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# WHOLESALE POWER AND TRANSMISSION RESTRUCTURING IN FLORIDA: SPRING 2001

Gainesville Regional Utilities  
Presentation to the Gainesville City Commission  
March 12, 2001

## PRESENTATION OBJECTIVES

Prepare the City Commission for Future Actions  
and Decisions Related To:

- I. Energy 2020 Study Commission's Proposed  
Legislation; and
- II. A Proposal to Combine Florida's Electrical  
Transmission Facilities Into A New, Independent  
Company.

## PRESENTATION OUTLINE

- PART ONE: The Driving Forces
- PART TWO: Energy 2020 Commission Recommendations
- PART THREE: The “Grid Florida” Plan
- PART FOUR: The Public Power Choice Video

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## PART ONE: THE DRIVING FORCES

- I. Florida Has A Unique Prohibition On Merchant Plants
  - Supreme Court Ruling
- II. FERC’s Independent Regional Transmission Organization (RTO) Requirements
  - IOU’s Must Volunteer or Show Why Not!
  - RTO A Requirement For IOU Mergers

FERC - Federal Energy Regulatory Commission

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## **PART ONE: THE DRIVING FORCES (continued)**

### **III. Mergers Among Major Players**

-Progress Energy (FPC/Carolina Power and Light)

-FPL/Entergy

### **IV. Enormous Quantities of \$\$\$\$ at Stake**

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## **PART TWO: THE ENERGY 2020 COMMISSION AND ITS RECOMMENDATIONS**

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## THE ENERGY 2020 COMMISSION

- I. Their Mission: Assure Affordable and Reliable Electrical Power Supplies Through
  - Wholesale Restructuring (5 months)
  - Retail Restructuring (13 months)
- II. Address Special Concerns, such as
  - Environmental quality
  - Public Purpose Programs
  - Elderly and Low Income Issues
  - Financial Impacts on Local Governments

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## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY

- I. Let In Merchant Plants
- II. Investor Owned Utilities No Longer Build Plants
  - Competitive Acquisition of Power
- III. Keep One-Stop Environmental Permitting
  - Merchants Eligible for Power Plant Siting Act Considerations

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## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY (continued)

### IV. Pave The Way for "Grid Florida"

- Modify Transmission Siting Act
- Give RTO Eminent Domain

### V. Transfer IOU Generating Assets to Non-Regulated Affiliates

- Net Book, Not Market Value
- Six Year Transition Period
- IOUs Assume Risk of Stranded Cost
- Changes FPSC Role

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## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY (continued)

### VI. Market Monitoring By FPSC

- No Regulatory Authority
- Reliability: May Require IOUs to Build

### VII. Retail Rate Freeze

- But Not Fuel, Environmental Costs, Purchased  
Power, Conservation Cost Recovery
- Unbundle Rates In Year 4

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## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY(continued)

### VIII. Require Demand Side Management Goals and Plans

- FEECA Utilities
- Encourage Innovative Rate Programs

### IX. Other

- Encourage Distributed Generation

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## HIGHLIGHTS OF FMEA'S ANALYSIS OF ENERGY 2020 PROPOSAL

- I. Merchant Plants Will Be Beneficial To Consumers
- II. Wholesale Deregulation Not Proven A Success In Other Markets
- III. Florida Market Simulation Indicates Costs Increases For Consumers
- IV. Net Book Value A Large Windfall To IOU Shareholders

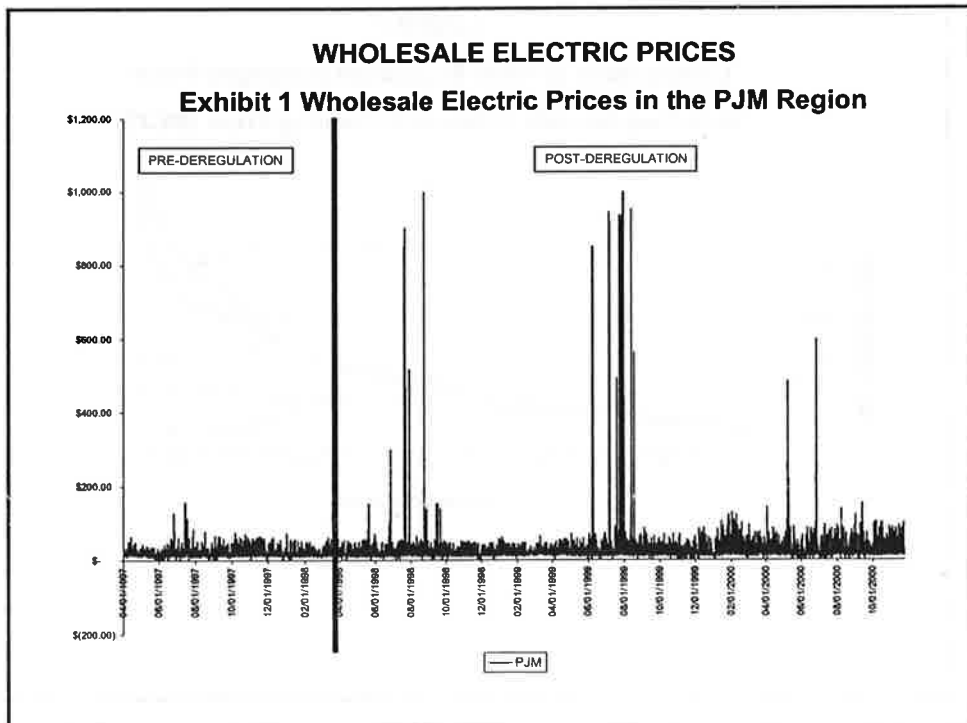
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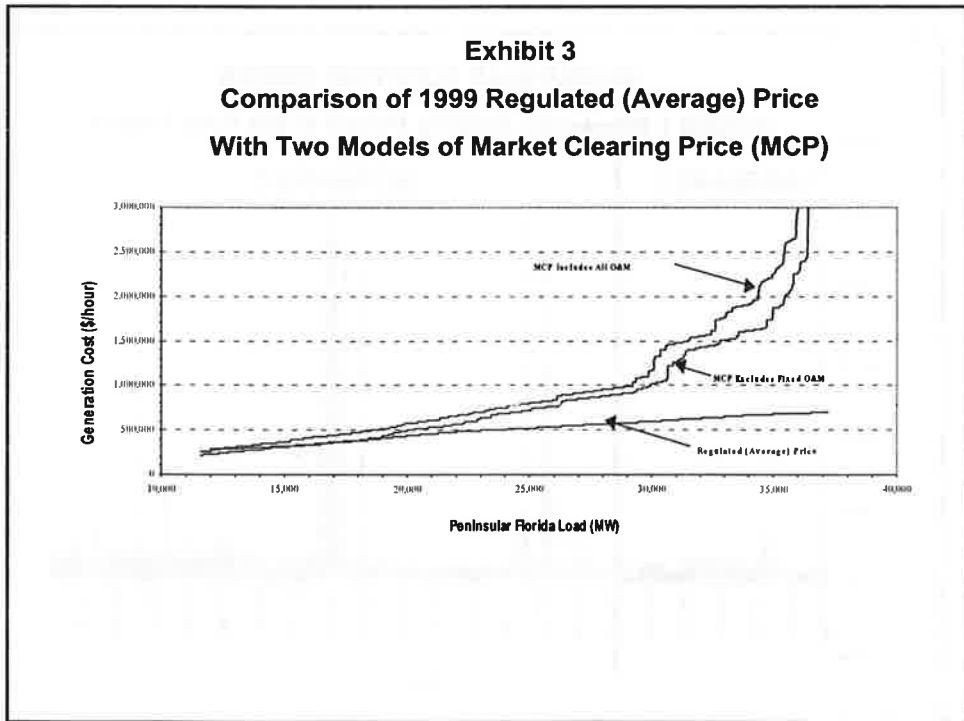
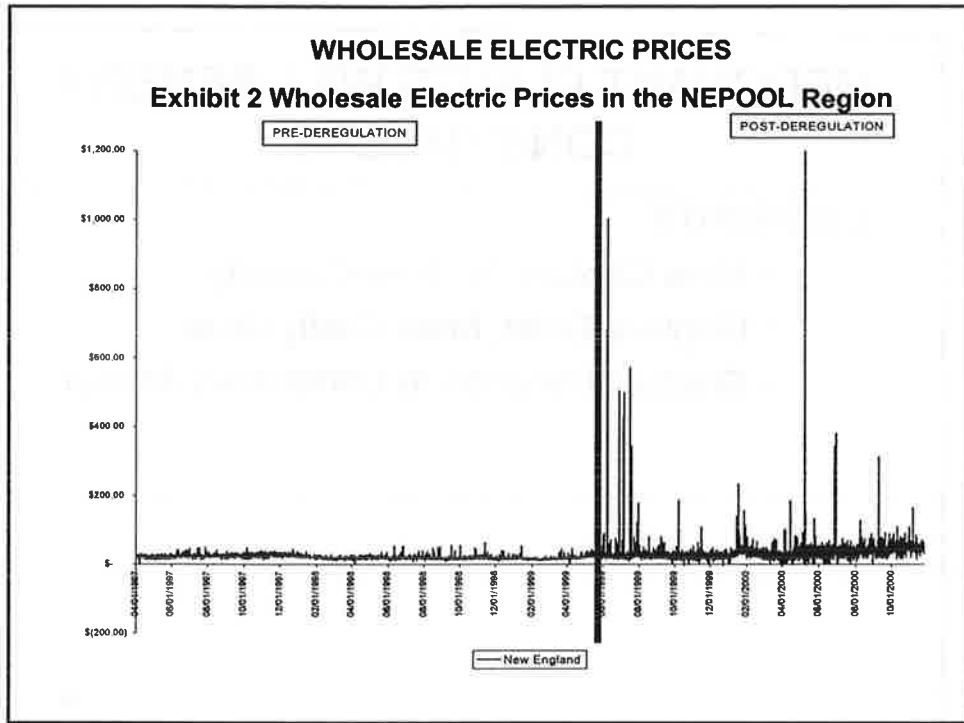
# MERCHANT PLANTS WILL BENEFIT CONSUMERS

## I. BENEFITS

- More Choices For New Capacity
- Displace Older, More Costly Units
- Gradual Transition to Competitive Market

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## Economic Impact on Floridian's Of The Energy 2020 Study Commission Proposal

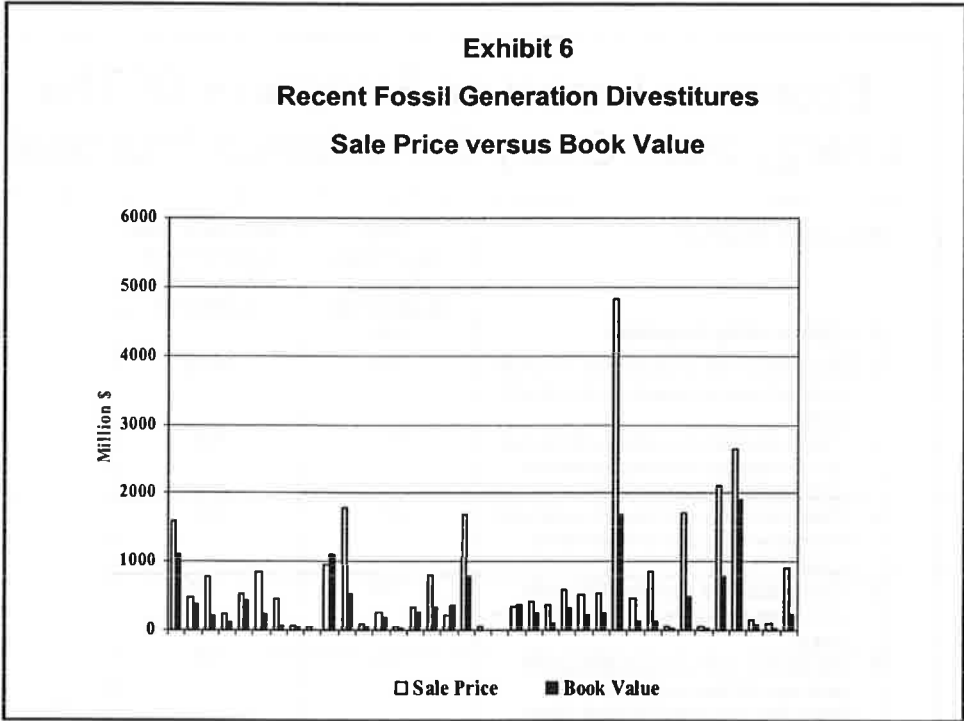
Wholesale Situation		Total Generation Costs (\$ Billions)	Difference from Current Utility Regulation (\$ Billions)
1	Current Utility Regulation	6.0	
2	Generator bids include take no profit or fixed operating and maintenance costs	5.5	(0.5)
3	Generator bids include no profit, but are reimbursed for fixed operating and maintenance costs.	6.4	0.4
4	Generator bids include 5% profit and fixed operating and maintenance costs.	6.7	0.7
5	Generator bids include 10% profit and fixed operating and maintenance costs.	7.0	1.0
6	Generator bids include 20% profit and are reimbursed for fixed operating and maintenance costs.	7.6	1.6

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## RATIOS OF MARKET VALUE TO BOOK VALUE RECENT FOSSIL GENERATION DIVESTITURES

<u>YEAR</u>	<u>NUMBER OF TRANSACTIONS</u>	<u>AVERAGE MARKET TO BOOK RATIO</u>
1998	7	2.43
1999	22	2.56
2000	3	2.51

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## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY

**I. Let In Merchant Plants**

–Savings To Consumers

**II. Generating Assets Transferred At Net Book Value**

–\$9 Billion Loss To Consumers

**III. Allowing Market Prices For Power From Previously Regulated Assets**

–\$.4 Billion to \$1.6 Billion Per Year Cost Increase For Consumers

## WHOLESALE MARKET RESTRUCTURING PROPOSAL SUMMARY (continued)

VI. Loss of State Control

V. What It Means to Gainesville

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## Comparison of California and Energy 2020 Wholesale Proposal

ISSUE	CALIFORNIA	Florida Energy 2020 Proposal
Ownership of power plants	Utilities sold most of their non-nuclear power plants to federally regulated utilities. Kept only cheapest power plants. Utilities with obligation to serve customers own far less generation than before	Utilities would spin-off power plants to federally regulated sister GenCo companies or unrelated companies. Utilities with obligation to serve customers would no longer own generation
State Jurisdiction over generation electric rates	Lost to federal government.	Lost to federal government
Generation electricity prices	Set by the highest bid; even low-cost producers get profits linked to other producers' high costs or strategic bidding; no guaranteed price protection for customers	Set by complicated contracts between affiliated companies; federal regulators could abrogate the contracts; no clear, on-going price protection for customers

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## Comparison of California and Energy 2020 Wholesale Proposal (CONTINUED)

ISSUE	CALIFORNIA	Florida Energy 2020 Proposal
Market power (ability of suppliers to set prices in the market)	Even with no single supplier controlling more than ten percent of the market, suppliers are able to manipulate prices by withholding supply and strategic bidding.	Three suppliers control seventy-five percent of the market; Florida's prospects for robust competition will be even worse than were California's; dominant suppliers could set prices
Potential for favoring corporate affiliates (self-dealing)	Some, but most of the non-nuclear generating capacity was sold to independent companies	Significant potential. Unregulated generation affiliate and sister distribution affiliate both have strong motivation to maximize profits for one company-their corporate parent-at the expense of consumers and businesses.
Generation capacity and transmission import capability	Generation capacity inadequate to meet state's peak loads, but can be supplemented by imports across transmission lines. Transmission system inadequate to support fully functioning competitive market	Generation capacity barely meets state's peak loads; however, transmission import capacity much more scarce than in California (see Exhibit ES-2. Transmission system inadequate to support fully functioning competitive market.

## CURRENT STATUS OF ENERGY 2020 PROPOSAL

**Mr. Barry Moline**  
**Executive Director**  
**Florida Municipal Electric Authority**

## PART THREE

### Regional Transmission Organizations (RTO's)

“GRIDFLORIDA”

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## CURRENT STATUS

Most Transmission owned by FERC  
Regulated IOU's

Small amount owned by non-FERC  
regulated entities like GRU

Prior to 1992 Energy Policy Act & FERC  
Order 888, Transmission owners had  
exclusive rights to use their own systems

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## EPAct & ORDER 888

“Promote Wholesale Competition Through Open Access Non-discriminatory Transmission Services”

Required IOU's to allow others to use their transmission systems

Required GRU to provide reciprocal access or lose access to other systems

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## ORDER 2000 & Regional Transmission Organizations

Many small cities, co-ops and “marketers” claimed 888 did not go far enough

IOU's were still using their control of the transmission system to their own advantage

FERC agreed. Order 2000 requires that IOU's volunteer to turn over control to an independent RTO.

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## RTO CRITERIA

- “Voluntary” approach
- Independent of owners
- Regional in scope
- Have operational authority
- Responsible for short-term reliability
- Responsible for tariff design
- Responsible for planning and expansion

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## RTO ISSUES

FERC wants all transmission in RTO's  
The RTO “rules” in Florida will affect us  
The IOU's get to draft the rules and file for  
FERC approval  
The GridFlorida filing is very favorable to the  
IOU's

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## RTO ISSUES (continued)

FMPA, Seminole, and the “marketer’s” have protested

GRU, Lakeland, Tallahassee and Kissimmee joined together to protest

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## KEY ELEMENTS OF THE “GRID FLORIDA” PLAN

3 IOU’s agreed among themselves how they would form the RTO

Create a for-profit stock held transmission company to own and/or control all Florida transmission. We can’t own stock. IOU’s will get the profits.

Participants either have to divest transmission assets, sell for cash or turn over operational/planning control.

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## What the IOU's want:

If we don't "join", we pay 200% penalty rates for off-system transmission use

We've asked FERC to do away with the penalty

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## What the IOU's want:

Reciprocity OK in lieu of joining, but we have to provide the RTO free service if they use our system while we pay for use of the RTO's system

We've asked FERC to require the RTO to agree to reciprocal agreements and require they pay us for use too.

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## What the IOU's want:

If we do "join", the RTO requires a transition to a single average state-wide transmission rate and all load must be served under the RTO rate

(Our customers will pay more for the same service.)

We've asked FERC to allow us to join, but to continue to serve retail load under our own "rate", not the RTO's

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## OTHER THINGS WE WANT

Confirm that we may withdraw from the RTO without need for prior FERC approval; especially if tax-exempt funding status is jeopardized

If we can't live with the loss of operational and planning control, we can get out!

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## OTHER THINGS WE WANT

Obligate GridFlorida to accept without condition transmission facilities reflected in our Ten Year Site Plan on file with the FPSC as of the date GridFlorida commences operations.

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## OTHER THINGS WE WANT

Require congestion management costs to be directly assigned to the transmission who cause the congestion. Alternatively, spread the cost to all GridFlorida transmission users.

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## WHAT'S NEXT?

FERC will rule on RTO's soon

Depending on the specifics of the ruling on  
GridFlorida, we may be faced with some  
hard decisions

Worst case :

Opt out & pay the price? Our customer's  
cost will go up.

Opt in & lose control? Our customer's  
cost will still go up.

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SHOW VIDEO

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The End

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