State of Florida

Public Service Commission

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RECORDS AND REPORTING

DATE: JUNE 17, 1999

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

FROM: DIVISION OF ELECTRIC AND GAS (HARLOW, GOAD, HAFF)
DIVISION OF LEGAL SERVICES (C. KEATING)

RE: DOCKET NO. 990536-EQ - PETITION BY TAMPA ELECTRIC COMPANY TO CLOSE STANDARD OFFER CONTRACT AND FOR APPROVAL OF A NEW STANDARD OFFER CONTRACT FOR QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES

AGENDA: 6/29/99 - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: JULY 1, 1999

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\990536.RCM

CASE BACKGROUND

On April 19, 1999, the Commission issued Order No. PSC-99-0748-FOF-EQ, in Docket No. 981893-EQ, approving Tampa Electric Company's (TECO) petition to establish a new Standard Offer Contract for qualifying cogeneration and small power production facilities. TECO's approved Standard Offer Contract was based on a 180 megawatt (MW) combustion turbine (CT) unit with an in-service date of 2001. As stated in the approved Standard Offer Contract, a two-week open season period was held from March 30, 1999, through April 13, 1999. The open season period expired with no offers presented to TECO by qualifying cogeneration or small power production facilities.

On April 30, 1999, TECO filed a petition to close the existing Standard Offer Contract and for approval of a new Standard Offer Contract for qualifying cogeneration and small power production facilities. The new Standard Offer Contract proposed in TECO's petition is based on a 180 MW CT unit with an in-service date of 2003.

DISCUSSION OF ISSUES

ISSUE 1: Should TECO's petition to close its current Standard Offer Contract, based upon a combustion turbine unit with an in-service date of 2001, be approved?

RECOMMENDATION: Yes. The open season period for TECO's Standard Offer Contract has expired with no offerings presented.

STAFF ANALYSIS: On March 30, 1999, in Docket No. 981893-EQ, the Commission voted to approve TECO's current Standard Offer Contract. The contract is based on a 180 MW combustion turbine (CT) with an in-service date of January 1, 2001. As required by the tariff, TECO held an open season period for accepting Standard Offer Contracts from March 30, 1999, through April 13, 1999. According to TECO, no offerings were presented within the open season period.

The tariff calls for TECO to petition the Commission to close its Standard Offer Contract after the open season period has expired. TECO has requested that the Standard Offer Contract be closed and replaced by a new Standard Offer Contract based on TECO's current avoided unit, a 180 MW CT with an in-service date of January 1, 2003. Staff agrees that the existing Standard Offer Contract should be closed. The new Standard Offer Contract proposed by TECO is addressed in Issue 2.

ISSUE 2: Should TECO's petition for approval of a new Standard Offer Contract, based upon a combustion turbine unit with an in-service date of 2003, be approved?

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

STAFF ANALYSIS: Pursuant to federal law, the availability of standard rates is required for fossil-fueled qualifying facilities less than 100 kilowatts (0.1 MW) in size. 16 U.S.C. 2601 *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 implemented by the Commission through its adoption of the Standard Offer Contract in Rule 25-17.0832(4)(a), Florida Administrative Code. Pursuant to this rule, each investor-owned electric utility must file a tariff and a Standard Offer Contract with the Commission. These provisions implement 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 pursuant to Rule 25-22.082, Florida Administrative Code.

To comply with Rule 25-17.0832(4)(a), Florida Administrative Code, TECO proposed a new Standard Offer Contract based on a combustion turbine (CT) unit with an in-service date of January 1, 2003. CT units normally require about 18 months to construct. Therefore, TECO will need to commence construction by July 1, 2001.

TECO's proposed COG-2 (firm capacity and energy) tariff includes a three-week open season period for receiving Standard Offer Contracts. This is an expansion of the two-week open season in TECO's prior Standard Offer Contract. If TECO does not receive a full subscription of 180 MW within the initial three-week open season period, an additional three-week open season period will be held in 60 days. As noted above, TECO did not receive any offerings to its prior Standard Offer Contract. Staff believes that the expansion of the open season period will increase the probability that TECO will receive offers under its proposed Standard Offer Contract.

TECO has proposed no changes to the criteria for evaluating submitted Standard Offer Contracts. These evaluation criteria should be readily understandable to any developer who signs TECO's Standard Offer Contract. The avoided unit cost parameters appear to be reasonable for a CT unit, and the resulting capacity payments are appropriate. The performance provisions are identical to those in TECO's prior Standard Offer Contract, which was based on an identical, 2001 CT unit. These provisions include dispatchability and on-peak performance incentives.

It is unlikely that purchases made by TECO pursuant to the proposed Standard Offer Contract will result in the deferral or avoidance of TECO's 2003 CT unit, because the eligibility pool for Standard Offer Contracts is limited. Given past history, TECO stated that it does not expect to receive enough offers to defer the unit. If TECO enters into Standard Offer Contracts, but the need for the 2003 CT unit is not deferred or avoided, TECO will essentially be paying twice for the same firm capacity. Therefore, the requirements of federal law and the implementation of state regulations discussed above may result in a subsidy to the qualifying facilities. Staff notes, however, that the potential subsidy could be mitigated, as TECO may have opportunities to sell any surplus capacity to the wholesale market.

Ideally, qualifying facilities should compete on equal footing with all other producers of electricity. However, until and unless there is a change in federal and state law, qualifying facilities are to be given some preferential treatment. The Commission has minimized this unequal footing by requiring Standard Offer Contracts only for small qualifying facilities, renewables, or municipal solid waste facilities. These types of facilities may not be in a position to negotiate a purchased power agreement due to their size or timing. Thus, the Commission's rules balance market imperfections with the existing policy of promoting qualifying facilities.

In summary, staff does not expect that TECO's proposed Standard Offer Contract will result in the avoidance of the 2003 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 3: On what date should TECO's proposed Standard Offer Contract become effective?

RECOMMENDATION: TECO's Standard Offer Contract should become effective on June 29, 1999, commensurate with the Commission's vote.

STAFF ANALYSIS: If Issue 2 is approved, the Standard Offer Contract and associated tariffs may go into effect upon Commission approval.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, if no protest is filed within 21 days of the issuance of the order.

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any changes held subject to refund pending resolution of the protest. If no protest is filed, this docket should be closed upon the issuance of a Consummating Order.