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March 28, 2002

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

Dear Ms. Bayo:

RE: Docket No. 001574-EQ

Enclosed are an original and fifteen copies of Gulf Power Company's Response to Comments/Testimony filed on March 1, 2002 in the above referenced docket.

Sincerely,

Susan D. Ritenour (lw)

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosure

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

DOCUMENT NUMBER-DATE

03674 APR-18

FPSC-COMMISSION CLERK

RESPONSE TO COMMENTS/TESTIMONY
FILED ON MARCH 1, 2002
DOCKET No. 001574-EQ

In general, there were two distinct actions taken on March 1, 2002 that relate to the instant docket and revisions to rule 25-17.0832, F.A.C. First, there was testimony (comments) filed with regard to the previously proposed rule language that had been discussed by the parties in earlier workshops in Docket No. 001574-EQ. Second in Docket No. 020166-EQ, there was a petition to initiate a rule development proceeding on newly submitted (not previously discussed) language and a motion to consolidate these two rule revision efforts. Gulf's comments are in response to comments and testimony that address both versions of the proposed rule amendments.

A. Response to comments on rule amendments proposed in Docket No. 001574-EQ

The primary amendment to Rule 25-17.0832 proposed in Docket No. 001574-EQ, is to change the minimum term of standard offer contract from ten to five years. Standard offer contracts are open offers from the utilities to pay any qualifying entity for their power with the goal that the utility's generating capacity may be deferred to the benefit of its customers. With standard offer contracts, the ratepayers bear the risk that they will pay higher rates for energy and capacity supplied by Qualifying Facilities (QF) pursuant to standard offers than might otherwise be available in the market. The Commission staff has stated that the five year minimum term balances the interests of the ratepayers without unduly discouraging the construction of QFs. Gulf agrees with witnesses Bruner and Salmon that the existing rules are adequate and work well, however, Gulf does support Staff's proposed changes as they appear to enhance an already effective rule. Lowering the minimum term of a standard offer contract to five years should reduce the risk to the customers of having a utility locked into high cost energy or capacity at times when energy or capacity are available at lower prices. Staff's belief that there is value in allowing for shorter contract terms at a time when markets are changing is valid. Gulf supports the rule amendments proposed by Staff in Docket No. 001574-EQ.

Gulf disagrees with several of the comments from the City of Tampa's witness Salmon and the Solid Waste Authority of Palm Beach County's witness Bruner. They both contend that the proposed rule revisions fail to make the Standard Offer Contracts a "safe harbor" or "fail safe" instrument that they could fall back on in the event that a utility chose to negotiate unreasonably for its firm capacity and energy. Gulf believes that the market is the main driver for setting purchase power prices and that it is the utility's charge by the Commission to pursue the best, most cost-effective arrangement for its customers. Rule revisions that would make standard offer contracts "Safe Harbors" would, in many instances, require utility customers to pay more for electricity than the utility's full avoided cost. Mr. Seidman points out that the "value of deferral" methodology was chosen because it protects the customers from paying too much for the capacity purchased from QFs and small

power producers. Gulf believes that this was and continues to be a sound policy decision.

Mr. Seidman, commenting on behalf of the City of Tampa, clearly opposes reducing the minimum standard offer contract term to five years. Mr. Seidman appears to take the position that by reducing the minimum term in standard offer contracts to five years, the QF would “not have the option to contract for longer than five years.” Contrary to Mr. Seidman’s contention, having a “minimum” contract period for standard offer contracts, in no way, prohibits the QF from pursuing a longer term agreement with the utility through a separately negotiated contract. There can be value in a long-term commitment for the purchase of power from any entity provided that there is an appropriate balance between the price and risks going forward. The Commission has always supported the ability for QFs and small power producers to enter into negotiated contracts that could better meet the needs and desires of both the utility and the non-utility generator. Negotiated contracts could be sought to better match the long-term aspects of both the QFs commitment and the utility’s value of deferring the need to construct additional generating capacity.

B. Comments on Lee County, Miami-Dade County and Montenay-Dade, Ltd. proposed rule amendments

A petition to initiate rule development was filed in Docket No. 020166-EQ. That docket has been consolidated with Docket No. 001574-EQ. The petition filed in Docket No. 020166-EQ contained proposed rule amendments to Rule 25-17.0832. These newly proposed amendments have not been discussed by the parties in the rule development process. Gulf urges the Commission to postpone the May 15 hearing and schedule additional workshops to further discuss and gain a better understanding of the newly proposed rule amendments. Based on the limited information that Gulf has regarding these new amendments, Gulf has several comments on these newly proposed revisions.

The newly proposed amendments appear to require utilities to pay QFs “rates equal to the costs that would be borne by the utility’s general body of ratepayers if the utility were to build its avoided unit or purchase capacity” from another source. No method or definition is provided in the revision to provide guidance on how to calculate and determine exactly what customers will pay. Gulf believes that before this concept is to be adopted, this issue must be discussed and possible solutions fully evaluated to insure that the electric customers of the State do not pay too much for QF power.

The newly proposed rule language also proposes a “risk management and fuel hedging” provision that would lock in the price of 20% of the energy price from a QF based on projected operation of the avoided unit. It appears that this would subject a utility’s customer to having to pay the QF for the projected amount of energy at the fixed price even if the utility would have used it under the given economic conditions

and the utility's need for energy or capacity. This proposed change could result in the retail electric customers of Florida paying too much for QF power.

Further information and discussion regarding these newly proposed rule revisions is necessary for the parties to more fully understand the potential impacts that these proposed changes would have on the ratepayers in Florida.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Proposed amendments to)
Rule 15-17.0832, F.A.C., Firm Capacity)
and Energy Contracts)
_____)

Docket No. 001574-EQ

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 28th day of March 2002 on the following:

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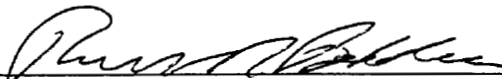
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