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July 26, 1999

Ms. Blanco S. Bayo, Director
Division of Records and Reporting
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

(via overnight mail)

RE: UNDOCKETED – REGIONAL TRANSMISSION ORGANIZATIONS

Dear Ms. Bayo:

Gainesville Regional Utilities (GRU) staff would like to take this opportunity to contribute to the ongoing discussions related to restructuring the electric transmission network. We recognize not only the impediments to an efficient wholesale electric market resulting from the current aggregation of market power, but the special needs and concerns for new market entrants as well (e.g. power marketers and non-utility generators).

GRU's status as a relatively small but vertically integrated system, interconnected with the two largest electric transmission systems in Florida, gives us a unique perspective on the two leading restructuring proposals in Florida. These proposals include the Florida Municipal Power Authority's "straw man" proposal for an Independent Transmission Authority; and the Florida Power & Light/Florida Power Corporation proposal, which attempts to modify existing rate making and governance systems. We are very concerned that these proposals will perpetuate some of the dysfunctional aspects of the existing status quo, as follows:

- 1) Ownership and governance are not fully aligned, and owners will continue to have major investments in generation; and
- 2) Long term operations and construction of facilities remain incumbent on individual systems as opposed to the overall organization.

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We came to the conclusion that the public's interests would be best served in the long run by the creation of institutions that are most likely to result in overall economic efficiency for the entire state. There are at least two critical underlying principles that we think are necessary prerequisites for this to occur:

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- 1) Transmission system design, construction, operation and economic success must be independent of profits and losses from generation.
- 2) Transmission rate making must reflect as far as practicable, the costs of service in order to avoid unfair cost-shifting.

An alternative solution that to date has not been much discussed, but which has the potential to fully achieve these objectives would be to create a not-for-profit transmission company (Transco) which owns, controls and operates Florida's transmission facilities.

We have reached this conclusion only recently and do not have a complete plan for how to achieve this end. We have identified some of the problems that will arise in the creation of a Transco, some of which are formidable. However, these problems are fundamentally different than those associated with other proposals being considered. The difficulties associated with creating a Transco are start-up problems, as opposed to the chronic problems that other proposals will promulgate.

The major issues we foresee include:

- 1) Requirement for divestiture. Do existing statutes and regulations provide sufficient authority to mandate divestiture? Would some compensation models provide sufficient incentive for voluntary participation?
- 2) Recompense for existing owners. Should this be at book value or market?
- 3) What level or types of facility will have to be turned over to the Transco? For instance, in North Central Florida, 69 KVA facilities interconnect various load control areas, whereas some 138 KVA facilities function more as local distribution.
- 4) Governance. A structure to allow the Transco to operate as a regulated, natural monopoly will be required.
- 5) Telecommunications and Rights of Way. The rights of way of transmission facilities are currently being used for other than traditional electric power transport purposes, for example telecommunications.

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Letter to PSC
RE: Undocketed-Regional Transmission Organizations

To conclude, we appreciate the opportunity to express our point of view at this time.

Sincerely,



Ed Regan, P.E.
Strategic Planning Director

Cc: Joe Jenkins, Director of Electric & Gas (Overnight Mail)
Commissioner Joe Garcia
Commissioner Terry Deason
Commissioner E. Leon Jacobs
Commissioner Julia L. Johnson
Commissioner Susan F. Clark

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