

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Merchant Power Plant Issues
Workshops

UNDOCKETED

May 10, 1999

PRELIMINARY COMMENTS OF ENRON CAPITAL
TRADE & RESOURCES CORPORATION

Pursuant to the schedule established by the Commission Staff, Enron Corporation ("Enron"), by and through its undersigned attorneys, hereby submits its preliminary comments regarding issues involving Merchant Power Plants that are to be discussed in the above referenced workshop scheduled for Thursday, May 13, 1999. These comments are preliminary and tentative, pending further discussion and refinement of issues raised in this undocketed proceeding.

Respectfully submitted,



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BEFORE THE PUBLIC SERVICE COMMISSION

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May 7, 1999

**ENRON CORP. PRELIMINARY COMMENTS FOR MERCHANT
PLANT WORKSHOP**

Enron is one of the world's leading integrated electricity and natural gas companies. The company produces electricity and natural gas, develops, constructs, and operates energy facilities worldwide, and delivers physical energy commodities and risk management and financial services to customers around the world.

Enron has developed an operations group to fill its engineering and construction needs of building, operating, and maintaining Enron's and others' facilities. Applying the experiences gained through years of operating pipelines, compressor stations, processing and storage facilities, power plants, and oil and gas production, Enron has established itself as a premier turnkey contractor by offering project services to third party clients on flexible contractual terms, including lump-sum execution of world-scale projects.

Enron is engaged in the development of merchant plants throughout the world and currently has projects in Mississippi and Tennessee for the purpose of meeting the growing demand in the southeast region for electric capacity in the wholesale market. We believe merchant plants provide a cost-effective solution to regions where the load growth is exceeding the utility power plant capacity of the region. These merchant plants are not only efficient in their operations, they also generally operate with lower emissions output.

Enron appreciates the opportunity to participate in the Commission's workshop and offers these comments on a few key issues.

Will merchant plants improve electric reliability in Peninsular Florida?

Yes. Peninsular Florida load growth is increasing between 2.5% and 3.5% annually. The ratio of electrical generation to load is declining and the peninsula is severely limited in the ability to import energy from its only external interconnection. Absent the immediate installation of new capacity in peninsular Florida, consumers face potential brownouts. Merchant plants can provide a sufficient source of energy to Florida's wholesale market and reverse the decline in the ratio of load to capacity, thus reducing the probability of brownouts and improving reliability.

What will be the impact of merchant plants on the ultimate cost to consumers?

Merchant plants will, by virtue of new technology, produce energy at a lower cost than many of the existing plants currently in operation. Energy from merchant plants will be sold to load-serving utilities at wholesale with the potential of displacing more costly energy produced on less efficient and environmentally dirtier generators. This has the potential to lower energy costs to consumers as well as provide for cleaner air.

Should the Commission limit the number of merchant plants to be installed in Florida?

No more than we should limit the number of banks or McDonalds. Developers will analyze the energy growth potential, keeping in mind the need for peaking units versus base load units; the cost to produce energy in Florida; the cost to transmit energy to various wholesale markets; and all other market factors necessary to make a decision to spend tens or even hundreds of millions of dollars. The Commission should keep in mind that the sole risk for merchant plant developers rests with the investor not the ratepayer. If too many developers jump in, only the most efficient will survive, having the effect of lowering the cost to consumers through a much more liquid market. When there is a proliferation of McDonalds we see two-for-one type specials and other promotions favorable to the consumer. That economic principle applies in the unregulated wholesale market, as well, but only if we allow competition by merchant plant developers.

Should the Commission be concerned that merchant plant operators will sell the energy produced in Florida to out of state markets?

Traditional Florida utilities sell to out of state markets on a frequent basis. However, given the obligation to serve, traditional utilities contend that only energy excess to meeting load in the state is sold to the north. One would expect that if merchant developers, willing to invest millions of dollars into the economy of Florida, desired to sell to northern markets, they would simply site their units in a location in closer proximity to the potential load. Developers are interested in Florida because of the deficiency of adequate generation and the high rate of load growth and not because of the potential to sell out of state.

Will merchant plants improve the reserve margin in the peninsula?

Yes. Regardless of what the reserve margin percentage should be, 15% or some higher number, additional generating capacity will improve the quantity of reserves in Florida.

Will merchants plants idle utility generation to the detriment of the stockholder or the ratepayer?

No. Utility generation should be idled by the development of merchant plants only to the extent it makes economic sense or is required by law. In the late seventies and early eighties when oil prices went out of sight, several Florida utilities purchased unit power from the Southern Companies - at one point, collectively in excess of 3000 MW. Oil fired generating units were idled and "coal by wire" was embraced by all, especially the consumer reading the electric bill. Many of the inefficient existing utility generators are near or at a fully depreciated book value, meaning the shareholder has fully realized their rate of return on their investment. Because Florida needs new capacity, there is no reason to believe addition of merchant generation will work to the detriment of either ratepayers or shareholders.

Will the merchant plants be required to meet the same standards of interconnection and operation as traditional utilities?

Yes. Interconnection requirements are elements of Interconnection Agreements. Currently efforts of the North American Electric Reliability Council provide for standards for planning and operations for all segments of the electric industry. The developers of merchant plants have been active in the development of these standards along with utilities and fully endorse the reliability concepts contained therein.

Enron thanks the Commission for the opportunity to submit these comments and to participate in this workshop. Enron knows the wholesale electric market in Florida will benefit from the injection of merchant plant capacity. In addition, the state will enjoy economic benefits to the tax base and ratepayers. We look forward to further participation in this proceeding.