

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition to amend negotiated contract for firm capacity and energy from qualifying facility between Florida Power Corporation d/b/a Progress Energy Florida, Inc. and Innovative Energy Group of Florida.

DOCKET NO. 070645-EQ
ORDER NO. PSC-08-0064-PAA-EQ
ISSUED: January 28, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING JOINT PETITION TO AMEND
NEGOTIATED POWER PURCHASE CONTRACT

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 (F.A.C.).

BACKGROUND

On October 10, 2007, Progress Energy Florida, Inc. (PEF) and Innovative Energy Group of Florida, LLC, (IEG-Florida) filed a joint petition requesting Commission approval of amendments to a previously approved negotiated contract for purchase of firm capacity and energy from a qualifying facility. IEG-Florida is an assignee of Florida Biomass Energy Group, LLC, a party to the contract that was approved by Commission Order No. PSC-06-0743-PAA-EQ, in Docket No. 060387-EQ, In re: Request for approval of a 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, LLC.

In Docket No. 060387-EQ, Florida Biomass Energy Group, LLC, (Florida Biomass) proposed to construct, own and operate an electric generating plant to be located on a farm that would produce a biomass fuel crop called "e-grass." The crop would be grown and harvested in a continuous cycle, for conversion into a liquid fuel to be used in a traditional combined cycle generator. On July 7, 2006, we certified Florida Biomass as a qualifying facility (QF) based on

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the exclusive use of renewable energy for the proposed electric generation.¹ The projected output of 116 MW was to be available for 25 years, beginning December 2009.

The joint petition addressed in this docket provides for amendments to the previously approved contractual arrangements for a proposed renewable generator.² Complications relating to the location for growing the biomass crop have delayed the project, and the current petition includes a revised schedule for the biomass combined cycle generator to become operational. To date, no site for growing this crop has been finalized. The generator was originally planned to be in-service by December 2009. The amended contract requires firm capacity no later than December 1, 2011. Also, the revised contract includes IEG-Florida as an assignee of Florida Biomass Energy Group, LLC, a party in the earlier contract. IEG-Florida filed a petition requesting designation as a qualifying facility (QF), to be addressed in Docket No. 070723-EQ, In Re: Petition for certification as a qualifying facility pursuant to Rule 25-17.080, F.A.C., by Innovative Energy Group of Florida, LLC.

Within the contract filed in this docket, IEG-Florida, LLC is called "Project LLC." By the proposed contract modifications, Project LLC must enter into the necessary project contracts by December 1, 2009. The contract period for firm capacity and energy provided to PEF remains 25 years, and begins no later than December 1, 2011.

We have jurisdiction in this matter pursuant to Sections 366.051 and 366.81, Florida Statutes (F.S.). As explained below, we approve the amendments to the contract requested by PEF and IEG-Florida in their joint petition.

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.

² See Order No. PSC-06-0743-PAA-EQ, issued September 1, 2006, in Docket No. 060387-EQ, In re: Petition for approval of a 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.

APPROVING AMENDMENTS TO CONTRACT

Our review of the proposed modifications of the negotiated firm energy and capacity contracts for purposes of cost recovery as directed by Rule 25-17.0832(3), F.A.C. Rule 25-17.0832(3), F.A.C., requires 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

The planned facility is expected to have a maximum nominal generating capacity of 145 MW. After serving internal loads, the QF will provide firm capacity between 116 MW and 134 MW. The expected annual energy amounts to 868,204 MWh. Expected on-peak energy is 397,927 MWh and expected off-peak energy is 470,277 MWh.

Although the projected 116 MW of renewable energy has been the subject of contract negotiations since early 2006, the development had not reached sufficient certainty to be included as a firm resource in the 2007 Ten Year Site Plan filed by PEF. The amended schedule requires firm capacity no later than December 1, 2011. Further, the specific contracts providing necessities such as engineering, financing, transmission, and insurance must be in place by December 1, 2009, or the project will be dissolved.

At present, PEF's next avoided unit is a 618 MW combined cycle unit slated for commercial in-service mid-year 2013. The availability of 116 MW of firm capacity is expected to displace a portion of the need for the larger unit. The effect of this contract shall be reflected in PEF's 2008 Ten Year Site Plan. Moreover, the contribution of available energy from this renewable source contributes to fuel diversity as well as reliability for the utility.

Cost-Effectiveness

The projected capacity and energy payments that will be made under the contract have been compared to a nominal 618 MW combined cycle gas-fired plant having an estimated in-service date of June 2013. The comparison is modeled at a committed capacity of 116.6 megawatts and a capacity factor of 85%. Based on current fuel forecasts, the projected payments for capacity and energy pursuant to the contract will have a net present value of \$113 million less than the cost for similar capacity and energy that would be provided by the avoided unit. The actual savings could vary considerably, depending on the actual fuel costs over the duration of the contract. In addition, available energy may be sold by PEF if marginal cost makes such a sale profitable.

There has been no change in the agreed arrangements relating to the capacity payments. Full capacity payments are contingent upon the biomass generator maintaining a specified confidential 12-month rolling average capacity factor. Below a specified minimum capacity factor, there is no capacity payment, and energy will be purchased at "as available" rates.

As in the original agreement, the contract modifications do not subject PEF and its body of ratepayers to the high costs and risks associated with the research and development aspects of

this project. Payments by PEF to Project LLC are entirely contingent upon the unit's demonstrated capacity and energy production. The anticipated generation of energy from a renewable energy source will provide the benefits of fuel diversity and price stability.

In addition to savings for the capacity and energy provided by the Project LLC biomass generator, the contract establishes a right of first refusal for PEF to purchase renewable energy credits (RECs) that will be associated with the electric energy produced from the biomass facility. Any purchase of RECs would be subject to Commission review for prudent and cost-effective management. Any revenue to PEF from REC sales will be credited to the utility's ratepayers through PEF's fuel cost recovery clause, which would increase the cost effectiveness of the contract.

Security for Capacity Payments

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

Performance Guarantee

The proposed modifications to the previously approved contract reflect some of the difficulties that are typically encountered as innovative designs are developed. Until the entire operation is proven reliable, there is no guarantee of success. In accordance with the original contract, the agreement between PEF and the renewable energy developer protects PEF and the utility's ratepayers in the event that the renewable project does not perform as anticipated. Performance provisions require that the 12-month rolling average of the monthly capacity factor will be above a specified minimum threshold in order for Project LLC to receive full capacity payment. Further, if production drops below a specified minimum threshold, no capacity payment is due and payments to the QF shall take the form of payments for "as available energy." The committed capacity basis for the capacity factor will be determined by the actual performance of the unit.

CONCLUSION

The modified negotiated contract between PEF and Project LLC is an opportunity to encourage a renewable energy resource. In the event that the project is not successful within the limits of this modified contract, there will be no out-of-pocket expense for PEF or its ratepayers. The contract meets all of the requirements contained within Rule 25-17.0832(3), F.A.C., and it represents an opportunity to improve the status quo. The Florida Energy Efficiency and Conservation Act (FEECA), Section 366.81, F.S., states that the use of renewable energy sources will be encouraged along with conservation of expensive resources, particularly petroleum fuels. Rule 25-17.001, F.A.C., encourages the use of renewable energy sources as a high priority. The

modified contract and the associated proposed installation continues to meet the goals of FEECA and Rule 25-17.001, F.A.C. For these reasons, we approve the contract.

Based on the foregoing, it is

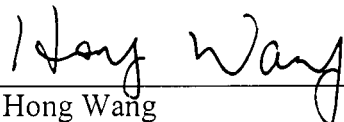
ORDERED by the Florida Public Service Commission that the amended negotiated contract for firm capacity and energy from a qualifying facility between Florida Power Corporation d/b/a Progress Energy Florida, Inc. and Innovative Energy Group of Florida, is approved. It is further

ORDERED that the provisions of this Order, issued as a 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, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0805, 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 that this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 28th day of January, 2008.

ANN COLE
Commission Clerk

By: 

Hong Wang
Office of Commission Clerk

(S E A L)

CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), F.S., to notify parties of any administrative hearing that is available under Section 120.57, F.S., 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, F.A.C. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 18, 2008.

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.