



# Public Service Commission

## -M-E-M-O-R-A-N-D-U-M-

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**DATE:** April 3, 2001  
**TO:** Craig B. Hewitt, Economic Analyst, Division of Economic Regulation  
**FROM:** Mary Anne Helton, Senior Attorney, Division of Appeals *next*  
**RE:** Docket No. 001574-EQ - In re: Proposed amendments to Rule 25-17.0832, F.A.C., Firm Capacity and Energy Contracts

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The revised rulemaking request form and consensus draft concerning staff's amendments to Rule 25-17.0832, F.A.C., are attached. As we discussed at our last meeting, please prepare a Statement of Estimated Regulatory Costs by May 31, 2001.

cc: Bob Elias  
 Judy Harlow  
 Hurd Reeves  
 Records & Reporting (Docket File)

APP \_\_\_\_\_  
 CAF \_\_\_\_\_  
 CMP \_\_\_\_\_  
 COM \_\_\_\_\_  
 CTR \_\_\_\_\_  
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DOCUMENT NUMBER-DATE

04111 APR-30

FPSC-RECORDS/REPORTING

M E M O R A N D U M

March 28, 2001

TO: CHRISTIANA T. MOORE (RULES COORDINATOR, APPEALS)  
FROM: *RJ* ROLAND FLOYD (RULES COORDINATOR, DIVISION OF SAFETY AND  
ELECTRIC RELIABILITY)  
RE: RULEMAKING REQUEST *JQJ*

*Revised*

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1. **The following rule(s) should be (adopted/amended/repealed):**
    - A) Rule 25-17.0832(1)(a), Florida Administrative Code, requires investor-owned utilities to notify and provide certain information to the Director of the Division of Electric and Gas within one day of the execution of a negotiated contract or receipt of a standard offer contract with a qualifying facility. This rule should be updated to require notification to the Director of the Division of Safety and Reliability.
    - B) Rule 25-17.0832(4)(e)(7), Florida Administrative Code, requires a minimum term for a standard offer contract of ten years. This rule should be changed to reduce the minimum term for a standard offer contract to five years.
  2. **Name of person originating rules / other staff assigned:**  
Judy Harlow, SER
  3. **Other divisions affected:**  
N/A
  4. **Other rules affected:**  
N/A
  5. **a. What is the specific legal authority for the rule, i.e., what statute says you can adopt rules?**  
Chapters 350.127, 366.04(1), 366.051, 366.05(1), 366.05(1), 366.05(8), Florida Statutes  
**b. What law is being implemented, interpreted, or made specific?**  
Chapters 366.051 and 403.503, Florida Statutes
  6. **Summary of rules:**  
The rules require investor-owned utilities to file a tariff and a standard offer contract for the purchase of firm capacity and energy from specified types of small qualifying

facilities. The rules set forth the minimum specifications and acceptable pricing methodologies for standard offer contracts. Rule 25-17.0832(4)(e)(7), F.A.C., requires a ten year minimum contract term for standard offer contracts and a maximum term of the expected life of the avoided unit. The rule change would reduce the minimum contract term for standard offer contracts to five years.

**7. Are any forms or other material such as statutes or rules referenced in the rules?**

Rules 25-17.080(3), 25-17.091, 25-22.082(3), and 25-17.0825, F.A.C.

**8. Purpose and effect of the rule adoption/amendment/repeal:**

The rule change would reduce the minimum required term for standard offer contracts to five years. The minimum required term for a standard offer contract is currently ten years with a maximum term equal to the expected lifespan of the avoided generating unit. The Commission has recently received and approved several requests for rule waivers concerning the required standard offer term. The IOUs requested a reduction in the required standard offer contract term due to the uncertainty currently present in the electric market. This reduces the risk that ratepayers will be tied to a long-term contract which is above avoided cost. For example, during times of declining avoided cost, the proposed rule change will reduce the potential for ratepayers to be tied to a purchased power contract which is more expensive than alternative power sources. Maintaining the current maximum term equal to the expected lifespan of the avoided unit will provide the Commission with the flexibility to require longer term contracts in the future if avoided costs begin to increase. If avoided costs are increasing, it may be in the best interests of ratepayers to require longer term standard offer contracts.

**9. Facts and circumstances justifying rule:**

A high degree of uncertainty currently exists in the electric market due to recent regulatory changes, potential future regulatory changes, fuel price volatility and technological change. Given this uncertainty, reducing the minimum required term for standard offer contracts will decrease the potential for ratepayers to be tied to purchased power contracts which are priced higher than alternative power sources. Purchased power costs are passed directly to ratepayers through the Fuel and Purchased Power Cost Recovery clause. Therefore, the rule change will impact ratepayers by reducing the probability that they will pay higher purchased power costs under a standard offer contract than would have otherwise been paid in the open market.

10. **Will these rules affect small businesses as defined in Section 288.703(1)?**

Yes. Some small qualifying facilities as defined by Rule 25-17.0832(4)(a), F.A.C., may qualify as small businesses. The proposed rule change would reduce the minimum required term for a utility to purchase capacity and energy under a standard offer contract with such a facility to five years. However, these facilities would still have the opportunity to negotiate a contract with utilities.

11. **Identify the benefits that should result from the rule adoption/amendment/peal to:**

**a. utilities:** The proposed rule change will increase the planning flexibility for investor-owned utilities by providing the opportunity to issue standard offer contracts with shorter terms. Under periods of uncertainty, this will reduce the potential for utilities to be tied to a contract with excessive capacity and energy costs.

**b. ratepayers:** When avoided costs are declining, the proposed rule change will reduce the potential for ratepayers to pay excessive costs for capacity and energy under standard offer contracts. These costs are passed on to ratepayers through the Fuel and Purchased Power Cost Recovery clause.

**c. Commission staff:** No benefits are anticipated.

**d. small business:** When avoided costs are declining, the proposed rule change will reduce the potential for those ratepayers which are small businesses to pay excessive costs for power provided under standard offer contracts. These costs are passed on to ratepayers through the Fuel and Purchased Power Cost Recovery clause.

**e. state and local government entities, small counties (unincarcerated population of less than 75,000) and cities (unincarcerated population of less than 10,000):** The proposed rule change could potentially reduce the risk that state and local government entities which are retail ratepayers of the investor-owned utilities will pay excessive power costs under standard offer contracts. Likewise, the proposed rule change will reduce risk for small counties and cities which are wholesale customers of the investor-owned utilities.

**f. other parties directly affected:** N/A

12. Identify the number of individuals and entities affected and the types of costs associated with the rule adoption/amendment/pepeal:
- a. **utilities:** The proposed rule change will affect the five Florida investor-owned utilities. No implementation or other types of costs are expected.
  - b. **ratepayers:** No costs are anticipated.
  - c. **Commission staff:** No costs are anticipated.
  - d. **small business:** No costs are anticipated for small businesses in their role as ratepayers. However, as stated above, some small qualifying facilities may qualify as small businesses. The proposed rule change would reduce the minimum required term for a utility to purchase capacity and energy under a standard offer contract with such a facility to five years. This could potentially reduce the planning horizon for these facilities. However, these facilities would still have the opportunity to negotiate a contract with utilities.
  - e. **state and local government entities, small counties (unincarcerated population of less than 75,000) and cities (unincarcerated population of less than 10,000):** No costs are anticipated.
  - f. **other parties directly affected:** N/A
13. a. **Describe reasonable lower cost alternative methods for achieving the purpose of the rule, and explain why each alternative was rejected.**
- A possible alternative would be to remove the minimum term requirement on the standard offer contract rule. The term of each standard offer contract could then be administratively approved by staff. However, this could give utilities the incentive to request shorter minimum term requirements over time. This could potentially reduce the planning horizon for small qualifying facilities, increasing uncertainty over the viability of building these facilities. Staff believes a five year minimum term on standard offer contracts balances the interests of ratepayers without unduly discouraging the construction of small qualifying facilities.
- b. **What are the probable costs and benefits of not having this policy?**
- If the rule change is not adopted, ratepayers will be exposed to the unnecessary risk of excess capacity and energy costs during periods of declining avoided costs.

c. In order to reduce the impact on small businesses, small counties, and small cities, did staff consider the methods listed in Section 120.54(3)(b)2.a.(I) through (V)?

I. Could less stringent compliance or reporting requirements be implemented? N/A

II. Could there be less stringent schedules or deadlines for compliance or reporting requirements? N/A

III. Could the rule's compliance or reporting requirements be consolidated or simplified? N/A

IV. Could performance standards or best-management practices be established to replace design or operational standards in the rule? N/A

V. Could small businesses, small counties, or small cities be exempted from any or all requirements of the rule? N/A

14. To whom will the rule apply?

<input checked="" type="checkbox"/>	Electric IOUs	<input type="checkbox"/>	Local Exch.Telephone Cos.
<input type="checkbox"/>	Electric Coops	<input type="checkbox"/>	Interexch. Telephone Cos.
<input type="checkbox"/>	Electric Munis	<input type="checkbox"/>	Pay Telephone Cos.
<input type="checkbox"/>	Gas utilities	<input type="checkbox"/>	Shared Ten.Telephone Cos.
<input type="checkbox"/>	Wastewater Utilities	<input type="checkbox"/>	Alternative Access Vendors
<input type="checkbox"/>	Water Utilities	<input type="checkbox"/>	Other_____

15. Are there any federal standards or rules on the subject? If so, are these rules less restrictive, more restrictive, or substantively similar to the federal rules?

No.

16. Does this rule relate exclusively to the Commission's organization, procedure or practice?

No.

17. If emergency RULEMAKING is recommended, describe the specific facts and reasons why the Commission should find an immediate danger to the public health, safety, or welfare which requires emergency action.

N/A

18. Do you recommend a rule development workshop? If so, do you recommend the workshop be conducted by a neutral third person?

No.

19. Do you recommend negotiated rulemaking? If so, whom do you recommend to sit on the committee that negotiates the rule?  
No.

Attachments:

- Draft of the rules
- Copy of any forms or material referenced in the rules
- Copy of applicable federal standards
- Copy of any Commission orders that the rule is codifying or that are helpful in understanding the basis of the rule

WP file location and name:

I:\PSC\\_\_\_\_\_\WP\\_\_\_\_\_.

xc: Mary Bane  
Chuck Hill  
Noreen Davis  
Joe Jenkins

1 25-17.0832 Firm Capacity and Energy Contracts.

2 (1) Firm capacity and energy are capacity and energy produced  
3 and sold by a qualifying facility and purchased by a utility  
4 pursuant to a negotiated contract or a standard offer contract  
5 subject to certain contractual provisions as to the quantity, time,  
6 and reliability of delivery.

7 (a) Within one working day of the execution of a negotiated  
8 contract or the receipt of a signed standard offer contract, the  
9 utility shall notify the Director of the Division of Safety  
10 ~~Electric~~ and Electric Reliability Gas and provide the amount of  
11 committed capacity and the type of generating unit, if any, which  
12 the contracted capacity is intended to avoid or defer.

13 (b) Within 10 working days of the execution of a negotiated  
14 contract or receipt of a signed standard offer contract for the  
15 purchase of firm capacity and energy, the purchasing utility shall  
16 file with the Commission a copy of the signed contract and a  
17 summary of its terms and conditions. At a minimum, the summary  
18 shall include report:

- 19 1. The name of the utility and the owner and operator  
20 of the qualifying facility, who are signatories of  
21 the contract;
- 22 2. The amount of committed capacity specified in the  
23 contract, the size of the facility, the type of  
24 facility, its location, and its interconnection and  
25 transmission requirements;

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- 1 3. The amount of annual and on-peak and off-peak
- 2 energy expected to be delivered to the utility;
- 3 4. The type of unit being avoided, its size, and its
- 4 in-service year;
- 5 5. The in-service date of the qualifying facility; and
- 6 6. The date by which the delivery of firm capacity and
- 7 energy is expected to commence.

8 (2) Negotiated Contracts. Utilities and qualifying  
9 facilities are encouraged to negotiate contracts for the purchase  
10 of firm capacity and energy to avoid or defer the construction of  
11 all planned utility generating units which are not subject to the  
12 requirements of Rule 25-22.082. If a utility is required to issue  
13 a Request for Proposals (RFP) pursuant to Rule 25-22.082,  
14 negotiations with qualifying facilities shall be governed by the  
15 utility's RFP process. Negotiated contracts will be considered  
16 prudent for cost recovery purposes if it is demonstrated by the  
17 utility that the purchase of firm capacity and energy from the  
18 qualifying facility pursuant to the rates, terms, and other  
19 conditions of the contract can reasonably be expected to contribute  
20 towards the deferral or avoidance of additional capacity  
21 construction or other capacity-related costs by the purchasing  
22 utility at a cost to the utility's ratepayers which does not exceed  
23 full avoided costs, giving consideration to the characteristics of  
24 the capacity and energy to be delivered by the qualifying facility  
25 under the contract. Negotiated contracts shall not be counted

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1 | towards the subscription limit of the avoided unit in a standard  
2 | offer contract, thus preserving the standard offer for small  
3 | qualifying facilities as described in subsection (4).

4 | (3) Cost Recovery for Negotiated Contracts. In reviewing  
5 | negotiated firm capacity and energy contracts for the purpose of  
6 | cost recovery, the Commission shall consider factors relating to  
7 | the contract that would impact the utility's general body of retail  
8 | and wholesale customers including:

9 | (a) Whether additional firm capacity and energy is needed by  
10 | the purchasing utility and by Florida utilities from a statewide  
11 | perspective;

12 | (b) Whether the cumulative present worth of firm capacity and  
13 | energy payments made to the qualifying facility over the term of  
14 | the contract are projected to be no greater than:

15 | 1. The cumulative present worth of the value of a  
16 | year-by-year deferral of the construction and  
17 | operation of generation or parts thereof by the  
18 | purchasing utility over the term of the contract,  
19 | calculated in accordance with subsection (5) and  
20 | paragraph (6)(a) of this rule, provided that the  
21 | contract is designed to contribute towards the  
22 | deferral or avoidance of such capacity; or

23 | 2. The cumulative present worth of other capacity and  
24 | energy related costs that the contract is designed  
25 | to avoid such as fuel, operation, and maintenance

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1 expenses or alternative purchases of capacity,  
2 provided that the contract is designed to avoid  
3 such costs;

4 (c) To the extent that annual firm capacity and energy  
5 payments made to the qualifying facility in any year exceed that  
6 year's annual value of deferring the construction and operation of  
7 generation by the purchasing utility or other capacity and energy  
8 related costs, whether the contract contains provisions to ensure  
9 repayment of such payments exceeding that year's value of deferring  
10 that capacity in the event that the qualifying facility fails to  
11 deliver firm capacity and energy pursuant to the terms and  
12 conditions of the contract, provided, however, that provisions to  
13 ensure repayment may be based on forecasted data; and

14 (d) Considering the technical reliability, viability, and  
15 financial stability of the qualifying facility, whether the  
16 contract contains provisions to protect the purchasing utility's  
17 ratepayers in the event the qualifying facility fails to deliver  
18 firm capacity and energy in the amount and times specified in the  
19 contract.

20 (4) Standard Offer Contracts.

21 (a) Upon petition by a utility or pursuant to a Commission  
22 action, each public utility shall submit for Commission approval a  
23 tariff or tariffs and a standard offer contract or contracts for  
24 the purchase of firm capacity and energy from small qualifying  
25 facilities. In lieu of a separately ~~seperately~~ negotiated

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1 contract, standard offer contracts are available to the following  
2 types of qualifying facilities:

- 3 1. A small power producer or other qualifying facility  
4 using renewable or non-fossil fuel where the  
5 primary energy source in British Thermal Units  
6 (BTUs) is at least 75 percent biomass, waste, solar  
7 or other renewable resource;
- 8 2. A qualifying facility, as defined by Rule 25-  
9 17.080(3), with a design capacity of 100 kW or  
10 less; or
- 11 3. A municipal solid waste facility as defined by Rule  
12 25-17.091.

13 (b) The rates, terms, and other conditions contained in each  
14 utility's standard offer contract or contracts shall be based on  
15 the need for and equal to the avoided cost of deferring or avoiding  
16 the construction of additional generation capacity or parts thereof  
17 by the purchasing utility. Rates for payment of capacity sold by  
18 a qualifying facility shall be specified in the contract for the  
19 duration of the contract. In reviewing a utility's standard offer  
20 contract or contracts, the Commission shall consider the criteria  
21 specified in paragraphs (3)(a) through (3)(d) of this rule, as well  
22 as any other information relating to the determination of the  
23 utility's full avoided costs.

24 (c) The utility shall evaluate, select, and enter into  
25 standard offer contracts with eligible qualifying facilities based

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1 on the benefits to the ratepayers. Within 60 days of receipt of a  
2 signed standard offer contract, the utility shall either:

- 3 1. Accept and sign the contract and return it within  
4 five days to the qualifying facility; or
- 5 2. Petition the Commission not to accept the contract  
6 and provide justification for the refusal. Such  
7 petitions may be based on:

- 8 a. A reasonable allegation by the utility  
9 that acceptance of the standard offer  
10 will exceed the subscription limit of the  
11 avoided unit or units; or

- 12 b. Material evidence showing that because  
13 the qualifying facility is not  
14 financially or technically viable, it is  
15 unlikely that the committed capacity and  
16 energy would be made available to the  
17 utility by the date specified in the  
18 standard offer.

19 (d) A standard offer contract which has been accepted by a  
20 qualifying facility shall apply towards the subscription limit of  
21 the unit designated in the contract effective the date the utility  
22 receives the accepted contract. If the contract is not accepted by  
23 the utility, its effect shall be removed from the subscription  
24 limit effective the date of the Commission order granting the  
25 utility's petition.

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1 (e) Minimum Specifications. Each standard offer contract  
2 shall, at minimum, specify:

- 3 1. The avoided unit or units on which the contract is  
4 based;
- 5 2. The total amount of committed capacity, in  
6 megawatts, needed to fully subscribe the avoided  
7 unit specified in the contract;
- 8 3. The payment options available to the qualifying  
9 facility including all financial and economic  
10 assumptions necessary to calculate the firm  
11 capacity payments available under each payment  
12 option and an illustrative calculation of firm  
13 capacity payments for a minimum five ~~ten~~ year term  
14 contract commencing with the in-service date of the  
15 avoided unit for each payment option;
- 16 4. The date on which the standard contract offer  
17 expires;
- 18 5. A reasonable open solicitation period during which  
19 time the utility will accept proposals for standard  
20 offer contracts. Prior to the issuance of timely  
21 notice of a Request for Proposals (RFP) pursuant to  
22 Rule 25-22.082(3), the utility shall end the open  
23 solicitation period;
- 24 6. The date by which firm capacity and energy  
25 deliveries from the qualifying facility to the

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1 utility shall commence. This date shall be no  
2 later than the anticipated in-service date of the  
3 avoided unit specified in the contract;

4 7. The period of time over which firm capacity and  
5 energy shall be delivered from the qualifying  
6 facility to the utility. Firm capacity and energy  
7 shall be delivered, at a minimum, for a period of  
8 five ~~ten~~ years, commencing with the anticipated in-  
9 service date of the avoided unit specified in the  
10 contract. At a maximum, firm capacity and energy  
11 shall be delivered for a period of time equal to  
12 the anticipated plant life of the avoided unit,  
13 commencing with the anticipated in-service date of  
14 the avoided unit;

15 8. The minimum performance standards for the delivery  
16 of firm capacity and energy by the qualifying  
17 facility during the utility's daily seasonal peak  
18 and off-peak periods. These performance standards  
19 shall approximate the anticipated peak and off-peak  
20 availability and capacity factor of the utility's  
21 avoided unit over the term of the contract;

22 9. The description of the proposed facility including  
23 the location, steam host, generation technology,  
24 and fuel sources;

25 10. Provisions to ensure repayment of payments to the

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1 extent that annual firm capacity and energy  
2 payments made to the qualifying facility in any  
3 year exceed that year's annual value of deferring  
4 the avoided unit specified in the contract in the  
5 event that the qualifying facility fails to perform  
6 pursuant to the terms and conditions of the  
7 contract. Such provisions may be in the form of a  
8 surety bond or equivalent assurance of repayment of  
9 payments exceeding the year-by-year value of  
10 deferring the avoided unit specified in the  
11 contract.

12 (f) The utility may include the following provisions:

- 13 1. Provisions to protect the purchasing utility's  
14 ratepayers in the event the qualifying facility  
15 fails to deliver firm capacity and energy in the  
16 amount and times specified in the contract which  
17 may be in the form of an up-front payment, surety  
18 bond, or equivalent assurance of payment. Payment  
19 or surety shall be refunded upon completion of the  
20 facility and demonstration that the facility can  
21 deliver the amount of capacity and energy specified  
22 in the contract; and
- 23 2. A listing of the parameters, including any impact  
24 on electric power transfer capability, associated  
25 with the qualifying facility as compared to the

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1                   avoided unit necessary for the calculation of the  
2                   avoided cost.

- 3                   3. Provisions that allow for revisions to the contract  
4                   based upon changes to the purchasing utility's  
5                   avoided costs.

6                   (g) Firm Capacity Payment Options. Each standard offer  
7 contract shall also contain, at a minimum, the following options  
8 for the payment of firm capacity delivered by the qualifying  
9 facility:

- 10                   1. Value of deferral capacity payments. Value of  
11                   deferral capacity payments shall commence on the  
12                   anticipated in-service date of the avoided unit.  
13                   Capacity payments under this option shall consist  
14                   of monthly payments escalating annually of the  
15                   avoided capital and fixed operation and maintenance  
16                   expense associated with the avoided unit and shall  
17                   be equal to the value of a year-by-year deferral of  
18                   the avoided unit, calculated in accordance with  
19                   paragraph (6)(a) of this rule.

- 20                   2. Early capacity payments. Each standard offer  
21                   contract shall specify the earliest date prior to  
22                   the anticipated in-service date of the avoided unit  
23                   when early capacity payments may commence. The  
24                   early capacity payment date shall be an  
25                   approximation of the lead time required to site and

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1           construct the avoided unit.    Early capacity  
2           payments shall consist of monthly payments  
3           escalating annually of the avoided capital and  
4           fixed operation and maintenance expense associated  
5           with the avoided unit, calculated in conformance  
6           with paragraph (6)(b) of the rule.  At the option  
7           of the qualifying facility, early capacity payments  
8           may commence at any time after the specified early  
9           capacity payment date and before the anticipated  
10          in-service date of the avoided unit provided that  
11          the qualifying facility is delivering firm capacity  
12          and energy to the utility.  Where early capacity  
13          payments are elected, the cumulative present value  
14          of the capacity payments made to the qualifying  
15          facility over the term of the contract shall not  
16          exceed the cumulative present value of the capacity  
17          payments which would have been made to the  
18          qualifying facility had such payments been made  
19          pursuant to subparagraph (4)(g)1. of this rule.

- 20           3.   Levelized capacity payments.  Levelized capacity  
21           payments shall commence on the anticipated in-  
22           service date of the avoided unit.  The capital  
23           portion of capacity payments under this option  
24           shall consist of equal monthly payments over the  
25           term of the contract, calculated in conformance

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1 with paragraph (6)(c) of this rule. The fixed  
2 operation and maintenance portion of capacity  
3 payments shall be equal to the value of the year-  
4 by-year deferral of fixed operation and maintenance  
5 expense associated with the avoided unit calculated  
6 in conformance with paragraph (6)(a) of this rule.  
7 Where levelized capacity payments are elected, the  
8 cumulative present value of the levelized capacity  
9 payments made to the qualifying facility over the  
10 term of the contract shall not exceed the  
11 cumulative present value of capacity payments which  
12 would have been made to the qualifying facility had  
13 such payments been made pursuant to subparagraph  
14 (4)(g)1. of this rule, value of deferral capacity  
15 payments.

- 16 4. Early levelized capacity payments. Each standard  
17 offer contract shall specify the earliest date  
18 prior to the anticipated in-service date of the  
19 avoided unit when early levelized capacity payments  
20 may commence. The early capacity payment date  
21 shall be an approximation of the lead time required  
22 to site and construct the avoided unit. The  
23 capital portion of capacity payments under this  
24 option shall consist of equal monthly payments over  
25 the term of the contract, calculated in conformance

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1 with paragraph (6)(c) of this rule. The fixed  
2 operation and maintenance expense shall be  
3 calculated in conformance with paragraph (6)(b) of  
4 this rule. At the option of the qualifying  
5 facility, early levelized capacity payments shall  
6 commence at any time after the specified early  
7 capacity date and before the anticipated in-service  
8 date of the avoided unit provided that the  
9 qualifying facility is delivering firm capacity and  
10 energy to the utility. Where early levelized  
11 capacity payments are elected, the cumulative  
12 present value of the capacity payments made to the  
13 qualifying facility over the term of the contract  
14 shall not exceed the cumulative present value of  
15 the capacity payments which would have been made to  
16 the qualifying facility had such payments been made  
17 pursuant to subparagraph (4)(g)1. of this rule.

18 (5) Avoided Energy Payments for Standard Offer Contracts.

19 (a) For the purpose of this rule, avoided energy costs  
20 associated with firm energy sold to a utility by a qualifying  
21 facility pursuant to a utility's standard offer contract shall  
22 commence with the in-service date of the avoided unit specified in  
23 the contract. Prior to the in-service date of the avoided unit,  
24 the qualifying facility may sell as-available energy to any utility  
25 pursuant to Rule 25-17.0825.

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1 (b) To the extent that the avoided unit would have been  
2 operated, had that unit been installed, avoided energy costs  
3 associated with firm energy shall be the energy cost of this unit.  
4 To the extent that the avoided unit would not have been operated,  
5 the avoided energy costs shall be the as-available avoided energy  
6 cost of the purchasing utility. During the periods that the  
7 avoided unit would not have been operated, firm energy purchased  
8 from qualifying facilities shall be treated as as-available energy  
9 for the purposes of determining the megawatt block size in Rule 25-  
10 17.0825(2) (a).

11 (c) The energy cost of the avoided unit specified in the  
12 contract shall be defined as the cost of fuel, in cents per  
13 kilowatt-hour, which would have been burned at the avoided unit  
14 plus variable operation and maintenance expense plus avoided line  
15 losses. The cost of fuel shall be calculated as the average market  
16 price of fuel, in cents per million Btu, associated with the  
17 avoided unit multiplied by the average heat rate associated with  
18 the avoided unit. The variable operating and maintenance expense  
19 shall be estimated based on the unit fuel type and technology of  
20 the avoided unit.

21 (6) Calculation of standard offer contract firm capacity  
22 payment options.

23 (a) Calculation of year-by-year value of deferral. The year-  
24 by-year value of deferral of an avoided unit shall be the  
25 difference in revenue requirements associated with deferring the

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1 | avoided unit one year and shall be calculated as follows:

2 | 
$$\underline{VAC_n = 1/12 [KI_n(1-R)/(1-R^L) + O_n]}$$

3 | Where, for a one year deferral:

4 |  $VAC_n$  = utility's monthly value of avoided capacity, in  
5 | dollars per kilowatt per month, for each month of  
6 | year n;

7 |  $K$  = present value of carrying charges for one dollar of  
8 | investment over  $L$  years with carrying charges  
9 | computed using average annual rate base and assumed  
10 | to be paid at the middle of each year and present  
11 | value to the middle of the first year;

12 |  $R$  =  $(1+ip)/(1+r)$ ;

13 |  $I_n$  = total direct and indirect cost, in mid-year dollars  
14 | per kilowatt including AFUDC but excluding CWIP, of  
15 | the avoided unit with an in-service date of year n,  
16 | including all identifiable and quantifiable costs  
17 | relating to the construction of the avoided unit  
18 | that would have been paid had the avoided unit been  
19 | constructed;

20 |  $O_n$  = total fixed operation and maintenance expense for  
21 | the year n, in mid-year dollars per kilowatt per  
22 | year, of the avoided unit;

23 |  $i_p$  = annual escalation rate associated with the plant  
24 | cost of the avoided unit(s);

25 |  $i_o$  = annual escalation rate associated with the

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1 operation and maintenance expense of the avoided  
 2 unit(s);  
 3 r = annual discount rate, defined as the utility's  
 4 incremental after tax cost of capital;  
 5 L = expected life of the avoided unit; and  
 6 n = year for which the avoided unit is deferred  
 7 starting with its original anticipated in-service  
 8 date and ending with the termination of the  
 9 contract for the purchase of firm energy and  
 10 capacity.

11 (b) Calculation of early capacity payments. Monthly early  
 12 capacity payments shall be calculated as follows:

13 
$$A_m = [A_c (1 + ip)^{(m-1)} + A_o (1 + io)^{(m-1)}] / 12 \quad \text{for } m=1 \text{ to } t$$

14 Where:  $A_m$  = monthly early capacity payments to be made to  
 15 the qualifying facility for each month of the  
 16 contract year n, in dollars per kilowatt per month;

17  $i_p$  = annual escalation rate associated with the plant  
 18 cost of the avoided unit;

19  $i_o$  = annual escalation rate associated with the  
 20 operation and maintenance expense of the avoided  
 21 unit(s);

22 m = year for which early capacity payments to a  
 23 qualifying facility are made, starting in year  
 24 one and ending in the year t;

25 t = the term, in years, of the contract for the

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1 purchase of firm capacity;

$$2 \quad \underline{A_c = F[(1-R)/(1-R^t)]}$$

3 Where: F = the cumulative present value in the year that  
4 the contractual payments will begin, of the  
5 avoided capital cost component of capacity  
6 payments which would have been made had  
7 capacity payments commenced with the  
8 anticipated in-service date of the avoided  
9 unit(s);

$$10 \quad R = (1+ip)/(1+r); \text{ and}$$

11 r = annual discount rate, defined as the  
12 utility's incremental after tax cost of  
13 capital; and

$$14 \quad A_o = G[(1-R)(1-R^t)]$$

15 Where: G = The cumulative present value in the year that the  
16 contractual payments will begin, of the avoided  
17 fixed operation and maintenance expense component  
18 of capacity payments which would have been made had  
19 capacity payments commenced with the anticipated  
20 in-service date of the avoided unit; and

$$21 \quad R = (1+io)/(1+r).$$

22 (c) Levelized and early levelized capacity payments. Monthly  
23 levelized and early levelized capacity payments shall be calculated  
24 as follows:

$$25 \quad P_L = F/12\{r/[1-(1+r)^{-t}]\} + 0$$

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1 | Where:  $P_L$  = the monthly levelized capacity payment,  
 2 | starting on or prior to the in-service date of  
 3 | the avoided unit;  
 4 |  $F$  = the cumulative present value, in the year that  
 5 | the contractual payments will begin, of the  
 6 | avoided capital cost component of the capacity  
 7 | payments which would have been made had the  
 8 | capacity payments not been levelized;  
 9 |  $r$  = the annual discount rate, defined as the  
 10 | utility's incremental after tax cost of  
 11 | capital; and  
 12 |  $t$  = the term, in years, of the contract for the  
 13 | purchase of firm capacity.  
 14 |  $O$  = the monthly fixed operation and maintenance  
 15 | component of the capacity payments, calculated  
 16 | in accordance with paragraph (5)(a) for  
 17 | levelized capacity payments or with paragraph  
 18 | (5)(b) for early levelized capacity payments.

19 | (7) Upon request by a qualifying facility or any interested  
 20 | person, each utility shall provide within 30 days its most current  
 21 | projections of its future generation mix including type and timing  
 22 | of anticipated generation additions, and at least a 20-year  
 23 | projection of fuel forecasts, as well as any other information  
 24 | reasonably required by the qualifying facility to project future  
 25 | avoided cost prices. The utility may charge an appropriate fee,

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1 not to exceed the actual cost of production and copying, for  
2 providing such information.

3 (8) (a) Firm energy and capacity payments made to a  
4 qualifying facility pursuant to a separately negotiated contract  
5 shall be recoverable by a utility through the Commission's periodic  
6 review of fuel and purchased power costs if the contract is found  
7 to be prudent in accordance with subsection (2) of this rule.

8 (b) Upon acceptance of the contract by both parties, firm  
9 energy and capacity payments made to a qualifying facility pursuant  
10 to a standard offer contract shall be recoverable by a utility  
11 through the Commission's periodic review of fuel and purchased  
12 power costs.

13 (c) Firm energy and capacity payments made pursuant to a  
14 standard offer contract signed by the qualifying facility, for  
15 which the utility has petitioned the Commission to reject, is  
16 recoverable through the Commission's periodic review of fuel and  
17 purchased power costs if the Commission requires the utility to  
18 accept the contract because it satisfies subsection (4) of this  
19 rule.

20 Specific Authority: 350.127, 366.04(1), 366.051, 366.05(1) & (8),  
21 F.S.

22 Law Implemented: 366.051, 403.503, F.S.

23 History: New 10/25/90, amended 01/07/97, amended \_\_\_\_\_.

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