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May 27, 2004

FEDERAL EXPRESS

Blanca S. Bayo, Director Division of Commission Clerk and Administrative Services Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0870

> In re: Review of GridFlorida Regional Transmission Organization (RTO) Re:

Proposal, Docket No. 020233-EI Client-Matter No. 32775-36

Dear Ms. Bayo:

Enclosed please find an original and twenty (20) copies of Orlando Utilities Commission Post-Workshop Comments to Market Design Issues, which is being filed in the above-captioned proceeding. Please date-stamp and return the extra copy via the enclosed postage pre-paid return envelope.

Please do not hesitate to contact me should you have any questions.

Sincerely

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of GridFlorida)	Docket No. 020233-El
Regional Transmission)	
Organization Proposal)	Submitted for Filing: May 27, 2004
)	

Orlando Utilities Commission Post-Workshop Comments To Market Design Issues

The Orlando Utilities Commission ("OUC") hereby submits these Post-Workshop

Comments to Market Design Issues in response to the discussions at the Market

Design Workshop held in this Docket on May 19 -21, 2004.

General Comments

OUC has been a participant in the Florida Municipal Power Pool ("FMPP") as a load serving entity for 16 years. This experience with an centralized entity acting on behalf of all participating members for the purposes of energy resource scheduling, dispatch and congestion management has proven instructive with respect to many of the issues of market design currently being debated for the GridFlorida RTO. OUC feels that the GridFlorida Applicants could benefit from the experience of the FMPP in the Florida energy market. Many of OUC's recommendations and comments offered in this document are based upon its experience in the FMPP and OUC recommends that the Market Design issues be resolved taking into account the FMPP working model currently existing in Florida and successfully operating.

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Issue 1 - Market Design and Congestion Management

OUC supports the following approaches with respect to specific Market Design and Congestion Management sub-issues listed:

- A. <u>Energy Pricing</u>. Since March of 2001, the FMPP and its participants have successfully utilized cost-based clearinghouse energy pricing for all energy bought and sold within the FMPP. This methodology has proven to be a highly effective and fair energy pricing mechanism and OUC recommends this approach be utilized by the GridFlorida RTO.
- B. <u>Bid Structure</u>. The FMPP utilizes a cost-based bid structure for energy pricing which includes variable generating costs but not fixed generating costs. A cost-based bid structure eliminates any "gaming" of the bidding and greatly reduces the requirements for market monitoring. The bid structure has been successfully used by the FMPP and OUC recommends this approach be utilized by the GridFlorida RTO.
- C. <u>Cost Based or Market Based Bids</u>. For the reasons set forth in (B) above, OUC recommends that the GridFlorida RTO utilize cost based bids.
- D. <u>Day-ahead Bidding Requirements</u>. The three load serving entities participating in FMPP are currently required to bid their resources to FMPP on a day-ahead basis as a mandatory daily resource requirement. By requiring such load serving entities to bid their resources to the FMPP on a daily basis, FMPP is able to assess on a daily basis whether or not the load serving entities have sufficient resources to cover native load obligations for the following day and assess what additional resources each member may need and what excess resources will be all available to its members for

ancillary services. OUC recommends that GridFlorida utilize a mandatory day-ahead bid requirement for all load serving entities participating the GridFlorida RTO.

- E. <u>Control Area Options</u>. FMPP operates effectively as a single control area. The GridFlorida RTO could just as successfully operate in the same market environment with multiple control areas. There are efficiencies to be gained by establishing a single control area, but with computer-to-computer links, all units could be controlled by GridFlorida RTO even with multiple control areas. OUC recommends that while there does not necessarily need to be a requirement for GridFlorida RTO to have a single control area on "day one", consideration should be given to requiring GridFlorida RTO to transition to a single control area at some point after start-up of operation.
- F. Ancillary Services. FMPP currently operates as the provider of ancillary services required by its members. As a consequence of requiring its members to bid their generating resources to FMPP on a day-ahead basis, FMPP has consistently had sufficient resources to cover the requirements of each load serving entity's native load obligations for the following day and additional resources to provide any ancillary services required by the members. In a similar manner, if the GridFlorida RTO would require mandatory day-ahead bid requirements for its participating generating entities, it too could utilize available resources over and above that needed for firm supply commitments to provide ancillary services to entities served by the GridFlorida RTO.

 OUC recommends that the GridFlorida RTO adopt a mandatory day-ahead bid requirement whereby all members with energy resources make all such resources available to the GridFlorida RTO on a daily basis and that the GridFlorida RTO act as

the provider for ancillary services from the excess generation available. The providers of the resources utilized for ancillary services should then be compensated by GridFlorida RTO from charges assessed against the entities utilizing these ancillary services.

- G. <u>Types of Ancillary Services</u>. FMPP currently provides to its members regulation and frequency response services, energy imbalance services and operating reserve services. These services are billed to the users and paid to the suppliers at an FMPP pre-determined energy price in dollars per megawatt hour (\$/MWH). OUC recommends that GridFlorida RTO act as the provider of these same ancillary services based on the resources bid by its market participants.
- H. Losses. FMPP currently provides for energy losses within the metered area of each member by considering losses as part of the load requirement of each of each such member. For each megawatt hour transacted by FMPP members at the cost –based clearinghouse pricing, half of the average loss is charged to the buyer and half to the seller in any given transaction. The revenue from these losses is allocated to the transmission owners based on their respective transmission investment. OUC recommends the GridFlorida RTO provide for losses and charge for those losses based on cost-based clearinghouse prices, with the buyer and seller in each transaction sharing equally in the loss costs and the proceeds from the loss charges allocated to the GridFlorida RTO participants based on transmission investment.

Issue 2 – Market Monitoring and Market Power Mitigation

Market Monitoring. FMPP utilizes operating committees to police against abuses of the cost-base pricing system. The operating committee and the production subcommittee under it develop guidelines for determining heat rates, fuel costs, variable operation and maintenance costs and start-up costs. Based on these established guidelines and by comparing similar types of generating units, the FMPP committees are able to effectively eliminate any abuses of the cost-based bid system. This method of monitoring market power works well with FMPP since the bidding of the market participants is a cost-based bid rather than a market based bid. A cost based bidding process requires much less monitoring, particularly when limited to variable generating costs. OUC recommends that GridFlorida RTO consider utilizing a cost-based bid process based on variable generating costs and establish a stakeholder committee to oversee the bids and verify that actual variable costs are utilized by the bidding entities. To be effective, the stakeholder committee utilized by GridFlorida RTO for this purpose should consist of representatives from each of the generation owners, each load serving entity and each of the transmission owners participating in the GridFlorida RTO.

Issue 3 - Resource Adequacy

J. Authority to Establish the Resource Adequacy Requirement. OUC recommends that the GridFlorida RTO not be granted the authority to establish an overall resource adequacy requirement for market participants, but rather, should rely on the existing NERC, FRCC and FPSC requirements for resource adequacy. OUC believes that the existing requirements established by these entities more than

adequately addresses overall resource adequacy and reserve requirements for utilities in Florida. OUC believes that GridFlorida should be authorized to require a daily resource adequacy requirement to assure that there are sufficient resources on a day-to-day basis to cover scheduled load for native load customers, firm supply obligations, operating reserves, load following and other ancillary service needs for that day.

- K. <u>Level of Resource Adequacy Requirement</u>. As mentioned above, OUC recommends that GridFlorida be authorized to require a daily resource adequacy requirement, with the level of adequacy based on each days' requirements for scheduled load for native load customers, firm supply obligations, operating reserves, load following and other ancillary service needs for that day.
- L. <u>Term of Obligation for Resource Adequacy</u>. OUC recommends that any resource adequacy requirement established by GridFlorida RTO be limited to a daily requirement.
- M. <u>Enforcement</u>. OUC recommends that GridFlorida RTO enforce daily resource adequacy requirements by having the ability to applying a penalty multiplier to the cost-based clearinghouse price for energy resources required to serve an entity that has failed to provide adequate resources to cover its daily energy schedule. By applying the penalty multiplier, there is a strong disincentive to market participants to have less resources available than their obligations. The level of penalty multiplier which may be applied should be high enough that no market participant would find it more economical to rely on these resources rather than providing adequate resources to cover its obligations.

CONCLUSION

OUC requests that the comments set forth be taken into consideration and Staff's evaluation of the Participants' Market Design proposal.

Respectfully submitted,

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CERTIFICATE OF SERVICE DOCKET NO. 020233-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via □hand delivery; ⊠U.S. Mail; □electronic mail; □facsimile; or □overnight mail this ☑️ day of May, 2004, to the following:

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