

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Request for approval of contract with a
qualifying facility for purchase of firm capacity
and energy between Florida Power Corporation
d/b/a Progress Energy Florida, Inc. and Florida
Biomass Energy Group, L.L.C.

DOCKET NO. 060387-EQ
ORDER NO. PSC-06-0743-PAA-EQ
ISSUED: September 1, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NEGOTIATED POWER PURCHASE CONTRACT
WITH A QUALIFYING FACILITY

BY THE COMMISSION:

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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On May 25, 2006, Progress Energy Florida, Inc. (PEF) filed a petition seeking approval of a negotiated contract for the purchase of firm capacity and energy from Florida Biomass Energy Group, LLC (Florida Biomass). Florida Biomass proposes to construct, own, and operate an electric generating plant to be located on a farm that will produce a biomass fuel crop called "e-grass." The crop will be grown and harvested in a continuous cycle for conversion into a liquid fuel for a traditional combined cycle generator. The projected in-service date for the system is December 2009, and the contract period is 25 years. We recently certified Florida Biomass as a qualifying facility (QF) based on the exclusive use of renewable energy for the proposed electric generation.¹ We have jurisdiction in this matter pursuant to sections 366.051

¹ See order No. PSC-06-0596-PAA-EQ, issued July 7, 2006, in Docket No. 060367-EQ, In re: Petition for Certification as a qualifying facility pursuant to Rule 25-17.080, F.A.C., by Florida Biomass Energy Group, L.L.C.

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and 366.081, Florida Statutes. As explained in detail below, we approve the power purchase contract.

DECISION

Our review of negotiated firm energy and capacity contracts for purposes of cost recovery is governed by Rule 25-17.0832(3), Florida Administrative Code. That rule directs that we consider the utility's need for power, the cost effectiveness of the contract, the security provisions for capacity payments, and QF performance guarantees.

Need for Power

By the terms of the negotiated contract, the Florida Biomass combined cycle generator is to be operational no later than December 1, 2009, with net output projected to be 116 MW. PEF's 2006 Ten Year Site Plan shows projected growth of approximately 200 MW of demand each year. PEF asserts that it will need additional capacity by 2009 to maintain its 20% reserve margin. The next planned unit is the Bartow Repowering Project, currently scheduled to come on line in June 2009. There are six additional units planned through 2015 to meet PEF's demonstrated need for capacity in that period. While PEF has not included the Florida Biomass contract as a firm resource in its 2006 Ten Year Site Plan, if the contract is approved, PEF will include the projected committed capacity as a firm resource.

Cost-Effectiveness

PEF negotiated the power purchase contract with Florida Biomass when the combined cycle Hines Unit 5 was PEF's next planned generating unit. On that basis, PEF estimated the capacity and energy payments over the 25-year term of the negotiated contract would produce a savings of \$39 million net present value to PEF's ratepayers. Since the majority of these savings are based on fuel costs, the actual savings could vary significantly.

Full capacity payments are contingent upon the Florida Biomass generator maintaining a specific 12-month rolling average capacity factor. Below a specific minimum capacity factor, there is no capacity payment, and energy will be purchased at "as available" rates.

The agreement between PEF and Florida Biomass means that the utility and its body of ratepayers will not be subject to the high costs and risks that are associated with the research and design aspects of this project. Payments to Florida Biomass are entirely contingent upon the unit's demonstrated capacity and energy production. In contrast to savings in the cost for energy actually provided by Florida Biomass, possible future benefits cannot be quantified at present. At a minimum, benefits include fuel diversity, use of a renewable energy source, and fuel price stability.

In addition to savings for the capacity and energy provided by the Florida Biomass generator, the contract establishes an arrangement and pricing for PEF to purchase renewable energy credits (RECs) that will be associated with the electric energy produced from the Florida Biomass Facility. Any purchase of RECs would be subject to Commission review for prudent

and cost effective management. The contract provides for possible sale of RECs by Florida Biomass, singly or in conjunction with PEF. Any revenue to PEF from REC sales will be credited to the utility's ratepayers through PEF's fuel cost recovery clause, which would improve the cost effectiveness of the contract.

Security for Capacity Payments

The contract between PEF and Florida Biomass does not contain any early capacity payments, so no form of security is required. PEF's capacity and energy payments to Biomass, both on an annual and cumulative basis, are expected to be less than avoided cost. Consistent with agreements for purchase power contracts based on non-renewable resources, this contract includes completion and performance security deposits which may be provided by letter of credit or cash deposit.

Performance Guarantee

We recognize that this project incorporates numerous innovative designs that are not yet proven reliable, and so has no guarantee of success, but the contract contains provisions that protect PEF and the utility's ratepayers if the renewable generation project does not work as well as expected. Performance provisions of the contract require that the 12-month rolling average of the monthly capacity factor will be above a specified minimum in order for Florida Biomass to receive full capacity payment. Further, if production drops below a specified minimum threshold, no capacity payment is due and payments to the QF would take the form of payments for "as available energy." The committed capacity basis for the capacity factor will be determined by actual performance of the unit.

CONCLUSION

This negotiated contract between PEF and Florida Biomass is an opportunity to encourage a renewable energy resource. In the event that the project is not successful there will be no out-of-pocket expense for PEF. The contract meets all requirements and rules governing QFs, and represents an opportunity to improve Florida's fuel diversity. The Florida Energy Efficiency and Conservation Act (FEECA), Section 366.81, Florida Statutes, states that the use of renewable energy sources will be encouraged along with conservation of expensive resources, particularly petroleum fuels. Rule 25-17.001, Florida Administrative Code, encourages the use of renewable energy sources as a high priority. The proposed installation meets the goals of FEECA and Rule 25-17.001, Florida Administrative Code. For these reasons, we approve the contract.

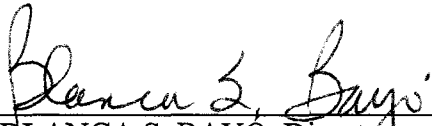
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Request for approval of contract with a qualifying facility for purchase of firm capacity and energy between Florida Power Corporation d/b/a Progress Energy Florida, Inc. and Florida Biomass Energy Group, L.L.C. is approved. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 1st day of September, 2006.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This

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petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 22, 2006.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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