

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of a negotiated renewable energy power purchase contract for power purchased with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company.

DOCKET NO. 120058-EQ
ORDER NO. PSC-12-0380-PAA-EQ
ISSUED: July 23, 2012

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NEGOTIATED RENEWABLE ENERGY POWER PURCHASED
AGREEMENT

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.

Case Background

On March 21, 2012, Florida Public Utilities Company (FPUC) filed a petition requesting approval of a negotiated contract for the purchase of firm capacity and energy between Rayonier Performance Fibers, LLC, (Rayonier) and FPUC. The negotiated contract has an execution date of March 14, 2012, and is based on Rayonier constructing, owning, and operating a biomass electric generating facility (the Facility) in Fernandina Beach, Florida, with an expected in-service date no later than September 30, 2012. Rayonier proposes to sell 1.7 Megawatts (MW) of firm capacity and associated energy from the Facility to FPUC for a term of 10 years.

Rayonier currently owns and operates mills in Jesup, Georgia, and Fernandina Beach, Florida, that produce high-purity cellulose products from wood chips. The steam created by this process is utilized by Rayonier's existing steam turbines to partially mitigate their electric demand. Rayonier proposes to replace the Fernandina Beach Facility's No. 3 steam turbine generator with a more efficient 21 MW steam turbine. This would result in full mitigation of the

DOCUMENT NUMBER - DATE

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energy demand from Rayonier's mill production, as well as an excess of energy that will be sold to FPUC at the negotiated firm energy price. Rayonier will operate as a qualifying facility as defined by the Federal Energy Regulatory Commission rules 18 C. F. R. § 292.101 – 292.207 (1980) and Rule 25-17.080, Florida Administrative Code (F.A.C.).

We have jurisdiction over this matter pursuant to Sections 366.051, 366.91, and 366.92, Florida Statutes (F.S.).

Decision

The negotiated contract between FPUC and Rayonier provides FPUC with a viable source of electric capacity and energy that meets all the requirements and rules governing renewable energy producers. Payments for energy and capacity are expected to produce overall savings of \$1.27 million over the term of the contract.

Rayonier proposes to sell 1.7 MW of firm capacity and energy from the facility to FPUC for a 10-year term from the latest in-service date of September 30, 2012. Rule 25-17.0832(3), F.A.C., provides that in reviewing a negotiated firm capacity and energy contract for the purpose of cost recovery, we shall consider factors relating to the contract that would affect the utility's general body of retail and wholesale customers, including: need for power, cost-effectiveness of the contract, security provisions for early capacity payments, and performance guarantees associated with the generating facility. Each of these factors is evaluated below.

A. Need for Power

FPUC's need for power is driven by the demand of its service territory. Because FPUC does not own or operate any electric generating plants, it must purchase energy from other electric utilities to provide electric service. The negotiated contract is proposed to provide firm energy from 2012 through 2022. Purchases from the negotiated contract will displace a portion of the need to purchase energy from JEA, and the overall payments to the negotiated contract will result in cost savings as discussed below. Additionally, we have routinely approved cost-effective contracts that use renewable resources as the primary fuel. Rule 25-17.001(5)(d), F.A.C., encourages electric utilities to "[a]ggressively integrate nontraditional sources of power generation including co-generators 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 will enhance FPUC's system reliability, encourage the use of renewable fuels in Florida, and promote fuel diversity for FPUC's ratepayers.

B. Cost-Effectiveness

FPUC's renewable tariff is based upon avoiding planned purchases from JEA in the Northeast Division or Gulf Power in the Northwest Division. Because Rayonier operates within the Northeast Division of FPUC's territory, FPUC compared the payments of the negotiated contract against the payments under the 2011 Northeast standard offer renewable tariff. The

negotiated contract payments were estimated to provide a Net Present Value (NPV) overall savings of \$1.27 million. Because the proposed payments to Rayonier depend on the rate at which Rayonier can provide energy and capacity, savings will begin to accumulate from the start of the in-service date and savings will be produced each year for the duration of the contract.

Traditionally, payments to qualifying facilities have been divided into two parts, capacity and energy, and are based on the cost of capacity and energy from the designated avoided payments to the standard renewable tariff. The capacity portion (\$/kilowatt-month) is based on a specific rate and payment stream (levelized, normal, early, or early levelized). The energy portion (\$/MWh) is based on the current forecasted energy price set by FPUC's renewable tariff. FPUC and Rayonier have negotiated firm energy payments that are lower than standard offer renewable payments.

According to the terms of the negotiated contract, the proposed facility would require the relocation and replacement of existing transmission lines in 2014. In FPUC's response to our staff's Interrogatory No. 18, FPUC stated that:

The costs related to the relocation of the transmission line and removal and disposition to the existing transmission line and equipment are not fuel related costs The Company believes that these are rate base costs and should be recovered through base rates from those customers that receive the benefits of such facilities. As such, these costs were not included in the cost analysis made in Attachment B, nor should they be reflected therein.

FPUC's initial cost analysis in Attachment B of the negotiated contract did not include the cost of the relocation and replacement of existing transmission lines and resulted in total NPV savings of \$1.9 million. To measure the appropriate cost effectiveness of the negotiated contract, these costs must be included in the overall analysis, regardless of the method of cost recovery. FPUC thereafter recalculated the cost effectiveness analysis to include the cost of transmission relocation and replacement, which reduced the overall NPV savings to \$1.27 million.

Additionally, the peak hours specified in the contract determining on-peak or off-peak payments, particularly during the winter season are not appropriate. The negotiated contract defined a weekday winter on-peak period from 5:00 AM to 7:00 PM, a weekday summer on-peak period from 11:00 AM to 9:00 PM, a weekday November on-peak period from 8:00 AM to 11:00 PM, and all other hours as off-peak hours. FPUC stated that these peak designations are supported by "visual inspection" of the actual monthly peak periods. FPUC provided historical data of FPUC's system demand for analysis. We find that FPUC's designation of peak periods extends beyond what was historically recorded as seasonal peak loads. Additionally, several hours specified as winter peak periods by FPUC were actually recorded as the lowest point of seasonal system load. Basing the negotiated contract on shorter and more appropriate peak times would generally increase its cost effectiveness when compared to the standard offer renewable tariff, but may also reduce the performance and reliability requirements on the facility.

Although the peak hours specified are not appropriate, ratepayers will continue to receive the \$1.27 million in savings when compared to standard renewable energy tariff payments. FPUC's classification of peak period payments to Rayonier would not deter these overall savings.

C. Completion/Performance Security

Section 4 of the negotiated contract contains certain conditions precedent. For example, Rayonier must complete all installations necessary for the transportation of the facility's fuel, complete all changes to interconnection facilities necessary to deliver generation services to the delivery point, obtain all necessary permits, and demonstrate the facility is capable of maintaining performance levels and producing 1.7 MW of committed capacity.

When the proposed Rayonier facility is operational, the expected annual energy produced will be 16,980 MWh. Rayonier will be required to maintain a monthly performance service guarantee of an on-peak and off-peak capacity factor (confidential) specified by the negotiated contract. Failure to maintain the agreed capacity factor would result in reducing the overall monthly payments. Because no early capacity payments are being made throughout the life of the contract, and monthly pricing is measured in rate of energy delivered and additional performance security for early payments are not necessary.

The provisions contained in the contract are sufficient to protect FPUC's ratepayers if Rayonier fails to deliver capacity and energy as specified by the negotiated contract or in the event Rayonier defaults on its obligations.

Ruling

The negotiated contract between FPUC and Rayonier provides FPUC with a viable source of electric capacity and energy that meets all requirements and rules governing renewable energy producers. The contract is shown to be cost-effective under the 2011 standard offer renewable tariff avoided planned purchases and is beneficial to FPUC ratepayers overall. If the planned renewable generator fails to meet its obligations under the terms of the contract, the performance requirement provisions effectively mitigate any risk to the ratepayers. Additional security measures to mitigate risk to the ratepayer from early capacity payments are not necessary because no early capacity payments are being made. Considering these facts, we find it appropriate to approve the negotiated renewable energy power purchased contract.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition for approval of negotiated renewable energy power purchase contract for power purchased with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company 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

ORDER NO. PSC-12-0380-PAA-EQ

DOCKET NO. 120058-EQ

PAGE 5

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 23rd day of July, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

PER

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.

ORDER NO. PSC-12-0380-PAA-EQ

DOCKET NO. 120058-EQ

PAGE 6

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 August 13, 2012.

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.