



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

RECEIVED-FPSC  
99 OCT - 7 AM 9:46  
RECORDS AND REPORTING

**DATE:** OCTOBER 7, 1999

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

**FROM:** DIVISION OF ELECTRIC AND GAS (HAFF, GING) *MMA*  
DIVISION OF LEGAL SERVICES (JAY) *JBJ*  
*RUE*

**RE:** DOCKET NO. 991183-EQ - PETITION FOR APPROVAL OF STANDARD OFFER CONTRACT FOR PURCHASE OF FIRM CAPACITY AND ENERGY FROM CERTAIN SMALL QUALIFYING FACILITIES BY GULF POWER COMPANY

**AGENDA:** OCTOBER 19, 1999 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** 60-DAY SUSPENSION DATE: OCTOBER 22, 1999

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\LEG\WP\991183.RCM

### CASE BACKGROUND

On October 14, 1998, in Docket No. 981346-EQ, Gulf Power Company (Gulf) petitioned for Commission approval to establish a new standard offer contract for the purchase of firm capacity and energy from qualifying facilities as defined in Rule 25-17.0832(4)(a), Florida Administrative Code. For purposes of the proposed standard offer contract, Gulf chose as its avoided unit a 30 MW portion of a Southern Company combustion turbine (CT) unit with a June, 2006 in-service date. However, Gulf's June, 1998 *Ten-Year Site Plan* identified a 532 MW combined cycle (CC) unit, with a June, 2002 in-service date, as Gulf's next generating unit.

In a memorandum dated November 5, 1998, staff recommended that the Commission deny Gulf's petition because the proposed standard offer contract was not based on Gulf's next identified generating unit and, thus, did not comply with the Commission's rules for

DOCUMENT NUMBER-DATE

12120 OCT-7 99

FPSC-RECORDS/REPORTING

DOCKET NO. 991183-EQ  
DATE: October 7, 1999

establishing standard offer contracts. Gulf withdrew its petition prior to a Commission vote, and Docket No. 981346-EQ was closed.

On February 12, 1999, in Docket No. 990172-EI, Gulf petitioned for waiver of the requirements of Rule 25-17.0832(4), Florida Administrative Code. Gulf contended in its petition that, because of the timing of its proposed unit additions, none of these units were suitable as an avoided unit for purposes of a standard offer contract. Therefore, Gulf argued, no reasonable standard offer contract could be established at the time without causing harm to Gulf and its ratepayers.

By Order No. PSC-99-1091-PAA-EI, issued May 28, 1999, in Docket No. 990172-EI, the Commission denied Gulf's petition for waiver of Rule 25-17.0832(4), Florida Administrative Code, because the petition did not satisfy the statutory criteria for a rule waiver. Order No. PSC-99-1091-PAA-EI further required Gulf to submit a standard offer contract consistent with Rule 25-17.0832, Florida Administrative Code and based on Gulf's next generating unit, the June, 2002 combined cycle unit. Docket No. 990172-EI was closed.

On August 23, 1999, Gulf requested Commission approval to establish a new standard offer contract. The avoided unit for this new contract is Smith Unit 3, a 532 MW combined cycle with a June, 2002 in-service date. The proposed avoided unit was granted a Determination of Need by the Commission in Order No. PSC-99-1478-FOF-EI, issued August 2, 1999, in Docket No. 990325-EI. The following recommendation addresses Gulf's petition.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Gulf's Petition for Approval of a Standard Offer Contract be approved?

**RECOMMENDATION:** Yes. Gulf's Standard Offer Contract complies with Rule 25-17.0832, Florida Administrative Code. (Haff, Ging)

**STAFF ANALYSIS:** Pursuant to federal law, the availability of standard rates is limited to 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. Pursuant to Florida law, the Commission is directed 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 ". . . 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.

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

To comply with both the Commission's rules and Order No. PSC-99-1091-PAA-EI, issued May 28, 1999, in Docket No. 990172-EI, Gulf proposed a Standard Offer Contract based on Smith Unit 3, a 532 MW combined cycle with a June, 2002 in-service date. This unit was granted a Determination of Need by the Commission in Order No. PSC-99-1478-FOF-EI, issued August 2, 1999, in Docket No. 990325-EI. Gulf expects to commence construction on this unit in late 2000.

Consistent with Order No. PSC-99-1091-PAA-EI, Gulf's proposed standard offer contract provides for a two-week open solicitation period to start on the effective date of the contract. However, staff believes that there are likely few, if any, 0.1 MW-sized qualifying facilities willing to sign a standard offer contract with Gulf. Additionally, while the size of governmental solid

waste-fired generating facilities eligible for a standard offer contract has never been limited by rule or regulation, Gulf has no existing standard offer contracts with these facilities. Because the eligibility pool for standard offer contracts is limited, staff believes it is highly unlikely that purchases made by Gulf pursuant to the proposed standard offer contract will defer or avoid Smith Unit 3. If, however, some qualifying facilities do sign Gulf's standard offer contract but do not defer or avoid the construction of Smith Unit 3, Gulf could essentially pay twice for the same firm capacity. In effect, the firm capacity payments under the Standard Offer Contract amount to a subsidy to the qualifying facility. This potential subsidy is created by the requirements of the federal law and the implementation of state regulations.

Gulf's proposed standard offer contract includes a provision to minimize any potential subsidy paid to qualifying facilities. The avoided unit cost parameters contained on Sheet Number 9.24 of the contract appear to be in line with the parameters associated with Smith Unit 3 as previously approved by the Commission. The capacity available under the contract is: (1) up to 10 MW; or (2) between 385 and 574 MW. The first band of capacity is capped at 10 MW to reduce the amount of standard offer capacity that clearly will not defer or avoid Smith Unit 3. The second band of capacity, if fully subscribed, is expected to defer the need for Smith Unit 3. However, the likelihood of this happening is remote. By offering two capacity bands, it appears that Gulf is encouraging small (less than 0.1 MW) qualifying facilities while giving an opportunity for renewables and governmental solid waste facilities whose size is not limited by the standard offer contract.

Gulf's proposed COG-2 (firm capacity and energy) tariff complies with Commission rules (Rule 25-17.0832, Florida Administrative Code). Gulf's firm capacity payments made to cogenerators, as contained on Sheet Number 9.11 of the COG-2 tariff, are appropriate. The performance provisions for qualifying facilities appear to be appropriate for a CC unit.

In summary, staff does not expect that Gulf's proposed Standard Offer Contract will result in the deferral or avoidance of Smith Unit 3, the 574 MW CC unit with a June, 2002 in-service date. Nonetheless, Gulf's proposed contract and COG-2 tariff comply with the Commission's cogeneration rules. For this reason, staff recommends that Gulf's petition for approval of its new standard offer contract be approved.

DOCKET NO. 991183-EQ  
DATE: October 7, 1999

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

**RECOMMENDATION:** Gulf's Standard Offer Contract should become effective on December 1, 1999. (Haff, Ging)

**STAFF ANALYSIS:** Gulf has requested that the Commission approve the Standard Offer Contract effective the date of a Commission decision. If Issue 1 is approved, staff recommends that Gulf's Standard Offer Contract and associated tariffs go into effect on December 1, 1999. This date will enable the Order in this docket to become final and provide adequate time for the administrative process.

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes. If a protest is filed, the tariffs should remain in effect pending resolution of the protest. Because the tariffs do not require the delivery of any capacity until June 1, 2002, any protest will be resolved prior to the performance date. (Jaye)

**STAFF ANALYSIS:** If a protest is filed, the tariffs should remain in effect pending resolution of the protest. Because the tariffs do not require the delivery of any capacity until June 1, 2002, any protest will be resolved prior to the performance date.