

**FIPUG's June 30, 2004 Post Workshop Comments**  
**Docket No. 020233-EI**

First, FIPUG would like to complement ICF. When the stakeholder group met in preparation for the June 30<sup>th</sup> workshop, the tangible benefit page of the ICF draft report mentioned only three benefit groups: load serving utilities (LSEs), generation owners, and transmission owners. FIPUG suggested that the Commission might be interested in finding out if and how consumers would benefit from the RTO. ICF has responded in the current report and added a new category entitled: "Level of Disaggregated Benefits Contracted." Consumers are mentioned under this heading but it is unclear exactly what this will encompass.

FIPUG suggests that a simple cost benefit study would start by asking the following six questions:

1. What are the benefits of the RTO?
2. Who are the beneficiaries of these benefits?
3. What are the costs of the RTO?
4. Who will pay the costs of the RTO?
5. Who will pay for the report identifying the benefits?
6. Will those paying for the report have the ability to affect it?

Questions # 4 and 5 are easily answered. Since GridFlorida is limited to Florida, the entire cost will ultimately be paid by Florida's retail consumers. It appears that FPL and Florida Progress are advancing \$800,000 for the report. The answer to question # 6 is not clear at this time.

**Benefits**

As to Questions # 1 and 2, from the **consumers'** perspective, it appears that the benefits are non-existent for several reasons. First, merchant plants have now been effectively excluded from Florida so the benefit FERC originally perceived from a competitive market has disappeared. Second, fuel cost increases for natural gas have all but eviscerated any cost savings. Gas plants can no longer compete with coal. Third, the probable market clearing price market design which pays all suppliers the amount bid by the highest bidder will offset any fuel cost savings that might arise from dispatching the most efficient plants.

From the viewpoint of **municipal utilities** and cooperatives, they will see the elimination of pancake rates and possible improved dispatch efficiency and elimination of discrimination.

As to the **regulated utilities** serving customers, owning transmission and generating power, they are likely to see large benefits. They will be able to keep current base rates applicable to transmission while eliminating major transmission operating costs, such as the cost of control centers, etc. The utilities will receive full guaranteed cost recovery for new transmission additions at FERC incentive rates. The utilities will retain depreciation reserves and continue depreciation charges with no expansion cost requirement.

## Costs

Costs of the RTO will include transmission costs already included in base rates plus new RTO charges. The GridFlorida budget shows that it will hire from 156 to 210 employees and independent contractors at an annual cost of \$48 million plus the amortization of \$176 million in start-up costs. If this is amortized over 3 years, the annual GridFlorida charge will be \$106 million. This charge will be allocated to the retail customers of the 3 GridFlorida applicants -- 55% to FPL, 11% to TECo, 22% to Florida Progress, and 12% to others. It is undetermined whether the utilities will pay this cost from base rate savings or seek to pass it through as a fuel charge to retail customers, though request for a pass through seems highly likely.

It is undetermined whether the existing transmission system will be maintained from the base rates paid by retail customers or whether replacements, extensions, and upgrades will come from new charges passed to customers through the fuel charge via GridFlorida. ICF assumes that the current system is in first class condition. The contrary may well be true and utilities may be delaying normal maintenance and transmission upgrades in anticipation of the RTO formation. The cost to restore the transmission system to appropriate levels should not come from new charges if the cash flow from base rates has been diverted for non utility purposes.

The magnitude of current transmission costs covered by base rates can be illustrated by the transmission charges now paid to Florida Progress. This information, for projected year 2002, was filed in response to a Commission discovery request in Florida Progress' last rate case. Florida Progress currently collects \$163 million for transmission services -- \$118 million or 72% comes from its own retail customers, while 28% comes from the retail customers of other Florida utilities. This revenue stream will grow at a rate of about 2% per year. The ultimate question is whether base rates will continue to be used for maintaining and upgrading the transmission system or will this revenue stream continue to grow and be retained by the utilities while costs are shifted to new customer charges via the guaranteed cost recovery clause mechanism.

## **CONCLUSION**

Until a viable wholesale market develops in Florida, any benefit from an RTO will be limited to fuel cost savings; however, any such savings will be eliminated by the new market clearing rate design.

If RTO costs are recovered through additional cost pass through clauses, it will not be beneficial to consumers unless there is at least \$100 million a year in fuel cost savings.

If utilities are required to absorb the GridFlorida Costs as part of their base rate charges, the rate impact on customers of load serving utilities should be neutral for utilities buying power. Customers of utilities that sell power will receive a benefit to the extent their 80% share of gross revenues exceeds the fuel cost they are charged. Any and all costs of the RTO should be absorbed by the utilities through base rates unless and until the utilities present clear evidence that there is a benefit to retail consumers that exceeds the cost of any proposed pass through.

Two government bodies setting rates for transmission services will add confusion and uncertainty to the regulatory process and may result in the Commission ceding jurisdiction over certain areas to FERC.