

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of Amendment No. 1 to generation services agreement with Gulf Power Company, by Florida Public Utilities Company.

DOCKET NO. 110041-EI
ORDER NO. PSC-11-0269-PAA-EI
ISSUED: June 21, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING AMENDMENT NO. 1 TO PURCHASED POWER CONTRACT FOR
GENERATION SERVICE BETWEEN FLORIDA PUBLIC UTILITIES COMPANY AND
GULF POWER COMPANY FOR PURPOSES OF FUEL COST RECOVERY
CALCULATION

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.

I. Case Background

Florida Public Utilities Company (FPUC) provides electric utility service to customers located in two sections of north Florida. The Northwest Division serves Jackson, Calhoun, and Liberty Counties. The Northeast Division is located in the Fernandina Beach area and serves Nassau County. FPUC does not generate any of the power it sells, but meets the needs of its customers through purchased power contracts. FPUC recovers its prudently incurred purchased power costs through the Fuel and Purchased Power Cost Recovery Clause (fuel clause).

On December 28, 2006, FPUC and Gulf Power Company (Gulf) executed a purchased power contract for generation service, which was effective January 1, 2008, for power supply to FPUC's Northwest Division over a ten-year period (Existing Agreement). Order No. PSC-07-

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0476-PAA-EI, approving the Existing Agreement was issued on June 6, 2007.¹ On January 26, 2011, FPUC filed a petition requesting approval to amend its existing purchased power agreement (Amendment) with Gulf. The terms of the Amendment are expressly conditioned upon the receipt of a final, non-appealable order of the Amendment no later than July 31, 2011.

The Existing Agreement and the proposed Amendment are wholesale arrangements, and the Federal Energy Regulatory Commission has exclusive jurisdiction over the terms and rates of the Existing Agreement and the proposed Amendment. We have jurisdiction to determine the regulatory treatment of the costs and/or savings associated with implementing the Existing Agreement and the Amendment.

On February 11, 2011, the City of Marianna (City) which is located in Jackson County, filed a petition to intervene. On February 28, 2011, Order No. PSC-11-0137-PCO-EI was issued granting the City intervention in this docket.²

We have jurisdiction over this subject matter pursuant to Section 366, Florida Statutes (F.S.).

II. Analysis

The proposed Amendment contains two significant changes to the current Agreement: (1) an immediate reduction in FPUC's monthly capacity payment; and (2) a two-year extension of the terms of the Existing Agreement. In its petition to intervene, the City requested denial of the Amendment for cost recovery as the City alleges that the rates to be charged under the Amendment in years 2018 and 2019 are excessive and will result in FPUC's rate being unfair, unjust, and unreasonable. The City also stated that the structure of the demand and energy charges is inappropriate.

The Existing Agreement contains a ratchet provision based on historic peak demand values. In the Existing Agreement, if actual demand requirements are reduced in the future through conservation, or load control measures such as time-of-use and interruptible rates, there is no corresponding reduction in the capacity payments to Gulf. The current minimum capacity purchase quantity (97,944 kW) was set beginning in 2008, and was established considering FPUC's peak demand during the period 2004 through 2007. Weather conditions and relatively favorable rates resulted in elevated capacity demand levels during the 2004 through 2007 time period. FPUC's actual peak demand since 2007 has declined, but the ratchet provision contained in the Existing Agreement has maintained the capacity purchase quantity at 97,944 kW since 2008. Absent the ratchet provision, FPUC's purchase amount in 2009 and 2010 would have been 89,807 kW and 87,797 kW, respectively.

¹ See Order No. PSC-07-0476-PAA-EI, issued June 6, 2007, in Docket No. 070108-EI, In re: Petition for approval of agreement for generation services and related terms and conditions with Gulf Power Company for Northwest Division (Marianna) beginning 2008, by Florida Public Utilities Company.

² See Order No. PSC-11-0137-PCO-EI, issued February 28, 2011, in Docket No. 110041-EI, In re: Petition for approval of Amendment No. 1 to generation services agreement with Gulf Power Company, by Florida Public Utilities Company.

The proposed Amendment eliminates the ratchet provision and reduces the minimum capacity purchase quantity from the current level of 97,944 kW to 91,000 kW. Therefore, the capacity purchase quantity can rise above the minimum in any particular year. If the capacity purchase quantity subsequently reverts to 91,000 kW or lower, FPUC will again be billed for 91,000 kW. Based on current projections, the proposed reduction in the capacity purchase quantity would result in a savings of nearly \$6 million for FPUC and its customers through 2017. Table 1 below summarizes the projected savings that would result from the Amendment and the impact on a residential customer's bill.

Table 1: Savings Associated with the Proposed Amendment³

Year	Projected Annual Savings (\$)	Projected Residential Bill Reduction (\$/1,000 kWh)	Projected Residential Bill Reduction (\$/1,200 kWh)
2011	724,954	2.59	3.10
2012	749,952	2.67	3.21
2013	791,616	2.82	3.38
2014	837,446	2.99	3.59
2015	879,110	3.13	3.75
2016	929,107	3.32	3.99
2017	974,938	3.49	4.19
Total	5,887,123	-	-

As described, the Amendment extends Gulf's services to FPUC an additional two years. The capacity rates for 2018 and 2019 are escalated at a rate comparable to the escalation rates for the years contained in the Existing Agreement. FPUC explained that the companies discussed numerous options, but ultimately, near term reductions were only achievable through an extension of the Existing Agreement.

The Existing Agreement was approved based on the evaluation and outcome of a bid process. Given that the Existing Agreement does not terminate until the end of 2017, it is not reasonable to conclude that a similar process several years into the future would yield results that would out-weigh the projected savings of the proposed Amendment. Furthermore, the City identified the ratchet provision as a feature that is contributing to high rates and the Amendment eliminates that feature.

III. Conclusion

We find that near-term rate reductions for FPUC are desirable. As discussed above, the proposed Amendment is projected to result in a savings of nearly \$6 million through 2017 for FPUC and its customers. Moreover, we find that the modifications to the capacity purchase quantity provides the pricing flexibility necessary to develop conservation, or load control measures such as time-of-use and interruptible rates.

³ In Order No. PSC-11-0112-TRF-EI, issued February 11, 2011, in Docket No. 100459-EI, we approved FPUC's proposal to allocate up to 55 percent of the projected annual savings to time-of-use and interruptible rates. Therefore, the actual reduction in a residential customer's bills may be less.

Accordingly, we hereby approve the amendment to the agreement for generation services between Gulf Power Company and Florida Public Utilities Company for purposes of fuel cost recovery calculations.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Amendment No. 1 to the generation services agreement between Florida Public Utilities Company and Gulf Power Company for purposes of fuel cost recovery calculation is approved as set forth herein. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this Order, this docket shall be closed upon the issuance of a Consummating Order. 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 Commission Clerk, 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 21st day of June, 2011.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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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 petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 12, 2011.

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.