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DATE: MARCH 18, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ELECTRIC AND GAS (HAFF, GOAD)
DIVISION OF LEGAL SERVICES (PAUGH)

RE: DOCKET NO. 981893-EQ - PETITION TO ESTABLISH NEW STANDARD OFFER CONTRACT FOR QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES BY TAMPA ELECTRIC COMPANY.

AGENDA: 3/30/99 - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 8-MONTH EFFECTIVE DATE: SEPTEMBER 20, 1999

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\981893C.RCM

CASE BACKGROUND

On December 18, 1998, Tampa Electric Company (TECO) filed a Petition to Establish a New Standard Offer Contract for Qualifying Cogeneration and Small Power Production Facilities. According to its petition, TECO's revised August, 1998 Ten-Year Site Plan identified the next planned generation addition as a 180 MW combustion turbine (CT) unit with an in-service date of 2001. However, according to TECO, time constraints required it to base its proposed standard offer contract on an otherwise identical CT unit with an in-service date of 2003.

In its January 7, 1999 Memorandum, staff recommended to the Commission that it deny TECO's petition because the utility did not use its next planned generation addition as the basis for its Standard offer contract. In response to staff's recommendation, TECO amended its original petition on January 19, 1999 to change the avoided unit to its next planned generating unit, the 2001 CT

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unit. This recommendation addresses the merits and substantive issues raised by TECO's amended petition.

DISCUSSION OF ISSUES

ISSUE 1: Should TECO's Petition for Approval of a Standard Offer Contract, based upon a combustion turbine unit with an in-service date of 2001, be approved?

RECOMMENDATION: Yes. TECO's Standard Offer Contract complies with Rule 25-17.0832, Florida Administrative Code.

STAFF ANALYSIS: Pursuant to federal law, the availability of standard rates is limited to fossil-fueled qualifying facilities less than 100 kilowatts (0.1 MW) in size. 16 U.S.C. 2601 *et seq.*, 15 U.S.C. 791 *et seq.*, 16 U.S.C. 792 *et seq.*, 18 CFR 292.304. Florida law requires the Commission to "adopt appropriate goals for increasing the efficiency of energy consumption and increasing the development of cogeneration." Chapter 366.82(2), Florida Statutes. The Commission is further directed to "establish a funding program to encourage the development by local governments of solid waste facilities that use solid waste as a primary source of fuel for the production of electricity." Chapter 377.709, Florida Statutes.

These federal and state requirements were embodied by the Commission through its adoption of the standard offer contract. Pursuant to Rule 25-17.0832(4)(a), Florida Administrative Code, each investor-owned electric utility must file a tariff and a standard offer contract with the Commission. These provisions effectuate the requirements of the Public Utilities Regulatory Policies Act and promote renewables and solid waste-fired facilities by providing a straightforward contract. Larger qualifying facilities and other non-utility generators may participate in a utility's Request For Proposal process.

To comply with the Commission's rules, TECO proposed a Standard Offer Contract based on a combustion turbine (CT) unit with an in-service date of January 1, 2001. CT units normally require about 18 months to construct. Therefore, TECO will need to commence construction by July 1, 1999. Given that the eligibility pool for standard offer contracts is limited, it is highly unlikely that purchases made by TECO pursuant to the proposed standard offer contract will defer or avoid any utility generating facility, including TECO's 2001 CT unit. With its construction of the 2001 CT unit and its likely possession of some signed standard offer contracts, TECO will essentially pay twice for the same firm capacity. In effect, the Standard Offer Contract's firm capacity and energy payments amount to a subsidy to the qualifying facility. This subsidy is mandated by the requirements of the federal law and the implementation of state regulations.

TECO's proposed COG-2 (firm capacity and energy) tariff also complies with Commission rules (Rule 25-17.0832, Florida Administrative Code). The COG-2 tariff includes a procedure, outlined on Sheet Numbers 8.285 through 8.300, establishing a series of successive two-week "open seasons" for receiving standard offer contracts. Also included are criteria for evaluating submitted standard offer contracts, as set forth in Sheet numbers 8.565 through 8.590. Therefore, any developer who signs TECO's Standard Offer Contract should be well aware of the evaluation procedure and evaluation criteria. The avoided unit cost parameters, contained on Sheet Numbers 8.355 through 8.360, appear to be reasonable for a CT unit, and the resulting capacity payments contained on Sheet 8.225 are appropriate. The performance provisions are virtually the same as TECO's prior Standard Offer Contract which was also based on a CT unit. These provisions include dispatchability and on-peak performance incentives.

In addition to the proposed COG-2 tariff, TECO has updated its COG-1 (as-available energy) tariff and Interconnection Agreement. The COG-1 tariff complies with both TECO's Open Access Transmission Tariff, approved by the Federal Energy Regulatory Commission, and Rules 25-17.0832 and 25-17.0889, Florida Administrative Code. The Interconnection agreement complies with Rule 25-17.087, Florida Administrative Code.

In summary, staff does not expect that TECO's proposed Standard Offer Contract will result in the deferral or avoidance of the 2001 CT unit. Nonetheless, TECO's proposed contract and tariffs comply with the Commission's cogeneration rules. For this reason, staff recommends that TECO's petition to establish its new standard offer contract and associated tariffs be approved.

ISSUE 2: On what date should TECO's proposed Standard Offer Contract become effective?

RECOMMENDATION: TECO's Standard Offer Contract should become effective on March 30, 1999, commensurate with the Commission's vote.

STAFF ANALYSIS: If Issue 1 is approved, the Standard Offer Contract and associated tariffs may go into effect upon Commission approval.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is filed, this docket should be closed.

STAFF ANALYSIS: This docket should be closed if no person whose substantial interests are affected by the action proposed by this recommendation files a petition for formal proceeding within 21 days of the issuance of the Commission's order. If a protest is filed, the tariffs should remain in effect with any increase in revenues held subject to refund.