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FLORIDA PUBLIC SERVICE COMMISSION

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M E M O R A N D U M

February 22, 1990

TO: STEVE TRIBBLE, DIRECTOR
DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (BROWNLESS) *DN*
DIVISION OF ELECTRIC AND GAS (BALLINGER, DEAN) *J.D.J. J.W.D.*

RE: DOCKET NO. 900004-EU - PLANNING HEARINGS ON LOAD
FORECASTS, GENERATION EXPANSION PLANS, AND
COGENERATION PRICES FOR PENINSULAR FLORIDA'S
ELECTRIC UTILITIES. *TB*

AGENDA: MARCH 6, 1990 - CONTROVERSIAL - PARTIES MAY NOT
PARTICIPATE

PANEL: FULL COMMISSION

CRITICAL DATES: NONE

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the Florida Industrial Cogeneration Association's (FICA) motion for reconsideration of Order No. 22341 be granted?

RECOMMENDATION: No.

BACKGROUND

Order No. 22341, issued on December 26, 1989, set the price which cogenerators are paid for electric power produced in this state by qualifying facilities (QFs). On

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January 10, 1990, FICA filed a timely motion for reconsideration of that order requesting that this Commission reconsider: 1) the designation of a combined cycle unit as the statewide avoided unit, 2) the allocation of the statewide avoided unit to specific electric utilities and 3) the denial of capacity payments to cogenerators selling as-available energy. Along with its motion for reconsideration, FICA also filed a request for oral argument on January 10, 1990. In keeping with Commission procedure, this request was reviewed by the Prehearing Officer, Commissioner Gerald L. Gunter, and denied.

On January 22, 1990, the Jacksonville Electric Authority (JEA), Florida Electric Power Coordinating Group (FCG), Tampa Electric Company (TECO) and Florida Power Corporation (FPC) filed responses opposing the motion for reconsideration. Florida Power & Light Company (FPL) followed suit on January 24, 1990.

DISCUSSION

Motions for reconsideration are for the purpose of raising facts which the Commission either overlooked or misapprehended in its initial decision. The arguments advanced by FICA in its motion for reconsideration are the same as those presented in its prehearing statement and post-hearing briefs, and thus, arguments already rejected by the Commission once. FICA has

simply reargued its whole position on avoided cost pricing again. That is the improper use of reconsideration. Thus, on procedural grounds alone this motion should be denied.

Notwithstanding the procedural flaws of FICA's motion, it is also factually incorrect. A short rebuttal of the three arguments raised by FICA follows. First, as pointed out so cogently in FCG's response, FICA's primary argument against the selection of a combined cycle unit as the statewide avoided unit is "nothing more than a blatant request for the Commission to designate an avoided unit that would maximize the amount paid to qualifying facilities (QFs) without regard to the utilities' avoided costs. . . ." FCG Response at 2-3.

While it is true that this Commission could determine the price which would induce the maximum amount of cogeneration in the state, that type of "market pricing" approach is not what is mandated by PURPA. And, in fact, that type of approach has been found by FERC to be specifically prohibited by PURPA. The correct standard is "avoided cost". This standard is based on the rationale that the ratepayer remains in the same position that he would have been in had the utility built the capacity supplied by the cogenerator.

In this state we determine the units to be constructed by the use of a statewide generation expansion plan in which units are selected so that the present worth revenue

requirement associated with those plants is minimized. Order No. 22341 at 4, 11. The Commission has adhered to that criteria by selecting combined cycle units. Contrary to FICA's statement, using the base case assumptions, the combined cycle units selected are the least-cost options available to the state. Use of high-band fuel costs to justify the selection of a 1993 or 1995 coal unit is specious. By its very definition, the high-band forecast is the extreme of conditions which are expected to exist.

FICA goes on to argue that combined cycle units violate FEECA and the federal Fuel Use Act (FUA). That simply is not the case. As discussed at length in the order, FEECA requires the efficient and cost-effective use of natural gas and petroleum products, not the complete prohibition of their use. Order No. 22341 at 14-16. Further, FUA only requires that new generating plant not be physically, structurally or technologically precluded from burning coal. FUA does not require that such conversion be economic, now or in the future. Order No. 22341 at 16-17. Reconsideration on these issues should not be granted.

Second, FICA argues that the Commission should not allocate the subscription limit associated with the avoided unit to each individual electric utility. Order No. 22341 indicates that evidence was not taken on this issue in the

Planning Hearings and set this matter for separate hearing. Order No. 22341 at 22-23. Staff agrees with FPC that many of the "problems" of implementing allocation could be solved in this separate proceeding. FPC response at 4-5. However, the primary reason for allocation was an attempt, within the framework of existing cogeneration rules, to channel cogenerated power to the utility with the need. Order No. 22341 at 20-21. A cogenerator is always going to have to "shop" around for his best deal, at least as far as energy prices go. It is unfortunate that allocation, which attempts to protect the ratepayers of utilities who do not need additional capacity, runs directly afoul of the "neighborhood market" concept of standard offer contracts embodied in the current cogeneration rules. There is evidence of record to support allocation. The Commission should not grant reconsideration on this issue.

Finally, FICA reargues its position that as-available cogenerators should receive capacity payments. As discussed in Order No. 22341, there are three reasons why QFs selling as-available energy should not receive capacity payments: 1) the exclusion of all as-available energy does not change the avoided unit generation expansion plan; 2) as-available cogenerators cannot be required to make their power available when utilities need it: periods of peak demand and 3) any deferral benefits associated with as-available cogenerators

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are the result of a probabilistic phenomenon related to the aggregated production of energy of all as-available cogenerators taking place coincident with utility peak demand. Order No. 22341 at 18-19. That being the case, the Commission should not grant reconsideration on this issue.

For the reasons discussed above, the Staff recommends that FICA's motion for reconsideration be denied in full.

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