

August 25, 2004

Comments from Mark Smith with Florida Power and Light
Re: Allocation of CRRs to Merchant Transmission

CAISO Staff,

Re: Draft proposal for the Allocation of Congestion Revenue Rights to
Merchant Transmission

Thanks for the opportunity to comment on the draft white paper identified above. Our apologies, for FPLE was unable to participate in the call on the 17th or meet the initial comment deadline.

FPLE agrees with much of the policy and most of the principles contained in the white paper. Our response highlights those areas of agreement and points out several areas where further discussion is warranted, or policy changes should be considered.

In particular, FPLE supports

- CRRs good for the life of the facility
- Allocation of CRR Options rather than Obligations
- Reasonable assignment of CRR Obligations to resolve only short-term infeasibility of previously awarded Obligation CRRs
- Ability to capture the bi-direction benefits to transmission enhancements.
- The allocation of Merchant transmission CRRs before annual or monthly LSE allocations or auctions.

FPLE also generally supports the approach to the identification and quantification of the incremental benefits of the transmission upgrades. Specifically, the sequential runs of the SFT/ optimization without, then with the transmission upgrade should conceptually yield a reasonable estimate of the incremental value of the upgrade.

However FPLE does have several concerns.

- (1) FPLE believes that market participants would benefit by an additional workshop describing the nature and sensitivities of the SFT in/out calculation. This discussion should highlight modeling choices such as that of objective function and how those choices may relate to the subsequent SFT calculations that will determine the quantity of CRRs to offer for allocation.
- (2) FPLE does not understand the evaluation criteria that would be applied to approval of an economically-driven transmission upgrade funded entirely by a Project Sponsor (Section 2.2) We believe that as long as

the project is required to meet ISO grid reliability standards, as driven by necessary conditions of interconnection, that no further approval is necessary.

- (3) The hedge value of a MT upgrade is a significant component of the economic value of a transmission upgrade. FPLE believes that the CAISO should establish procedures to estimate that CRR value long before operation of the facility. The procedure could include a reimbursable study cost that would be forfeited if it should the project not move forward.
- (4) FPLE does not understand the consequences of the SFT in/out calculation as it applies to intertie transactions when the ISO uses an open network model. We ask that you confirm that the SFT solution devolves to the path or thermal limits of the intertie.
- (5) The draft suggests that the MT owner specify the point-to-point pairs that it believes to be impacted by the transmission addition. Rather, FPLE believes that the CAISO has both the data and the capability to identify the incremental benefits of the transmission upgrade. While trivial impacts can be ignored, the CAISO should report the universe of lines that are impacted by the transmission enhancements. The MT owner would then be allowed to select and submit for purposes of allocation, the non-trivial point-to-point pairs that are impacted.
- (6) FPLE does not understand the need to restrict the source and sink of MT upgrade CRR requests as proposed in 4.3

While not directly related to the allocation of CRRs, FPLE continues to believe that MT owners should also receive a proportional share of any wheeling revenues if the MT upgrade positively impacts the ability of the CAISO to export energy. Finally, FPLE also believes that congestion revenues that accrue above and beyond the capacity of awarded, feasible CRRs, should be proportionally split between the MT owner and TO.

Thanks again. Please direct any questions to Mark J Smith