 think you heard it from me once, I'll say it one more time,  
12 day two issues ought to come when certain benchmarks and  
13 criteria are met, not when artificial timelines are met and  
14 I'll take Mr. Woodbury edit to Appendix A, page 6  
15 accordingly but, you know, I will say, and again, I'll go  
16 back to when I was a state commissioner, they, even with a  
17 full blown retain market, have not gotten to an L&P yet.  
18 Now they're about to get there but it took getting quite a  
19 bit down the road before you get to what is the full-blown  
20 SMD vision. We want to work with you. I want to just send  
21 a message to the folks working on the GridFlorida proposal,  
22 don't look for any light between where we are and where your  
23 State Commission here is. We're going to back this effort  
24 up 100%. We're going to look to see and that effort will be  
25 focused through here. We'll participate or I'll either

1 weigh in with my colleagues here personally or staff can  
2 talk to, you folks will be steering the effort here but  
3 that's the efficient way to do this rather than to play two  
4 forum game and never get anywhere. Because we've tried that  
5 now for two years and Florida is no better for it and so  
6 that's not something I certainly want to see happen. I know  
7 you all who live here don't either but I would just propose  
8 that we stay engage with you on this process and we do what  
9 we can to facilitate it but really let the leadership come  
10 from the full board of market participants, as broad a group  
11 as possible behind the filing, the easier it gets for these  
12 guys to say yes and for us to say yes. So I think the  
13 collaborative consensus-based process that I know is really  
14 effective in getting GridFlorida this far, that I saw a lot  
15 of it in the 20/20 process, which you all have a good  
16 (inaudible) here in the State, which is refreshing, that you  
17 can build on that and get to something, you know, reasonably  
18 soon. It's up to you all to do the timeline but I would  
19 hope that we could see that pretty soon because that is,  
20 what I call, a basic kind of foundation on which you can  
21 build a competitive market, that I think can get really  
22 incremental saving. I don't think I want to sit here, I  
23 never had promised that this stuff brings home bullion  
24 trucks of gold to the customer but the incremental savings  
25 in an economy as large as this State's is are significant.

1 I think if there are gains to be gotten, lets get them. But  
2 if there are costs that can be avoided by doing a variation  
3 on the market design or by deferring adoption of certain  
4 market design elements that you may have even in C-Trans or  
5 north of there, then let's talk about that kind of stuff. I  
6 think that it's got to make sense. It's got to be something  
7 that the Chin Group says that's good for Florida. I want to  
8 be on that agenda too and if we're not, lets rethink what  
9 we're doing. But please consider us your allies in this  
10 effort to make this market work better for folks down here  
11 in Florida and we'll be back often. Thank you for your  
12 hospitality.

13 MS. JABER: Thank you Chairman Wood. We should  
14 close on that note Ms. Bass. There can't possibly be  
15 anything else we need to address today.

16 MS. BASS: No, I think that's a perfect way to  
17 end except I would once again like to thank all our  
18 presenters. I think they did an excellent job and we  
19 appreciate their efforts and we certainly appreciate the  
20 FERC Commissioners coming down and joining us.

21 MS. JABER: Thank you. This adjourns the  
22 technical conference.

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