State of Florida

Public Service Commission

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DATE: AUGUST 22, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (HAFF, SICKEL) OFFICE OF THE GENERAL COUNSEL (BRUBAKER)

RE: DOCKET NO. 020558-EQ - PETITION BY FLORIDA POWER CORPORATION FOR APPROVAL OF NEGOTIATED QUALIFYING FACILITY CONTRACT WITH TIMBER ENERGY RESOURCES, INC.

AGENDA: 09/03/02 - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020558.RCM

CASE BACKGROUND

On June 21, 2002, Florida Power Corporation (FPC) filed a petition seeking approval of a negotiated contract to purchase firm capacity and energy from Timber Energy Resources, Inc. (Timber). Timber owns a generating facility (Facility) in Liberty County with a net output of 12.5 MW. The Facility is interconnected to FPC's system and provided firm capacity and energy to FPC under a previous negotiated cogeneration contract which expired on April 30, 2002.

Timber's Facility is a "small power producer" pursuant to Federal Energy Regulatory Commission (FERC) regulations because the Facility uses wood waste and paper products as a primary fuel. Due to its "small power producer" status, the Facility is also a "qualifying facility" (QF) under FERC regulations.

Pursuant to the negotiated contract, FPC began receiving capacity and energy from Timber on June 1, 2002. The scheduled termination date of the contract is September 30, 2004, although the contract may be extended, by mutual agreement, up to two additional years.

This recommendation addresses FPC's petition for approval of the negotiated contract with Timber. The Commission has jurisdiction in this matter pursuant to Section 366.051, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power Corporation's petition for approval of a negotiated contract for firm capacity and energy from Timber Energy Resources, Inc.?

RECOMMENDATION: Yes. Staff recommends that the negotiated contract should be approved. (Haff, Sickel)

STAFF ANALYSIS: Section 25-17.082, Florida Administrative Code, requires electric utilities to purchase electricity produced and sold by QFs at rates which have been agreed upon by the utility and QF or at the utility's published tariff rate, whichever is less.

FPC began receiving capacity and energy from Timber on June 1, 2002. Staff recommends that FPC be permitted to recover only those costs incurred starting on the date of the Commission's vote. FPC should recover these costs, on a going-forward basis, through the Fuel and Purchased Power Cost Recovery Clause and the Capacity Cost Recovery Clause.

Section 25-17.0832(3), Florida Administrative Code, states that in reviewing a negotiated firm capacity and energy contract for purposes of cost recovery, the Commission shall consider the utility's need for power, the cost-effectiveness of the contract, security provisions for capacity payments, and QF performance guarantees. Each of these factors is evaluated below.

a. **Need for Power**

The additional 12.5 MW of firm capacity and energy sold by Timber to FPC pursuant to the negotiated contract will not defer or avoid the construction of any new generating capacity by FPC. The contract is short-term, with a scheduled termination date of September 30, 2004. The avoided unit identified in FPC's current standard offer contract is Hines Unit 3, with a net capacity of approximately 530 MW and an in-service date of November, 2005.

However, it has been the Commission's policy to approve facilities, such as Timber's, that use renewable resources as a primary fuel. Rule 25-17.001(5)(d), Florida Administrative Code, encourages electric utilities to:

> . . . aggressively integrate nontraditional sources of power generation including cogenerators with high thermal efficiency and small power producers using renewable fuels into the various utility service areas near utility load centers to the extent cost-effective and reliable.

The negotiated contract meets the goals of Rule 25-17.001(5)(d), Florida Administrative Code.

b. **Cost-Effectiveness**

Over the 28-month term of the negotiated contract, capacity and energy payments to Timber are expected to result in net present value savings of $634,868 to FPC's ratepayers. The early capacity and energy payment option contained in FPC's current standard offer contract, based on Hines Unit 3, was used for comparison because Timber will provide capacity in advance of the in-service date of Hines Unit 3. Both the Timber contract and FPC's avoided unit were modeled at a committed capacity of 12.5 MW at an 85% capacity factor to calculate the $634,868 in forecasted savings.

c. **Security for Capacity Payments**

Certain existing cogeneration contracts have "front-loaded" capacity payments; that is, capacity payments made by a utility to a QF may exceed the utility's avoided cost in a given year but not over the term of the contract. In these instances, Rule 25-17.0832(3)(c), Florida Administrative Code, requires the QF to post some form of security to repay the utility for dollars exceeding avoided cost in the event of QF default.

FPC's negotiated contract with Timber does not contain front-loaded capacity payments, so no form of security is required. FPC's capacity and energy payments to Timber, both on an annual and cumulative basis, are expected to be less than the value of early capacity payments under FPC's standard offer contract.

d. **Performance Guarantees**

FPC's negotiated contract with Timber contains provisions to protect FPC's ratepayers if Timber fails to deliver firm capacity and energy as specified by the contract. Under the performance provisions of the contract, the Facility must operate at a 12-month rolling average monthly capacity factor of at least 85% in order for Timber to receive a full capacity payment. FPC will reduce the capacity payment due to Timber in proportion to any reduction in the Facility's capacity factor. FPC will make no capacity payment in the event that the Facility's 12-month rolling average monthly capacity factor falls below 60%.

In conclusion, the negotiated contract between FPC and Timber provides FPC with a viable source of electric capacity and energy that meets all requirements and rules governing QFs and small power producers. For these reasons, staff recommends that the negotiated contract should be approved.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Brubaker)

STAFF ANALYSIS: If no timely protest to the proposed agency action is filed within 21 days, this docket should be closed upon the issuance of the Consummating Order.