

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition for approval of)	DOCKET NO. 890915-EQ
cogeneration contract between Florida)	
Power Corporation and General Peat)	ORDER NO. 22473
Resources, L.P.)	
_____)	ISSUED: 1-25-90

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING COGENERATION AGREEMENTS

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On November 30, 1988, Florida Power Corporation (FPC) and General Peat Resources L.P. (General Peat) executed two negotiated contracts for the sale of 104 MW of cogenerated power from General Peat's Units 2 and 3 which are located near Lake Placid, Florida. These contracts were submitted to the Commission for approval on July 17, 1989. On July 6, 1989, FPC petitioned this body for permission to close its standard offer associated with the 500 MW 1995 statewide avoided coal unit on the grounds that it had been fully subscribed. In Order No. 22061, issued on October 17, 1989, we granted FPC's petition and found that the two General Peat contracts

DOCUMENT NUMBER-DATE
 00765 JAN 25 1990
 FPSC-RECORDS/REPORTING

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 2

discussed above were beyond the 500 MW subscription limit and would have to be evaluated against the next approved statewide avoided unit.

On September 6, 1989, FPC and General Peat filed a joint petition to defer our consideration of the two contracts until after we selected the next statewide avoided unit. The request was granted by Order No. 21924, issued on September 20, 1989, conditioned upon FPC filing the necessary data demonstrating that the General Peat contracts complied with Rule 25-17.083, Florida Administrative Code, within 30 days of the date of the vote on a new statewide avoided unit. Pursuant to Order No. 21924, FPC filed the necessary data on November 15, 1989.

At the agenda in which we selected the current statewide avoided unit, a 385 MW 1993 combined cycle unit, we deferred the issues associated with the implementation of subscription and allocation until a hearing could be held on those issues. In response to that decision, on December 20, 1989, FPC filed a motion for expedited approval of these General Peat contracts requesting that the contracts be approved and that the issue of what, if any, statewide avoided unit these contracts would be subscribed/allocated against be determined at a later date. In support of its position, FPC argues that the subscription and allocation issues may take considerable time to resolve. Further, FPC states that cogeneration facility financing is contingent upon having an approved cogeneration power sales agreement in hand. That being the case, any additional delay would place the economic viability of General Peat's project in jeopardy. We are persuaded by FPC's arguments and will address the suitability of the two contracts while reserving ruling on their impact on either FPC's subscription or allocation amounts.

The General Peat contracts begin with the initial delivery of committed capacity in 1995 and end at 12:00 midnight, December 31, 2024. A summary of the terms and conditions of the two negotiated contracts, which vary from the terms and conditions in FPC's statewide standard offer, are as follows:

- a. The contracts provide for 104 MW of capacity

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 3

(52 MW per unit) at an overall capacity factor of 70% in addition to an on-peak capacity factor of 75%. The standard offer contract does not require a minimum on-peak capacity factor.

- b. The contracts provide for General Peat to receive larger capacity payments from FPC in the early years and smaller payments near the end of the contract. This provision was included in the contract to assist the QF in paying off its debts associated with the construction of the generating facility. The present value of this front-loaded payment stream during the life of the contract is higher than the present value of the capacity payments in the standard offer contract. However, the lower present value of the energy payments during the life of the contract more than offsets the larger capacity payments, thus insuring that the present value of the total payments to the QF is not greater than that of the total avoided cost payments.
- c. All front-loaded capital payments paid during the first seven years of the contract will be credited to a "capacity account". The capacity account keeps a cumulative balance of all front-loaded capital payments which are in excess of the year-by-year value of deferral of the statewide avoided unit.
- d. In addition to the provisions in the standard offer contract which cover default by a QF, the negotiated contracts state that FPC can declare General Peat to be in default if the two facilities fail to maintain the required on-peak capacity factor on a twelve-month rolling average basis for twenty-four consecutive months.

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 4

If either of the negotiated contracts are declared to be in default, FPC's obligation to make capacity payments to General Peat for the unit in default will be suspended until the default is remedied. Default does not relieve General Peat of its obligation to sell all generated capacity to FPC should energy production resume prior to the termination of the two contracts.

The terms and conditions of these two contracts are virtually identical to those found in a negotiated contract previously signed by General Peat and FPC and approved us in May of last year. In re: Petition for approval of cogeneration contract between Florida Power Corporation and General Peat Resources L.P., Docket No. 890094-EQ, Order No. 21296, issued on May 30, 1989.

Rule 25-17.083(2), Florida Administrative Code, states that a negotiated cogeneration contract will be considered prudent for cost recovery purposes if the following criteria are met:

- a. It is demonstrated that the utility's purchases under the negotiated contract can reasonably be expected to result in the economic deferral or avoidance of the construction of additional generating capacity from a statewide perspective;
- b. The cumulative present worth of the utility's payments for firm capacity and energy over the term of the negotiated contract are to be no greater than the cumulative present worth of the value of the year-to-year deferral of the statewide avoided unit over the term of the contract; and,
- c. To the extent that annual firm capacity and energy payments by the utility in any year exceed that year's annual value of deferring

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 5

the statewide avoided unit, there is a security bond or equivalent assurance of the qualifying facility's performance of the terms of the negotiated contract so as to protect the utility's ratepayer.

First, we find that the contracts provide capacity that is likely to result in the deferral of new capacity from both a utility and a statewide perspective. FPC's own generation expansion plan shows a need for new combustion turbine capacity in 1995. Moreover, in the recent Planning Hearing docket, the designated utility planning the next statewide avoided unit (FPL) showed a need for 385 MW of combined cycle capacity in 1995. Thus, there are indicated capacity needs from both a utility and a statewide perspective in 1995.

Further, we find that these contracts comport with Rule 25-17.083(2)(b), Florida Administrative Code, since the cumulative present worth of the utility's payments for firm capacity and energy over the term of the negotiated contract does not exceed the cumulative present worth of the value of the year-to-year deferral of the current statewide avoided unit, a 385 MW combined cycle unit with a 1993 in-service date. The cumulative present worth of each negotiated contract offers FPC's ratepayers a savings of \$13,793,000 when compared to the present worth of deferring the current statewide avoided unit.

In addition, FPC has provided a comparison of the negotiated contracts with its own next avoidable unit, a 130 MW combustion turbine with a 1995 in-service date. The cumulative present worth of each negotiated contract offers FPC's ratepayers a savings of \$1,093,000 when compared to the present worth of deferring FPC's own designated avoided unit.

Finally, we find that these contracts comport with the security requirements of Rule 25-17.083(2)(c), Florida Administrative Code. FPC has required that either a performance bond, such as an irrevocable letter of credit, or some other form of security be issued to guarantee General Peat's performance of the terms of the negotiated contract since it will be receiving front-loaded capacity payments.

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 6

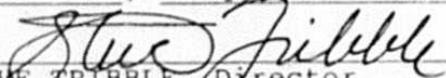
This has been further insured by the use of a "capacity account" against which early capacity payments are credited.

Based on the above, it is

ORDERED by the Florida Public Service Commission that the negotiated contracts entered into between Florida Power Corporation and General Peat Resources L.P., executed on November 30, 1988, are hereby approved for cost recovery purposes. It is further

ORDERED that the issue of how the MW associated with these contracts will be counted toward FPC's subscription and allocation limits, if at all, be deferred until a later date.

By Order of the Florida Public Service Commission
this 25th day of JANUARY, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

(5779L)SBr:bmi

ORDER NO. 22473
DOCKET NO. 890915-EQ
PAGE 7

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on February 15, 1990.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.