BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Generic Investigation Into Planning and Operating Reserve Practices of Peninsula Florida Electric Utilities	) DOCKET NO. 940345-EU) ORDER NO. PSC-94-0765-PHO-EU) ISSUED: June 21, 1994

Pursuant to Notice, a Prehearing Conference was held on June 17, 1994, in Tallahassee, Florida, before Commissioner Susan F. Clark, as Prehearing Officer.

APPEARANCES:

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On behalf of Florida Power Corporation.

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On behalf of Tampa Electric Company.

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On behalf of Florida Cities AND JEA.

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On behalf of City of Lakeland.

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JOHN W. MCWHIRTER, JR., Esquire, McWhirter, Reeves, McGlothlin, Davidson & Bakas, Post Office Box 3350, Tampa, Florida 33601-3350 and JOSEPH A. MCGLOTHLIN, Esquire, and VICKI GORDON KAUFMAN, McWirter, Reeves, McGlothlin, Davidson and Bakas, 315 South Calhoun Street, Suite 716, Tallahassee, Florida 32312
On behalf of the Florida Industrial Power Users Group.

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On behalf of the Staff of the Florida Public Service Commission.

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PREHEARING ORDER

I. CASE BACKGROUND

On March 19, 1993, Florida Power and Light Company (FPL) filed with the Federal Energy Regulatory Commission (FERC) an extensive and comprehensive rate filing to revise FPL's existing wholesale transmission and interchange tariffs. Among the rate changes in Docket No. ER93-465-000, etal., was FPL's proposal to determine the interchange service schedule under which emergency and short-term firm service would be available to other utilities, and to base that determination on the installed and operating reserve standards contained in the interchange schedules filed with the FERC.

On September 13, 1993, this Commission filed its initial comments in Docket No. ER93-465-000. The Florida Public Service Commission expressed its concern that FPL's proposed tariffs could interfere with the FPSC's statutory authority and obligation to determine the appropriate level of reserves for utilities in the state of Florida, as well as its historic responsibility to protect retail ratepayers. The Commission's comments urged that the FERC defer to the FPSC's determination of the adequacy of reserves.

In addition, Florida Power Corporation petitioned the FPSC (Docket No. 931009-EI) to allow for the interruption of its non-firm customers to serve the firm load of other utilities. The Commission conditionally approved the tariff language at agenda conference in February 1994 pending a full hearing of the issues involved in substituting dispatchable demand-side management (DDSM) for generating resources in utility reserve calculations. The hearing was accelerated with the intention of filing the resulting order as additional FPSC comments in FERC Docket No. ER93-465-000.

After discussion at the FPSC Internal Affairs Meeting on April 5th, 1994, the Commission opened this docket to investigate the planning practices and operating reserves of peninsular Florida's generating electric utilities. The hearing was expedited with the expectation that the Commission's final order will be filed for consideration by the FERC in Docket No. ER93-465-000. The hearing the Commission had set earlier on DDSM reserves in Docket No. 931009-EI was suspended pending the outcome of this reserve investigation.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.

3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.

5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has

been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

Post-hearing procedures

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. The rule also provides that if a party fails to file a post-hearing statement in conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

A party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

III. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

IV. ORDER OF WITNESSES

Witness	Appearing For	Issues #
Direct		
Roberto R. Denis	FPL	1 - 10
Robert D. Niekum	FPC	1 - 10
John B. Ramil	TECO	1, 2, 5 - 10
Stuart L. Goza	TECO	1, 2, 8, 9
Gerald J. Kordecki	TECO	3, 4, 5
Joe N. Linxwiler, Jr.	FL. CITIES	1 - 9
Timothy J. Woodbury	SECI	1 - 10
*William W. Walker	TECO (adverse)	
Thomas Ballinger	STAFF	8

*By agreement of the parties, the deposition of William Walker will be inserted into the record in lieu of appearing in person and cross examination waived.

Rebuttal

Witnesses Name	Company's Name	Issue #'s
Roberto R. Denis	FPL	1 - 10
Joe N. Linxwiler, Jr.	FL. CITIES	1 - 9
Timothy J. Woodbury	SECI	1, 2, 6, 8

V. BASIC POSITIONS

FPL: The Commission should adopt reserve criteria to be used in determining under which interchange schedule service will be provided. The reserve standards proposed by FPL provide minimum levels of reserves to define a utility's obligations and to help assure that reliability is not adversely affected through a utility's failure to maintain its fair share of reserves. Reserve criteria should tend to minimize disagreements among utilities and the need for dispute resolution proceedings before the Commission. FPL's proposed tests are reasonable, necessary and appropriate to achieve such objective.

Interchange agreements are founded upon the principles of mutuality and reciprocity. They are bilateral contracts entered into by utilities to derive mutual benefits through reserve sharing. These agreements allow utilities to avoid building generating capacity on the expectation that they can rely on their interchange partners to assist them when they run short of generation. If one interchange partner is not meeting its fair share of reserve, both to supply its own needs and to assist its partners in its time of need that utility has frustrated the underlying principles of interchange. Unlike current interchange agreements that contain no specific standards, reserve margin criteria will establish the minimum levels of reserves that a utility must provide to meet its obligations to its interchange partners. The use of reserve criteria determine under which interchange schedule service will be provided will also add certainty and reduce disputes among utilities in the application of interchange schedules.

FPC: The Florida Public Service Commission should be the regulatory agency responsible for assuring the adequacy of generation reserves of utilities under its jurisdiction. In exercising this responsibility, the Commission should determine the adequacy of an individual utility's reserves based on its unique circumstances, rather than on predetermined minimum reserve adequacy criteria applicable to all utilities.

TECO: The utilities of this state should defer to the statutory mandate and expertise of the Florida Public Service Commission ("FPSC") to make conclusive determinations and resolve controversies on the adequacies of reserves.

It is appropriate for the FPSC to establish objective installed reserve margin standards, if allowances are made for the alternative of obtaining from this Commission a utility-specific

determination on the adequacy of installed reserves. Installed reserves criteria calling for a specified summer reserve margin of 15%, and an LOLP of 0.1 day per year, on a tied-assisted basis, would be acceptable to Tampa Electric. Disputes as to compliance with these standards should be brought before the FPSC prior to the operation of a penalty, and the FPSC's determination as to the adequacy of a utility's reserves should be conclusive and prospective.

Joint entitlements to generating units should be recognized and taken into account for purposes of calculating reserves and the effects on reserve margin calculations should be determined on a case-by-case basis. The Hardee Power Station which serves the needs of Tampa Electric and Seminole is a good example joint entitlements to generation which this Commission has already found provides economic and reliable capacity to both parties.

In no case should a utility be required to interrupt or to curtail service to its non-firm customers to sell emergency power to another utility when emergency power is available and can be purchased from other utilities. A utility should be entitled to purchase emergency power even though the utility has not interrupted or curtailed its non-firm load (load management and interruptible) service. As long as the purchasing utility is meeting the other terms and conditions of its interchange agreement and the sale is compensatory to the selling utility, there is no valid reason to require interruption before a purchase can take place.

The existing FCG operating reserve policy and the coordinated efforts of the members of FCG have resulted in prudent levels of operating reserves for Peninsular Florida. Consequently, no specific single operating reserve margin criterion should be used as prerequisite to purchasing emergency power. There is no need for any requirement other than the language which has historically been contained in the interchange service contracts (for each party to carry its proportionate share of the operating reserves as is currently established and recognized as good electric utility operating practice in the state of Florida).

The Commission should not pursue or order the development of an emergency power broker system. The transmission of emergency power should be available on a firm basis, at an hourly rate, with notice and prescheduling requirements that are consistent with the underlying power sale transaction.

FL. CITIES: It is not appropriate to use reserve margin criteria to determine the availability and price of interchange services.

Even if this would be appropriate, a single reserve margin criteria is not appropriate for all electric utilities, particularly the municipal systems. If reserve margin criteria are established, it should be done on a voluntary basis among Florida's electric utilities and the PSC should only be involved if the utilities are unable to agree on the reserve margin criteria and/or a dispute between utilities occurs as to the application of the criteria. An emergency power broker system is not necessary and would be harmful and anticompetitive.

JEA: None.

LAKELAND: It is Lakeland's position that reliability criterion should not be used as a conditional qualifier for specific interchange service contracts or transactions. The utilities in Florida have entered into interconnection agreements and built interconnections for the purposes of both economic exchange of energy and capacity as well as for reliability enhancement of the overall Florida Electrical Grid. This is easily evidenced through the economy sales and purchases via the FCG Broker System and the mutually agreed upon operating practice of all FCG utilities to share operating reserves within the State of Florida. These interconnections and exchanges of power have proven to be highly successful and beneficial to all the ratepayers of this State. They have enabled all utilities to participate in economic transactions on an hourly basis as well as during times of maintenance by purchasing from other utilities with surplus capacity at those times as well as protecting individual systems from unexpected outages or other adverse conditions in or around their system.

Each utility in the State of Florida has the responsibility to plan and operate their respective systems in a prudent manner for expected system conditions. The Florida Public Service Commission has the authority under the Florida Grid Bill, Chapter 366 F.S. ensure that this is done. Any questions as to whether a utility is planning and operating within the premises of the Grid Bill should be handled through and only through that mechanism and not as conditions of service in interchange contracts and agreements.

OUC: It is OUC's position that there should be no requirement to prove that a utility has planned its facilities to meet a certain reliability criterion in order to qualify for a particular interchange service transaction. It is the responsibility of each individual utility to plan its system to maintain adequate reserves in accordance with prudent utility practices. The Florida grid bill (Chapter 366 F.S.) gives the Commission the power to order utilities, after appropriate hearings, to install or repair

facilities, if it believes inadequacies exists. To our knowledge, there has been no occasion where the Commission has ordered an electric utility to install generation or transmission facilities to provide adequate service.

One of the major reasons for utility interconnected operations is to share operating reserves. This reduces the costs of operation by minimizing the number of generating units which have to operate each day to meet load. Other reasons are to protect individual systems from unexpected outages, to regulate frequency, and to encourage transactions of economic energy and maintenance capacity and energy through bi-lateral contracts.

TALLAHASSEE: Reserve margin criterion (criteria) may be a part of the process to determine the appropriate interchange service schedule. But, these determinations should be negotiated between contracting parties.

SECI: Seminole does not believe that it is appropriate to identify pre-defined reserve margin criterion (criteria) applicable to all utilities, to be used as the minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during emergency situations. Installed reserve margin criteria are unique to each utility, depending upon, among other factors, the affected utility's generation mix and load profile. There is no indication of which Seminole is aware that Florida utilities have acted other than prudently in planning for installed reserves. As to operating reserves, the FCG has adequate procedures in place, and Seminole is unaware of any failures of utilities to adhere to these procedures.

Seminole believes that the FPSC, based on its statutory authority, should be the ultimate arbiter for resolving disputes as to the level of reserves being carried by any given utility. Seminole believes that it would be appropriate for utilities to try to resolve such issues between or among themselves (either through direct negotiation or in discussions at the FCG and/or NERC) before elevating the issue for resolution to the FPSC, and that any relief should be prospective from and after the date of a final FPSC Order.

FIPUG: FIPUG supports the Commission and the Florida utilities' view that the Florida Public Service Commission rather than the Federal Energy Regulatory Commission should exercise supervisory authority over the state's reserve margin. FIPUG believes that unless the state's utilities are required to freely interchange power after meeting their retail native load requirements, including non firm customers that it will be detrimental to the

state's integrated resource philosophy expressed in the grid law, § 366.04, Florida Statutes. Further, if Florida utilities cannot rely upon one another during periods of extraordinary demand it may cause the construction of duplicative generating plants. Nonfirm customers are native load retail customers. If they are to be subordinated to the firm wholesale demand of other utilities by the utility which serves them, these customers should have authority to acquire backup power from other utilities and non-utility generators.

STAFF: Staff takes no basic position at this time. Staff's positions are preliminary and based on materials filed to date by the parties and on discovery. Staff's preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VI. ISSUES AND POSITIONS

RESERVE MARGIN CRITERIA:

ISSUE 1: Should reserve margin criterion (criteria) be used to determine the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall?

FPL: Yes. Interchange agreements are founded upon the principles of mutuality and reciprocity. They are bilateral contracts entered into by utilities to derive mutual benefits through reserve sharing. These agreements allow utilities to avoid building generating capacity on the expectation that they can rely on their interchange partners to assist them when they run short of generation. If one interchange partner is not meeting its fair share of reserves, both to supply its own needs and to assist its partner in its time of need, that utility has frustrated the underlying principles of interchange. Unlike current interchange agreements that contain no specific standards, reserve margin criteria will establish the minimum level of reserves that a utility must provide to meet its obligations to its interchange partners. The use of reserve criteria to determine under which interchange schedule service will be provided will also add certainty and reduce disputes among utilities in the application of interchange schedules.

FPC: A reserve margin trigger mechanism which is designed to apply interchange capacity pricing penalties to correct reserve margin inadequacies is inappropriate. The proper solution is for the FPSC

to monitor and enforce appropriate capacity margin decisions by the utilities it regulates.

TECO: There is no compelling reason to use reserve criteria to determine the applicable interchange service schedule. If, however, the prices for emergency power are to be affected by a buying utility's reserve margins, then objectively stated installed reserve criteria could serve a useful purpose, regardless of whether different interchange schedules are involved. In any event, service should not be denied to a utility experiencing a capacity shortfall, so long as capacity is available and the rates for the service are compensatory.

FL. CITIES: No. Although reserve obligations play an important role in interchange contracts and thus the availability of interchange services, Florida Cities do not believe it is necessary or appropriate to apply reserve margin criteria to determine the availability and price of interchange services.

JEA: No. Sharing reserves on a reciprocal basis has served the utilities and their customers well. If a specific utility "A" believes that one of its neighbors, utility "B", is taking unfair advantage of A's reserves, then A should take action to solve that problem with B.

In reading the testimony, the Jacksonville Electric Authority (JEA) can find no specific examples of a problem to justify the proposed fix.

LAKELAND: No. Interchange schedules should not be conditional upon reserve margin criterion or any other reliability based criterion. Provisions in existing bilateral contracts and operating practices that utilities follow through the Florida Electric Coordinating Group, Inc. (FCG) are adequate to maintain installed reserves and minimize the risk of short term capacity shortages. Utilities have the responsibility to plan for their own respective capacity and reserves to meet their annual system peak.

OUC: No, there are provisions in existing bi-lateral contracts as well as existing operating practices and procedures within the Florida Electric Power Coordinating Group, Inc. (FCG) which, if followed, would maintain adequate installed reserves and spread the risk of short term capacity shortages to all members.

TALLAHASSEE: Perhaps. Clearly, system adequacy evaluations, such as LOLP, LOLH, EUE, or reserve margin, should be part of the process used to determine the appropriate interchange service schedule. These determinations should be negotiated between

contracting parties, not with the Commission. As part of these negotiations, an evaluation should be made to ensure that utilities purchasing under emergency tariffs (Schedule A or B) are not abusing these agreements by intentionally avoiding investment in plant in favor of interchange power.

SECI: No. Seminole believes that it is inappropriate to establish a pre-defined installed reserve criterion (criteria), applicable to all utilities, to be used as a minimum threshold requirement for the purpose of services during emergency situations. Absent a finding by the FPSC that a given utility is carrying inadequate installed reserves, no utility should be precluded from receiving a certain type of interchange service during a system emergency on such grounds. As to operating reserves, the Florida Coordinating Group (FCG) has adopted a number of Florida-specific procedures which, among other things, allocate operating reserves among the FCG member utilities. Each of the FCG members has agreed to abide by these procedures, and to Seminole's knowledge, no party has ever demonstrated that an FCG member utility has been derelict in meeting its responsibilities in this regard. Unless and until such a demonstration is made, no utility should be precluded from obtaining interchange services under any particular interchange service schedule on the grounds that it is not carrying adequate operating reserves.

FIPUG: No, agree with Staff. It is illogical to provide an incentive to construct new generation when there is surplus capacity in the state.

STAFF: No, the preferred methodology for determining the appropriate price for a capacity shortfall should be the market based price quoted through an emergency power broker system (See Issue 8).

ISSUE 2: If reserve margin criterion (criteria) is/are used to determine the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall, what is/are the appropriate criterion (criteria) and how should it/they be calculated?

FPL: The tests proposed by FPL in its FERC filing are appropriate for determining the rates, terms and conditions under which interchange service will be provided. These tests are discussed in, and attached to the testimony of R. R. Denis. For installed reserves FPL has proposed a Minimum Installed Reserve Responsibility (MIRR) test (a % reserve margin test) and a Planning Prudence Test (a probabilistic analysis test; Loss of Load Probability-LOLP). The tests FPL proposed for operating reserves

are a Minimum Planned Available Operating Reserve Requirement (MPAORR) test (a planning test for a one year period) and the FCG's Available Operating Reserve test (operating reserves available to a utility within 10 minutes of the loss of a unit).

FPC: If it has been determined that it is appropriate to establish reserve margin criteria, the conditions under which the criteria are to apply must be made clear. If developed, the criteria should apply to both installed and operating reserves, consistent with the alternatives described in the testimony of Mr. Niekum.

TECO: Inclusion in the interchange schedules of installed reserve standards calling for a specified summer reserve margin of 15%, and a loss of load probability ("LOLP") of 0.1 day per year, on a tied-assisted basis, would be acceptable to Tampa Electric if calculated properly and provided that the schedules would also allow for obtaining a utility-specific determination from this Commission on the adequacy of installed reserves prior to the operation of a penalty under the tariffs. The Commission's determination should be conclusive as to the adequacy of a given utility's reserves and the utility's reserves should be presumed to be adequate until this Commission finds otherwise.

FL. CITIES': If it is determined to be necessary that reserve margin criteria be used to determine the pricing and availability of essential interchange services, then the appropriate general standards that should be utilized are as follows:

1. It should be a straight-forward, unambiguous, technically sound standard that is minimal in that there would be little question that a utility failing to meet the standard is unreasonably placing a burden on other utilities. The standard need not and should not be based on what might or might not be the "optimal" level of reserves.

2. The test as to whether utilities meet the standard should be applied systematically, on a set schedule, and in a nondiscriminatory manner.

3. The standard should not be applied so strictly as to preclude case-by-case consideration of innovative reserve-sharing arrangements.

4. The remedial measures imposed for failure to meet the standard should be cost-based and not unjustly enrich other utilities.

5. The standard should not be anticompetitive or unduly burdensome to small utilities.

6. The standard should not subject utilities to "double jeopardy" because of the FPSC's existing jurisdiction under the Grid Bill.

7. The standard should be enforced prospectively and in a manner such that a utility is not assumed to be "guilty until proven innocent."

More specifically, in the event a reserve margin "test" is found to be necessary, Florida Cities propose a reserve margin test that meets the standards set forth above, as well as a mechanism through which it can be fairly administered.

JEA: An annual reserve margin of 15% is a reasonable level. However, if any reserve margin is used as a criterion, it should be rebuttable on a case-by-case basis.

LAKELAND: Due to unique size and mixture of resources within each utility system, no specific criterion should be required.

OUC: A specific criterion should not be required.

TALLAHASSEE: The criteria used to determine availability of interchange schedules should continue to be defined by the parties involved in the particular interchange contract(s). These criteria should reflect minimum system reliability standards based on good planning practices, and be consistent with the NERC Planning Principals and Guides.

SECI: In view of Seminole's belief that no case has been made to support the need to identify pre-defined reserve margin criterion (criteria), applicable to all utilities, to be used as a minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during emergency situations, Seminole has declined to set forth a proposal of what criterion (criteria) should be used or how it (they) should be calculated.

FIPUG: A reasonable level would be 15% to 20%.

STAFF: If reserve margin criterion (criteria) is/are to be used, staff takes no position at this time regarding the appropriate percent reserve number, however, the calculation should be on a monthly basis pursuant to the following formula:

100*[(A1+A2) - (B1+B2-B3)]/(B1+B2-B3) where:

A1 is defined as the sum of each generating unit's demonstrated one-hour capability for which the utility has scheduled the unit to be available at the time of retail and wholesale monthly system peak;

A2 is defined as the sum of all firm power purchases from other utilities and non-utility generators scheduled to be available at the time of the monthly system peak;

B1 is defined as the utility's anticipated coincident total retail and wholesale (system) peak demand;

B2 is defined as the sum of all firm power sales to other utilities; and

B3 is defined as the total amount of interruptible, curtailable and load management load that can be interrupted to serve firm customers of other utilities at times of peninsula wide capacity shortages for a period of at least 24 hours.

The reserve margin calculation shall be made by the 15th of each month for the following month. To be included in the above formula, a demonstration of a unit's one-hour capability shall have been made in the prior 12 months and shall be adjusted by any seasonal deratings or output limitations.

TREATMENT OF NON-FIRM LOADS:

ISSUE 3: If other generation <u>is not</u> available for sale from any utility, should utilities be required to interrupt non-firm load (interruptible, curtailable, and load management) to sell power to serve the firm load of a utility experiencing a capacity shortfall?

FPL: Yes. Since utilities do not build capacity to serve non-firm load customers, the utility should be able to interrupt its non-firm customers to serve firm load of a utility experiencing a generating capacity shortfall if the generation is not available from any other utility. The purchasing utility must first interrupt its non-firm load customers prior to purchasing power.

FPC: Yes. Utilities may include DDSM as part of the IRP process. That capacity should be made available to external utilities to serve firm load customers in an emergency, just as supply side capacity would be provided. This approach is consistent with the Energy Policy Act of 1992 and will not penalize a utility that selects DDSM as part of its resource mix.

TECO: Yes. The premise of this statement of position is that there are not enough supply resources available to meet all firm loads of customers in the state.

FL. CITIES: Yes.

JEA: Yes. If non-firm retail load is included in calculating reserves, it should be as available for reserve sharing as other types of reserves.

LAKELAND: Yes, but only if all other measures have been taken to serve firm load and failure to serve that load would endanger the integrity of overall State grid.

OUC: Utilities should not be required to interrupt their non-firm loads to aid other utilities firm customers. It should be an individual utility decision, on a voluntary basis, only.

TALLAHASSEE: No. The City believes that the implied contract between the local utility and interruptible/ curtailable/load management customers is based on the premise that the ability of the local utility to serve native load may require interruption of these customers. Arrangements with these customers did not anticipate interruption to satisfy the capacity needs of another utility, the planning of which is outside the control of the City. However, the City does believe that utilities may voluntarily activate the interruptible/curtailable/load management tariffs to assist another utility at their discretion following consultation with the affected customers, or in response to the declaration of a statewide emergency by the Governor.

SECI: Yes. Seminole believes that utilities should interrupt non-firm load in order to sell emergency and other types of interchange power to another utility which would otherwise be forced to curtail firm load.

FIPUG: No. Nonfirm retail customers are served from a utility's reserve margin during peak periods and enable the utility to obtain lower fuel costs and more efficient generation during off-peak periods. They fully support their allocated share of the utilities' fixed cost investment. To remain competitive they

accept the prospect of occasional interruptions for the use of other native load customers. They can reasonably evaluate this risk from the utility which serves them. They cannot evaluate the risk if it is extended to every other utility in the state.

STAFF: Yes.

ISSUE 4: If other generation is available for sale from any utility, should utilities be required to interrupt non-firm load (interruptible, curtailable, and load management) to sell power to serve the firm load of a utility experiencing a capacity shortfall?

FPL: No. Where generation is available for sale from any utility, the Commission should not require utilities to interrupt non-firm load to serve the firm load of a utility experiencing a capacity shortfall. However, a utility may interrupt its non-firm load to serve another utility's firm load on a voluntary basis or to fulfill its emergency interchange service obligations.

FPC: Yes. The utility should be willing and prepared to interrupt its non-firm service and provide emergency capacity. However, "buy-through" power should be made available to the interruptible customers.

TECO: No. In no case should a utility be required to interrupt or curtail service to its customers to sell emergency power to another utility when power is available and can be purchased from another utility.

FL. CITIES: Yes, but that does not mean that service to any customer will be actually interrupted. Capacity remaining after Florida's firm needs have been met should be made available for purchase by other utilities to serve their nonfirm customers, so long as provision of service does not jeopardize service to firm customers.

JEA: Yes. If non-firm retail load is included in calculation reserves, it should be as available for reserves sharing as other types of reserves. It should not be free of charge.

LAKELAND: No. All other options should be exhausted first.

OUC: No. Same as Issue 3.

TALLAHASSEE: No.

SECI: No. The scenario postulated by this question involves an economic, as opposed to a reliability, consideration. Seminole believes that non-firm customers of one system should not be required to sacrifice in order to provide any type of interchange power to firm customers of another system when alternative dependable capacity (albeit at a higher cost) is otherwise available to a purchasing utility.

FIPUG: No.

STAFF: No position at this time.

ISSUE 5: Should a utility be required to sell power to another utility to serve the purchasing utility's buy-through provisions for interruptible customers and, if so, under what terms and conditions?

FPL: No. Utilities should not be required to sell power to another utility, through its interchange agreements or through other means to serve the purchasing utility's buy-through provisions for interruptible customers. However, a utility may effect such a sale on a voluntary basis at an agreed upon price. A sale of this type would be an economic transaction that could be accommodated under voluntary schedules, not obligatory interchange agreements. Service under an emergency interchange schedule should not be available to back-up a utility's interruptible load. The utility has chosen to avoid additional generation capacity by relying on interruptible load to lower costs to its customers. The interruptible load customers have made an economic choice to accept a higher risk of interruption in exchange for lower rates. Therefore, the need to interrupt an interruptible customer is an expected event, not an emergency. Additionally, the utility counts the capacity serving this interruptible load as part of its reserves to serve its firm load, therefore it should be required to utilize these reserves prior to calling upon Emergency Interchange Service.

FPC: No, a utility should not be required to sell power to serve another utility's buy-through needs. Arrangements for buy-through power should be made utilizing voluntary market transactions. In addition, a utility should not be required to sell emergency power to another utility while the purchasing utility serves non-firm load with its own resources. However, where a purchasing utility has exhausted all of its own resources to serve firm load, a selling utility should be not relieved of its obligation to provide emergency power simply because the purchasing utility is also

purchasing "buy-through" power from either the emergency seller or a third party supplier.

TECO: Yes. In instances where generating resources are available in the state and the purchasing utility is meeting the terms and conditions of its interchange agreement and the sale is compensatory to the selling utility, there are no valid reasons to deny service.

FL. CITIES: Yes, after the state's firm needs have been met and so long as this provision of service does not jeopardize service to firm customers.

JEA: Yes. The terms and conditions should be similar to the existing Schedule B.

LAKELAND: No. The decision to sell power for buy-through provisions should be left the discretion of individual utilities.

OUC: No. It should be an individual utility decision to sell buy-through power to another utility. This is not an emergency situation.

TALLAHASSEE: No. This type of service should be a voluntary interchange between the local utility and potential supplier.

SECI: Seminole believes that such a requirement would amount to a subsidization of the interruptible customers of the purchasing utility by the firm customers of the selling utility if the power sold to meet the "buy-through" requirements were priced only to recover fuel, O&M, and other operating costs, and consequently made no contribution to the recovery of the selling utility's fixed costs.

FIPUG: Yes. FIPUG agrees with Staff and would agree to pay fuel and capacity costs of emergency power provided these costs are calculated in the same manner that retail prices are calculated for the selling utility's retail customers.

STAFF: Yes. Buy-through power should be made available as long as the selling utility is not forced to sell the power at incremental fuel and O&M cost only.

TREATMENT OF SHARED GENERATING UNITS:

ISSUE 6: If reserve margin criterion (criteria) is/are used to determine the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall, what is the appropriate treatment of shared generating units in calculating the criterion (criteria)?

FPL: Shared generating units and jointly owned generating units should not be double counted in the computation of reserves. Only the utility's MW share on which it has first call should be included in the calculation of the reserve criteria.

FPC: Shared generating capacity included in the calculation of reserves should be considered on an installed and operating basis. The parties involved in the sharing of this capacity should mutually agree on how to treat the capacity in the calculation of reserve margin percent, LOLP, and other reliability measures, and be subject to review by the FPSC. Each utility's portion of shared reserves, when totalled together, should not exceed the total amount of available capacity during the applicable period.

TECO: Shared generating units should be recognized as commercially available generating resources which should be taken into account for purposes of calculating reserves. It would be inappropriate to rule out any consideration of reserve sharing of a shared resource merely because only one utility has access to the resource on a first priority basis at any given time. Such a narrow view of the benefits of shared generating capacity resources would penalize economically efficient arrangements between utilities and, therefore, would be unreasonable. The consideration of the contribution of shared reserves to the reserve margins of each utility should be made based on the facts of each sharing arrangement. This Commission should <u>not</u> take a generic position in this docket with respect to a determination of reserve allocation of shared resources unless it is one which allows for the consideration of shared resources on a case-by-case basis before the FPSC.

FL. CITIES: There are many different methods by which utilities can share generating units. Therefore no single methodology should be utilized for inclusion in the calculation of reserve margins. For the typical joint ownership or unit power purchase, the capacity to which a utility participating in such an arrangement is entitled should be treated no differently than generating units wholly owned by a utility. Less conventional arrangements should be considered on a case by case basis, in accordance with general guidelines.

JEA: Shared generating units should be included based on the capacity entitlements of the various parties. The assumption should be that the sum of the entitlement should not exceed the rated capacity of the unit.

LAKELAND: See Issue 1. Capacity of jointly owned units should be apportioned to the owners according to their respective ownership shares and that portion included in that utility's reserve calculations respectively.

OUC: The practices and procedures referred to in the response to Issue 1 take into account jointly owned and other shared units.

TALLAHASSEE: Shared generating unites must be appropriately accounted for in reliability calculation, i.e., no double counting of capacity should be allowed. This position is consistent with existing NERC guidelines.

SECI: Since Seminole does not believe that it is appropriate to identify pre-defined reserve margin criterion (criteria), applicable to all utilities, to be used as a minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during emergency situations, Seminole does not believe it is appropriate to put forth a position on how shared generating resources should be treated in any such criterion (criteria), particularly in light of the fact that such treatment could vary depending on the type of reserve criteria utilized (i.e., deterministic versus probabilistic).

FIPUG: No position at this time.

STAFF: Shared generating units should not be double counted in any reserve criterion. Only the utility's MW share on which it has first call should be included in the calculation of a reserve criterion.

TREATMENT OF NON-FIRM PURCHASED POWER:

ISSUE 7: If reserve margin criterion (criteria) is/are used to determine the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall, what is the appropriate treatment of non-firm purchased power in calculating the criterion (criteria)?

FPL: Only firm purchased power should be included in the calculation of reserves. However, in some instances, non-firm

power could be included in the calculation of probabilistic reliability indices, provided such is done in a manner that does not double count the value of the purchase.

FPC: FPC does not usually consider non-firm capacity in reserve calculations. However, capacity that is purchased with a very high availability should be recognized. Such capacity purchases may be difficult to define as firm or non-firm. Each should be considered individually.

TECO: The treatment of non-firm purchase power in calculating reserve margin should be considered on a case-by-case basis.

FL. CITIES: The term "nonfirm" as applied to power purchases covers a broad spectrum of power purchases and thus, as is the case for resource sharing arrangements, it would not be advisable to formulate a single treatment that is appropriate for all potential types of nonfirm purchased power arrangements. Nonfirm purchases, if properly understood to cover all arrangements other than truly "firm" power purchases (where the seller provides reserves, e.g., a partial requirements purchase) encompass, at one end of the spectrum, unit purchases, which should be treated the same as owned generating resources. At the other end of the spectrum are purchases that are fully interruptible, which should not be counted as capacity available to serve firm load.

JEA: In general, non-firm purchases that do not include a capacity charge or that may be recalled for economic reasons should not be included in a utility's reserve margin. As in Issue 6, the assumption should be that two utilities can not both count the same capacity in their reserve margin.

LAKELAND: A specific criterion should not be required. Non-firm purchases should not be included in any reserve calculations.

OUC: A specific criterion should not be required. Non-firm purchases and sales take place only if there are adequate reserves and economic benefits.

TALLAHASSEE: Non-firm purchases should not be included in any calculation of system reliability. This position is consistent with existing NERC guidelines.

SECI: Since Seminole does not believe that it is appropriate to identify pre-defined reserve margin criterion (criteria) applicable to all utilities, to be used as a minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during emergency situations, Seminole does not believe it

is appropriate to put forth a position on how non-firm purchases should be treated in any such criterion (criteria), particularly in light of the fact that such treatment could vary depending on the type of reserve criteria utilized.

FIPUG: FIPUG agrees with Staff.

STAFF: Only firm purchases should be included in calculating a reserve criterion until such time as the member utilities, through the FCG, can reach consensus on a method for determining the "firmness" of non-firm purchases and how such capacity should be allocated to each purchasing utility. Such methodology should be presented to the PSC for approval.

EMERGENCY POWER BROKER:

ISSUE 8: In lieu of a reserve margin approach to determining the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall, should Florida's generating utilities be required to develop a voluntary emergency power broker system with market based quotes? If so, how should issues involving generation and transmission access, availability, and price be addressed?

FPL: No. Interchange agreements affect the availability and reliability of power in cases of generating capacity shortfalls. This availability and reliability is best assured through the existing system of interchange agreements with explicit standards or criteria defining the utilities' minimum obligations to their interchange partners. A voluntary, market based, system is unlikely to provide appropriate incentives to assure that the necessary power is available when a generating capacity shortfall occurs.

FPC: No. Florida utilities should not be required to develop a broker system with market based pricing for emergency interchange service. Emergency service would put the buying utility in a weak position to negotiate a price. The largest utilities in the state will be in the position of being the primary suppliers of emergency service, therefore dictating prices. However, if an emergency broker system were developed, a reasonable price cap needs to be addressed. This price uncertainty would most likely lead to utilities operating in an isolated mode, increasing costs and building facilities that are not needed.

TECO: No. However, regardless of whether emergency power is sold through a broker at market based rates, transmission service for emergency transactions should be available on a firm basis pursuant to binding tariffs or service schedule provisions. Any notice or prescheduling requirements imposed on the transmission of emergency power should be consistent with the notice or prescheduling requirements for the power arrangement itself. Emergency power is by its nature an hourly service and the transmission of such power should carry an hourly charge.

FL. CITIES: No. There is not a need for such a system. Such a system would be harmful to most of Florida's electric utilities and it would be anticompetitive.

JEA: No. The existing messaging system and Schedule B information are sufficient.

LAKELAND: No, an emergency power broker can not replace reserve margins. Reserves must be planned and maintained by each utility. Existing bilateral contracts and operating procedures are adequate to provide acceptable opportunities to avoid short term capacity shortfalls.

OUC: No, existing operating practices and procedures, bi-lateral contracts and negotiations provide satisfactory opportunities to avoid short term capacity shortfalls.

TALLAHASSEE: No. The City can see no need to create an emergency power broker system, since the state presently has a Capacity Emergency Plan to address this issue. Furthermore, such a broker system is permeated with near-unresolvable complexities related to transmission service and bulk transmission networks capacity, in addition to pricing and availability uncertainties. Such a system may not be implementable in Florida without serious adverse consequences to the existing energy broker systems.

SECI: Seminole does not agree that the existing cost-based system should be abandoned in lieu of a market-based quoting system. However, Seminole would support a market-based quoting system in conjunction with the long-standing cost-based contract approach with the latter serving as the price cap for interchange power transactions.

FIPUG: This approach if used should be used not just for expensive emergency power. A bulletin board available to retail customers should be established to allow rational decisions on buy-through. As to issues involving generation and transmission access, availability and price, FIPUG agrees with Staff.

STAFF: Yes. Peninsular Florida's generating utilities should be required to develop an emergency power broker system with market based quotes that are voluntarily issued whenever a utility issues a request for the purchase of emergency power to all other utilities. Such quotes would be treated as "capacity adders" to the other provisions in a standardized emergency interchange contract. If a utility also chooses to offer its own Schedule A contract, such contract should not have a reserve margin pricing trigger. Emergency power that is wheeled under the emergency broker scheme should be provided on an open access, as-available basis and priced at average embedded cost, much like the economy broker system.

DISPUTE RESOLUTION:

ISSUE 9: If reserve margin criterion (criteria) is/are used to determine the applicable interchange schedule under which power could be purchased in order to avoid a capacity shortfall, what procedures, if any, should be adopted to resolve disputes regarding the criterion (criteria)?

FPL: Consensus should be sought between the affected utilities first. In the event that no consensus can be reached, then the affected utilities should petition the FPSC for resolution. The adoption of reserve margin criteria will serve to define the standard that utilities must meet, will assist the utilities and the Commission in deciding whether a party is meeting its obligations under the agreements, and will significantly reduce the need to bring matters to the Commission for resolution.

FPC: The Commission has long had the authority and responsibility to determine the adequacy of all Florida electric utility service. Since the Commission has not found any Florida utilities to have inadequate reserves, there should be a presumption that each of these utilities continues to have adequate resources until a contrary determination is made by the Commission. If an interchange partner believes this presumption is no longer accurate with respect to a particular utility, it should seek a determination from the Commission.

TECO: If utilities cannot resolve matters among themselves, they should defer to the statutory mandate and expertise of this Commission to resolve disputes on the adequacy of reserves and the applicable criteria. Such a dispute resolution could be

accomplished in an appropriate Commission proceeding initiated by the aggrieved party.

FL. CITIES: All generating utilities could make annual filings with FCG or the PSC six months prior to their effective date. Any utility or the PSC would be able to dispute a utility's calculation. Each dispute would be brought to a peer review committee and the parties would, in good faith, try to resolve the dispute. If the dispute is not resolved, then a party could seek a resolution of the dispute by the regulatory authority having jurisdiction.

JEA: If the utilities involved in the dispute cannot reach an agreement, then either party should be allowed to petition the Florida Public Service Commission for relief.

LAKELAND: Reserve margin criterion should not be required for this purpose, therefore dispute resolution procedures are not needed in this context. The FPSC has the authority to determine and require adequate reserves for each utility and hence is the point of any dispute resolution regarding reserve issues.

OUC: None are necessary, if a specific criterion is not required.

TALLAHASSEE: Dispute resolution procedures involving the determination of system reliability should continue to be handled among utilities based on conditions contained in individual interchange contracts, or adopting dispute resolution methods supported by NERC.

SECI: Since Seminole does not believe that it is appropriate to identify pre-defined reserve margin criterion (criteria) applicable to all utilities, to be used as a minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during emergency situations, Seminole therefore does not believe it appropriate to speculate on how a dispute resolution procedure should work related to such criterion (criteria).

FIPUG: If the Staff's suggestions are adopted, these sessions should be conducted in the sunshine, open to customer audit and subject to a request for administrative proceedings if appropriate.

STAFF: Consensus should be sought at the FCG. If no consensus is achieved, then the affected utilities should petition the FPSC for resolution. The FPSC has the legal authority to resolve any dispute on our own motion pursuant to the Grid Bill, Section 366.05, Florida Statutes.

ADDITIONAL ACTIONS:

ISSUE 10: What further action, if any, should the Commission take?

FPL: No position at this time.

FPC: The Commission should continue its current practice of reviewing the generation reserve adequacy of individual utilities. The Commission should establish its intention to continue this practice and inform the FERC in Docket No. ER-93-465-000.

TECO: The Commission should order FPL, in accordance with its commitment to this Commission, to file any FERC tariff changes necessary to conform with the decisions made in this docket.

FL. CITIES: None.

JEA: No position at this time.

LAKELAND: The Commission should take no action that would establish or seek to establish reserve margin criterion (criteria) as a requirement for interchange service(s). The Commission should continue to act upon its authority through the Grid Bill to monitor the reliably planning and operation of the State Electric Grid to ensure adequate reserves to meet system needs.

OUC: No position at this time.

TALLAHASSEE: The Commission should take no further action.

SECI: Seminole believes that the Commission, in comments submitted to the FERC in Docket No. ER93-465 should take the position that pre-defined reserve criteria, applicable to all utilities, to be used as a minimum threshold requirement for the purpose of establishing entitlement to certain interchange services during an emergency is not in the public interest and that issues concerning reserve adequacy should be addressed on a case-by-case basis in Florida, with the FPSC being the final arbiter of any related disputes.

FIPUG: No position at this time.

STAFF: No position at this time.

VII. EXHIBIT LIST

Witness	Proffered By	I.D. No.	Description
DENIS	FPL	(RRD-1)	Approaches to Assessment of Adequacy of Generating Capacity
DENIS	FPL	(RRD-2)	Utility Reserve Margin Criteria
DENIS	FPL	(RRD-3)	North American Electric Reliability Council
DENIS	FPL	(RRD-4)	Reserve Margins for individual utilities
DENIS	FPL	(RRD-5)	Exhibit C and D to Schedule AF
NIEKUM	FPC	(RDN-1)	Utility Reserve Margin Criteria
NIEKUM	FPC	(RDN-2)	Approaches to Assessment of Adequacy and Generating Capacity
NIEKUM	FPC	(RDN-3)	FPC's forcasted Reserve Margins
NIEKUM	FPC	(RDN-4)	Reliability Criteria
NIEKUM	FPC	(RDN-5)	FPC's forcasted Reserve Margins without DDSM
GOZA	TECO	(SLG-1)	Exhibit of Stuart L. Goza
WALKER	TECO	(WGW-1)	Deposition of William Walker and Deposition Exhibits 1 & 2

LINXWILER	FL. CITIES	(JNL-1)	Linxwiler's resume and summary of experience and previous testimony.
LINXWILER	FL. CITIES	(JNL-2)	Portion of Code of Federal Regulations

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

None.

IX. PENDING MOTIONS

None.

It is therefore,

ORDERED by Commissioner Susan F. Clark, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Susan F. Clark, as Prehearing Officer, this 21st day of June, 1994.

Susan F. Clark, Commissioner
and Prehearing Officer

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.