



Public Service Commission

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RECORDS AND REPORTING

DATE: APRIL 5, 2001

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

FROM: DIVISION OF SAFETY AND ELECTRIC RELIABILITY (WOODALL)
BOHRMANN, HAFF, LEE) *Tb Dr WPM MAA*
DIVISION OF LEGAL SERVICES (HART) *RUE* *JDT*

RE: DOCKET NO. 010275-EI - PETITION FOR APPROVAL OF AMENDMENT TO COGENERATION CONTRACT WITH PINELLAS COUNTY RESOURCE RECOVERY FACILITY BY FLORIDA POWER CORPORATION.

AGENDA: 04/17/2001 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\SER\WP\010275.RCM

CASE BACKGROUND

Pursuant to a negotiated cogeneration contract dated February 21, 1989, Florida Power Corporation (FPC) currently purchases 54.75 MW of capacity and energy from the Pinellas County Resource Recovery Facility (Facility). The Commission approved the initial negotiated contract for cost recovery in Order No. 21952, Docket No. 890637-EQ. The contract was modified by a subsequent amendment in 1993 and two curtailment letter agreements in 1994 and 1997.

For Pinellas County to receive full capacity payments from FPC under the negotiated contract, the Facility must operate at a minimum on-peak capacity factor of 70% as well as a minimum total capacity factor of 70%. Both performance measures are based on the Facility's committed capacity of 54.75 MW and are calculated using a 12-month rolling average.

DOCUMENT NUMBER-DATE

04177 APR-40

FPC-RECORDS/REPORTING

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Pinellas County has notified FPC of its plans to replace major components of the Facility's three boilers to improve reliability and efficiency. Pinellas County plans to repair one boiler in each year from 2001 to 2003, with each outage expected to take twelve weeks. The Facility's capacity output will decrease by approximately 1/3 during each of the three outages.

Pinellas County has an incentive to schedule the boiler outages during the summer season, when the Facility typically processes less waste. Such action would minimize the risk of the Facility failing to meet its 70% capacity factor obligation under the contract. However, FPC needs the Facility's capacity the most during the summer season to meet prolonged high demand periods.

To meet the needs of both Pinellas County and FPC, the parties have negotiated an amendment to the current negotiated contract. FPC petitioned for Commission approval of this amendment on February 28, 2001.

The Commission has jurisdiction over the subject matter pursuant to Sections 366.05, 366.06 and 366.051, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power Corporation's petition for approval of an amendment to its cogeneration contract with the Pinellas County Resource Facility?

RECOMMENDATION: Yes. While staff believes that FPC's petition overstates the savings to its customers from this agreement, the agreement should not cause FPC's customers to incur any additional costs. Further, the agreement ensures that Pinellas County will not schedule necessary boiler maintenance during high demand summer peak months.

STAFF ANALYSIS:

Provisions of the FPC / Pinellas County Contract Amendment

The contract amendment proposed by FPC and Pinellas County contains the following key provisions:

1. The amendment has a term of three years, beginning in 2001 and encompassing the Facility's three 12-week boiler outages.
2. Pursuant to the 1994 and 1997 curtailment letter agreements, Pinellas County may reduce the Facility's output for a four-week period without penalty, if requested to do so by FPC. The proposed contract amendment allows Pinellas County to treat the first four weeks of the 12-week boiler outage as a curtailment period if the outage begins on October 1st of each year (or no earlier than September 15th by mutual agreement). However, Pinellas County may modify the Facility's committed capacity for the last eight weeks of the 12-week outage to reflect decreased generating capability. The proposed agreement calls for the Facility's 12-month rolling average on-peak and total capacity factors to be calculated using its redesignated committed capacity. This minimizes the likelihood that the boiler outages will cause the Facility's capacity factor to fall below 70%.
3. FPC's capacity payments to Pinellas County during the first four weeks of the 12-week outage/curtailment period will be based on the Facility's existing committed capacity, currently 54.75 MW. For the last eight weeks of each 12-week outage/curtailment period, capacity payments will be based on the Facility's redesignated committed capacity.

In its petition, FPC projected that the contract amendment would save its customers \$7,141,068 on a net present value (NPV) basis. Of this value, \$3,787,707 is the NPV savings from FPC paying reduced capacity payments to Pinellas County due to the Facility's derating, while \$3,353,361 is the NPV savings from FPC's purchase of replacement capacity and energy during the fall shoulder period rather than during high demand summer months.

Staff Questions Some of FPC's Assumptions

While the Commission should approve FPC's petition, there are two primary areas where the staff disagrees with some assumptions underlying FPC's analysis:

1. Need for Replacement Capacity Is Uncertain

Because the Facility will decrease its capacity output during boiler outages, FPC forecasts a need to replace 18.25 MW, 16.25 MW, and 14.25 MW of capacity in 2001, 2002, and 2003, respectively. If the three boiler outages were to occur during the summer peak months as Pinellas County prefers, FPC's summer reserve margin is forecasted to decrease by approximately 0.22% in each year from 2001 to 2003. If the boiler outages were to occur during the summer and FPC were not to purchase replacement capacity, the lowest forecasted reserve margin at summer peak during this period is 18.15% in 2001.

Because FPC appears to require only a small amount of replacement capacity during the Facility's boiler outages, staff is not certain whether FPC will, in fact, make such purchases. If FPC does not purchase replacement capacity and energy, FPC's ratepayers will realize \$3,353,361 less in NPV savings from the proposed contract amendment. Staff agrees that it is generally appropriate to shift boiler maintenance from summer peak periods to the fall shoulder months to ensure system reliability. However, fall maintenance can also be a problem because other Peninsular Florida utilities perform unit maintenance at that time. During a capacity shortage, the price paid by utilities for capacity and energy may be the same regardless of the season.

2. Savings from Reduced Capacity Payments Are Overstated

FPC states that its customers will gain \$3,787,707 in NPV savings from FPC paying reduced capacity payments to Pinellas County during the Facility's derating. However, this analysis assumes that Pinellas County will decrease the committed capacity of the Facility for the entire 12-week period. As previously

mentioned in provision #2, the first four weeks of a curtailment period can occur without penalty. As previously mentioned in provision #3, FPC's capacity payments during the first four weeks of the curtailment period will be based on the existing committed capacity, currently 54.75 MW. For the last eight weeks of the outage/curtailment period, capacity payments are calculated using the Facility's redesignated committed capacity. If FPC's analysis had properly accounted for these two different methods to measure the cost impact of curtailment outage, staff believes that the true reduction in capacity payments is \$2,406,348 NPV.

Staff even questions the likelihood that FPC's customers could save the \$2,406,348 NPV stated above. This dollar value assumes that Pinellas County will reduce its committed capacity, for an eight-week period, by exactly 18.25 MW in 2001, 16.25 MW in 2002, and 14.25 MW in 2003. However, since the contract amendment enables Pinellas County to redesignate the Facility's committed capacity during each outage, Pinellas County could conceivably choose any value, including the full contractual commitment of 54.75 MW. While the monthly capacity factor for these two months will certainly be below the 70% capacity factor requirement, Pinellas County may choose to take a risk that the previous 10 months' performance will sufficiently keep the 12-month rolling average capacity factor above 70%. In this case, Pinellas County continues to receive the full capacity payment based on 54.75 MW, and FPC's customers save nothing.

Conclusion

At worst, staff believes that the proposed contract amendment will neither cost nor save FPC's ratepayers anything. Because the contract amendment ensures that the Facility's output will not be derated during the summer peak months and does not cause customers to incur any extra costs, staff recommends that FPC's petition be approved.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.