



Florida Power

A Progress Energy Company

JAMES A. MCGEE

ASSOCIATE GENERAL COUNSEL

October 15, 2001

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

011365-EP

Re: Petition of Florida Power Corporation for approval of an amendment to its cogeneration contract with the Bay County Resource Recovery Facility.

Dear Ms. Bayó:

Enclosed for filing are an original and fifteen copies of the subject Petition of Florida Power Corporation.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

DOCUMENT NUMBER-DATE
13130 OCT 16 2001
FPSC-COGENERATION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power Corporation for approval of an amendment to its cogeneration contract with the Bay County Resource Recovery Facility.

Docket No. _____

Submitted for filing:
October 16, 2001

P E T I T I O N

Florida Power Corporation (Florida Power, or the Company), pursuant to Rule 25-17.0836, F.A.C., hereby petitions the Florida Public Service Commission (the Commission) for approval of the letter agreement between Florida Power and Bay County (the County) contained in the attached Exhibit A, which amends an existing cogeneration contract for the purchase of capacity and energy by Florida Power from the County's Resource Recovery Facility (the Facility), subject to Commission approval. The amendment would terminate the existing contract at the end of 2006, or 15 years earlier than the contract's current termination date, which will substantially reduce Florida Power's capacity payments to the County and result in expected net present value savings to the Company and its customers of approximately \$4.4 million. In support of this petition, Florida Power states as follows:

Introduction

1. Petitioner, Florida Power, is a public utility subject to the regulatory jurisdiction of the Commission under Chapter 366, Florida Statutes. Florida Power's General Offices are located at One Progress Plaza, St. Petersburg, Florida, 33701.

2. All notices, pleadings and other communications required to be served on petitioner should be directed to:

James A. McGee, Esquire
Post Office Box 14042
St. Petersburg, FL 33733
Facsimile: (727) 820-5519

For express deliveries by private courier, the address is:

One Progress Plaza
Suite 1500
St. Petersburg, FL 33701

Background

3. Florida Power currently purchases capacity and energy from the County's Facility under a negotiated cogeneration contract dated April 29, 1988 (the Current Agreement), with a Committed Capacity of 11 megawatts and a term that expires at the end of 2022. The Current Agreement, which was approved for cost recovery by the Commission in Order No. 16509, issued June 17, 1988 in Docket No. 880346-EQ, is attached as Exhibit B.

4. The County began commercial operation of the Facility in June 1988, and, pursuant to the terms of the Current Agreement, elected to receive early capacity payments at a reduced level to reflect the fact that payments began seven years before the 1995 in-service date of the contractual avoided unit. Under this early payment option, capacity payments received by the County during this seven-year period were accumulated, with interest, in a Capacity Account as a contingent liability of the County to ensure performance during the contract's latter years.

Beginning in 1995, the difference between the County's reduced early capacity payments and full capacity payments have been credited against the balance in the Capacity Account. However, this difference between full and reduced capacity payments has not been sufficient to offset even the interest charges on the large Account balance that had accumulated over the seven years prior to 1995, much less reduce the balance itself.

5. As a result, the balance of the Capacity Account has grown at an ever increasing rate and will continue to do so until 2013. At that time, capacity payments will cease for the remainder of the Current Agreement's term and the Capacity Account will begin being credited in the amount of full capacity payments (*i.e.*, the difference between the County's then-current capacity payments -- zero -- and full capacity payments). This increase in the credit to the Capacity Account will enable the write-down of the Account's balance to be completed coincident with the termination of the Current Agreement.

6. While this will resolve the concern over the increasingly large balance in the Capacity Account, waiting until the back end of the Current Agreement to do so creates timing problems for both Florida Power and the County. The cessation of capacity payments as a means to write down the Capacity Account delays one the Agreement's most significant benefits to Florida Power and its customers until the last ten years of a 33-year contract and substantially minimizes the present value of this benefit compared to any other ten-year period within the contract's term. Moreover, in order to actually receive this back-end benefit, Florida Power will be

dependent on the financial ability of the County and its more than 25-year old Facility to fully perform under the Current Agreement, despite the loss of the significant economic incentive previously provided by capacity payments. The County's problem is the other side of the same coin. It will be faced with the need to meet contractual performance requirement under potentially uneconomic operating conditions and major capital and maintenance expenditures on an aging plant in order to eliminate a contingent liability of serious magnitude to a governmental body the size of the County.

7. In response to these and related concerns, the County and Florida Power have negotiated an amendment to the Current Agreement which is set forth in the letter agreement attached to this petition as Exhibit A (the Amendment, or the Amended Agreement).

The Amendment

8. The Amendment negotiated by the County and Florida Power contains the following key provisions:

- The Amended Agreement will terminate on December 31, 2006.
- The balance of the Capacity Account will be eliminated immediately.
- Florida Power will pay consulting fees incurred by the County for the valuation and implementation of the Amendment in an amount not to exceed \$610,000.
- The County will have the option to reduce the Committed Capacity of the Facility by 1 MW beginning in 2005.

9. The cost/benefit analysis attached as Exhibit C shows that the Amendment will provide Florida Power and its customers over \$4 million in projected net present value (NPV) savings. These savings are the net result of reduced costs during the years 2007 through 2012 due to the avoidance of high-cost capacity payments under the Current Agreement compared to replacement power costs, less the increased costs of replacement power during the years 2013 through 2022 compared to energy-only payments under the Current Agreement after capacity payments cease.¹ In addition, the Amendment will provide even greater NPV savings if the County exercises its option to reduce the Facility's Committed Capacity beginning in 2005.

10. In essence, the Amendment reverses the timing of the costs and savings that Florida Power and its customers would experience under the Current Agreement. The savings that would have been received beginning in 2013 after capacity payments ceased under the Current Agreement will now begin in 2006 under the Amended Agreement. Conversely, the high costs that would have been incurred from 2007 through 2012 under the Current Agreement will now be shifted back to 2013 through 2022 by the Amendment. While Exhibit C shows the results of a detailed economic analysis of this reversal in the timing of costs and benefits, basically, it does no more than simply quantify a conclusion about the Amendment

¹ The projection of NPV savings includes consideration of the potential \$610,000 payment to the County for its consulting fees. The projection does not take into consideration the elimination of the Capacity Account balance, since the Account serves only as a performance assurance mechanism for the Current Agreement's latter years after capacity payments ceased and is not intended to provide Florida Power with an additional source of revenues.

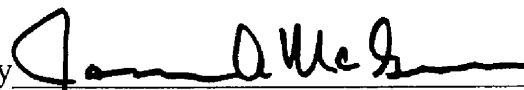
that would intuitively obvious in any event; it is better to receive savings early and costs late than *vis versa*.

WHEREFORE, Florida Power Corporation respectfully requests that the Commission grant this petition and approve the modification of the Current Agreement, as set forth in the Amendment contained in Exhibit A, for cost recovery purposes.

Respectfully submitted,

FLORIDA POWER CORPORATION

By



James A. McGee

Post Office Box 14042

St. Petersburg, FL 33733-4042

Telephone: (727) 820-5184

Facsimile: (727) 820-5519

EXHIBIT A

**AMENDMENT TO
THE CURRENT AGREEMENT**



Florida Power
A Progress Energy Company

SEP 14 2001

September 14, 2001

Board of County Commissioners
Bay County
Office of the County Attorneys
221 McKenzie Avenue
P.O. Box 70
Panama City, FL 32402

Re: Early Termination of Contract For the Purchase of Firm Energy and Capacity from Bay County

Dear Sirs:

In order to formalize the intent of Florida Power and Bay County to terminate the Contract for the Purchase of Firm Energy and Capacity from Bay County dated the 29th day of April, 1988 between Florida Power Corporation and Bay Resources Management, Inc. (hereinafter referred to as the "Contract"), this Letter Agreement sets forth the parties' current understandings as follows:

1. Under the Contract, Florida Power received capacity and energy from Bay County prior to 1995. Bay County received capacity payments prior to January 1, 1995. These capacity payments were in the nature of an "early payment" for a future capacity benefit to Florida Power. Effective immediately, the Capacity Account set forth in Paragraph 6 of the Contract, QF's Obligation for Receiving Early Capacity Payments shall be eliminated.
2. The Contract shall be terminated on December 31, 2006;
3. This Letter Agreement shall be assignable to any wholly-owned subsidiary of Florida Power or Progress Energy;
4. This Letter Agreement shall be subject to the approval of the Florida Public Service Commission, Bay County Board of Commissioners and the Board of Directors of Progress Energy. In the event that the Letter Agreement is not approved by the FPSC, Bay County Board of Commissioners or the Board of Directors of Progress Energy, then this Agreement shall be null and void and the Contract shall remain in full force and effect.
5. Notwithstanding any other provision of the Agreement including Section 8.5 thereof, the QF may buy down for zero dollars (\$0) one (1) MW of committed capacity. If this buy down option is exercised by the QF, the QF shall provide six (6) months notice of the buy down

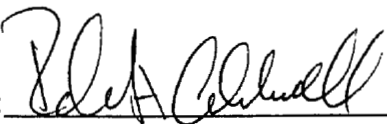
and the payments from the Company in accordance with Appendix C shall then be based on ten (10) MW of committed capacity from the QF.

6. Florida Power shall pay consulting fees with respect to the valuation and implementation of this Letter Agreement on behalf of Bay County in an amount not to exceed Six Hundred Ten Thousand Dollars (\$610,000).
7. Other than as set forth herein, all other terms and conditions of the Contract shall remain in full force and effect.

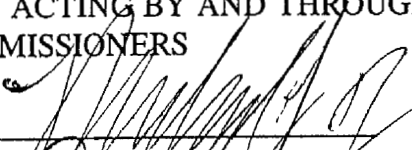
If the terms of this Letter Agreement meets with your approval, please execute both originals and return them to me for execution by Florida Power.

Very truly yours,

FLORIDA POWER CORPORATION

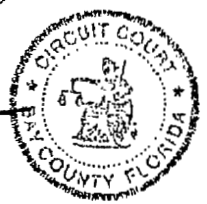
By: 
Vice President - Term Marketing

BAY COUNTY, ACTING BY AND THROUGH ITS BOARD OF COUNTY COMMISSIONERS

By Chairman: 

Attest Clerk: 

Date approved: 8/11/01



NOZ



EXHIBIT B

THE CURRENT AGREEMENT

CONTRACT FOR THE PURCHASE OF
FIRM ENERGY AND CAPACITY FROM BAY COUNTY

THIS AGREEMENT is made and entered into this 29th day of April, 1988, by and between Bay Resource Management, Inc. the operator of Qualifying Facility, hereinafter referred to as "QF" and Florida Power Corporation, hereinafter referred to as the "Company", an Investor-owned utility corporation organized under the laws of the State of Florida. The QF and the Company shall collectively be referred to herein as the "Parties".

WITNESSETH:

WHEREAS, QF desires to sell, and the Company desires to purchase, electricity to be generated by the QF consistent with Florida Public Service Commission (FPSC) Rules 25-17.080 through 25-17.087, Florida Administrative Code; and

WHEREAS, QF has signed an Interconnection Agreement with the utility in whose service territory the QF's generating facility is located (Gulf Power) attached hereto as Appendix A;

NOW THEREFORE, for mutual consideration the Parties agree as follows:

1. Facility

QF has installed and is operating a 15,000 KVA Synchronous Generator located at Panama City, Florida. The generator is designed to produce (measured at the generator bus) a maximum of 13.885 megawatts (MW) of electric power at an 0.85 or lower lagging power factor, such equipment being hereinafter referred to as the "Facility".

2. Term of the Agreement

This Agreement shall begin immediately upon its execution by the parties and shall terminate at 12:01 a.m., December 31, 2021, subject to the provision that the Company shall submit this Agreement to the Florida Public Service Commission for their approval, which approval shall be a condition of the effectiveness of this Agreement. Full and timely recovery by the Company through its ratepayers of any early capacity payments to the QF is recognized as an essential part of such approval.

If this Agreement is not approved by the Florida Public Service Commission, then this Agreement shall be null and void and the Parties shall be returned to the positions they held prior to the execution of this Agreement.

Notwithstanding the foregoing, if construction and commercial operation of the Facility are not accomplished by QF before April 1, 1988, the Company shall be relieved of its obligation to make capacity payments to the QF.

3. Sale of Electricity by QF

The Company agrees to purchase all of the electric power generated at the Facility and transmitted to the Company by the wheeling utility. It is understood that the QF will engage in a Net Billing Arrangement with the wheeling utility. If this arrangement is changed to a Simultaneous Purchase and Sale Arrangement, and the QF purchases its auxiliary requirements on a firm basis, then capacity commitment and payments may be adjusted accordingly, subject to mutual agreement by the parties and a one-year advance written notice.

It is recognized that the QF may commit to sell capacity up to its maximum rating quoted in Section 1, less losses through the wheeling utility and through transformation. Such capacity shall be limited to an amount demonstrated by QF during a 24 hour performance test and shall be limited to the amount of firm wheeling capacity under contract with the QF.

4. Payment for Electricity Produced by QF

4.1 Energy

The Company agrees to pay the QF for energy produced by the Facility and delivered to the Company in accordance with the rates and procedures contained in Rate Schedule COG-2 and attached hereto as Appendix B. Prior to January 1995, QF will receive energy payments based on the Company's actual avoided energy cost. After December 1994, QF's energy payments will be based on the lesser of the Company's actual avoided energy cost or the fuel cost of the Statewide Avoided Unit as defined in Rate Schedule COG-2, such comparison to be made hourly.

4.2 Capacity

4.2.1 Anticipated Committed Capacity

QF expects to sell approximately 11 MW of capacity, beginning on or about April 1, 1988, in accordance with the rates and procedures contained in Rate Schedule COG-2 and attached hereto as Appendix B, as modified in Appendix C.

4.2.2 Actual Committed Capacity

Except for provisions in Section 3, QF shall have the one-time option of amending Paragraph 4.2.1 above after initial facility testing to specify changes in committed capacity and/or date for commencement of capacity payments by providing notice to the Company of

such changes in accordance with Paragraph 9.8. In the event that the Company does not receive notice of such changes before April 1, 1988, the committed capacity and beginning date in 4.2.1 shall apply, subject to verification by test and firm wheeling commitments as indicated in Section 3.

4.2.3 Guaranteed Committed Capacity

At the end of each billing month, beginning with the billing month specified in paragraph 4.2.1, the Company will calculate the most recent twelve-month rolling average capacity factor for such twelve-month period based on QF's Committed Capacity. If the capacity factor thus calculated is 74% or more, then the Company agrees to pay QF a capacity payment that is the product of QF's Committed Capacity and the rate shown in Appendix C.

Mutually-agreed-to planned outages of not more than four weeks per year shall be excluded from the hours used to calculate capacity factor above. It is understood that such outages must be scheduled in writing to the Company as provided in Section 5 with at least two weeks' prior notification in the case of changes, and may not be conducted in the months of December, January, February, July and August, unless authorized in writing by the Company.

4.3 Inadvertent and Non-Scheduled Energy Exchanges

If the QF delivers more or less power to the wheeling utility than the QF had scheduled with that utility, the difference shall be classified as inadvertent energy.

It is understood that such inadvertent energy flows will be resolved as necessary between the QF and the wheeling utility and will not

affect the power scheduled and delivered from the wheeling utility to the Company.

5. Electricity Production Schedule

During the term of this Agreement, QF agrees to:

(a) Provide the Company prior to October 1 of each calendar year an estimate of the amount of electricity generated by the Facility and delivered to the Company for each month of the following calendar year, including the time, duration and magnitude of any planned outages or reductions in capacity;

(b) Promptly update the yearly generation schedule and maintenance schedule as and when any changes may be determined necessary;

(c) Coordinate its scheduled Facility outages with the Company as specified in 4.2.3;

(d) Comply with reasonable requirements of the Company regarding day-to-day or hour-by-hour communications between the parties relative to the performance of this Agreement; and

(e) Maximize its delivery of electricity upon request by the Company.

6. QF's Obligation for Receiving Early Capacity Payments

The parties recognize that capacity payments paid prior to January 1, 1995, are in the nature of "early payment" for a future capacity benefit to the Company. To ensure that the Company will receive a capacity benefit for which early capacity payments have been made, or alternatively, that the QF will repay the amount of early payments received to the extent the capacity benefit has not been conferred, the following provisions will apply:

(a) The Company shall establish a Capacity Account. Amounts shall be credited to the Capacity Account each month through December 1994, in the amount of the Company's capacity payments made to the QF. The monthly balance in the Capacity Account shall accrue interest at an annual rate of 10.72%. Commencing on January 1, 1995, there shall be debited from the Capacity Account an Early Payment Offset Amount to reduce the balance in the Capacity Account. Such Early Payment Offset Amount shall be equal to that amount which the Company would have paid for capacity in that month if capacity payments, had been elected as shown in Appendix E, minus the monthly capacity payment the Company makes to QF as shown in Appendix C.

(b) The QF shall owe the Company and be liable for the credit balance in the Capacity Account. The Company agrees to notify QF monthly as to the current Capacity Account balance. The QF shall raise sufficient revenues pursuant to the Rate Covenant in Section 616 of the Trust Indenture approved by the QF in Ordinance No. 84-07, as amended, to repay the credit balance in the Capacity Account in the event QF defaults pursuant to this Agreement within five (5) years of such default. The QF's obligation to pay the credit balance in the Capacity Account shall survive termination of this Agreement.

(c) As a condition precedent to the obligation of the Company to pay capacity payments in the nature of "early payments", the QF has supplied to the Company an opinion of Burke & Blue, P.A., counsel for QF, affirming the legal authority to enforce the foregoing provisions. This opinion is included as Appendix D to this Agreement.

7. Non-Performance Provisions

QF shall not receive a capacity payment during any month in which the twelve (12) months rolling average of the QF's capacity factor does not equal or exceed seventy-four percent (74%). In addition, if for any month after December 1994, the QF fails to achieve these capacity factors on a twelve (12) month rolling average basis and the QF has received capacity payments prior to January 1995, the QF shall be liable for and shall pay the Company an amount equal to the Early Payment Offset Amount for the month that would have been debited to the capacity account in accordance with paragraph 6(a) had the QF achieved these capacity factors. Any payments thus required of QF shall be invoiced separately by the Company to QF after each month for which such repayment is due and shall be paid by QF within twenty (20) days after receipt of such invoice by QF. Such repayment shall be debited from the Capacity Amount as an Early Payment Offset Amount.

In no event shall the QF repay to the Company for non-performance such amounts which exceed the current credit balance in the Capacity Account.

8. Default

8.1 Mandatory Default

The QF shall be in default under this Agreement if (1) the QF voluntarily declares bankruptcy, or (2) the QF ceases all electric generation for 12 consecutive months.

8.2 Optional Default

The Company may also declare the QF to be in default (1) if after January 1, 1995, the QF fails to maintain capacity factors required

in paragraph 4.2.2 on a twelve-month rolling average basis for 24 consecutive months, or (2) because of a QF's refusal or inability to deliver its Committed Capacity after January 1, 1995.

8.3 Default Remedy

Once this contract is declared to be in default, the Company's obligation to make capacity payments in accordance with paragraph 4.2 is suspended until the default is remedied. Upon written notice to the QF the then current value of the credit balance of the capacity account described in Paragraph 6 (b) shall be paid to the Company pursuant to such Paragraph unless the default is remedied within thirty (30) days. Unremedied default shall relieve the Company of any obligation to purchase further capacity and energy by the QF.

8.4 Waiver

The failure of the Company to enforce the provisions of this article shall not constitute a waiver of any subsequent or continuing default hereunder.

8.5 Buy Down

Notwithstanding any other provision of this Agreement, the QF may, from time to time, upon six (6) months advance written notice to the Company, buy down up to six (6) MW of its committed capacity obligation to the Company to enable the QF to sell steam from the Facility. Such buy down of capacity shall be accomplished by payment to the Company a sum which is equal to the balance in the Capacity Account as provided in Paragraph 6(b) multiplied by a fraction, the denominator of which is the committed capacity as set forth in Paragraph 4.2 and the numerator of which is the number of MW the committed capacity is being reduced after the buy

down. If QF wishes to buy down more than six (6) MW of its committed capacity, then a thirty-six (36) month advance notice will be required. If QF wishes to buy down any or all of their committed capacity for a reason other than steam sales, a seven (7) year advance notice will be required. Further, liquidated damages of ten percent (10%) of the maximum capacity account balance prorated for the buy down portion will be required to compensate the Company's ratepayers for advancing capacity payments to QF.

The Buy-downs provided in the paragraph 8.5 shall be limited to no more than 5 MW from the date of this contract through December 31, 2004.

9. General Provisions

9.1 Permits

QF hereby agrees to seek to obtain any and all governmental permits, certifications, or other authority QF is required to obtain as a prerequisite to engaging in the activities provided for in this Agreement.

9.2 Indemnification

QF agrees to indemnify and save harmless the Company against any and all liability, loss, damage, costs or expense which the Company, its subsidiaries and affiliates, and their respective employees, officers and directors may hereafter incur, suffer or be required to pay by reason of negligence on the part of QF in performing its obligations pursuant to this Agreement or Qf's failure to abide by the provisions of this Agreement. The Company agrees to indemnify and save harmless QF against any and all liability, loss, damage, cost or expense which QF may hereafter incur, suffer, or be required to pay by reason of negligence on the part of the Company in performing its obligations pursuant to this Agreement or the Company's failure to abide by the provisions of this Agreement. QF agrees

QF's indemnity and hold harmless assurances to the Company contained in this Section.

9.3 Exclusion of Incidental and Consequential Damages

Neither party shall be liable to the other for incidental, consequential or indirect damages including, but not limited to, the cost of replacement power, whether arising in contract, tort or otherwise.

9.4 Renegotiations Due to Regulatory Changes

The Company agrees that it will not, directly or indirectly, petition, apply to or otherwise seek to obtain the FPSC's authorization, or the authorization of any other regulatory body which now has or in the future may have jurisdiction over the Company's rates and charges, to change any of the terms and conditions of this Agreement. If the Company should none the less be denied the FPSC's authorization, or the authorization of any other regulatory body which now has or in the future may have jurisdiction over the Company's rates and charges, to recover from its customers all of the payments required to be made to QF under the terms of this Agreement or any subsequent amendment to this Agreement, the parties agree that, at the Company's option, they shall renegotiate this Agreement or any applicable amendment. If the Company exercises such option to renegotiate, the Company shall not thereafter be required to make such payments to the extent the Company's authorization to recover them from its customers is not obtained or has been denied. The Company's exercise of its option to renegotiate shall not relieve the QF of its obligation to repay the balance in the Capacity Account. It is the intent of the parties that the Company's payment obligations under this Agreement or any amendment hereto are conditioned upon the Company's being fully

reimbursed for such payments through the Fuel and Purchased Power Cost Recovery Clause or other authorized rates or charges. Any amounts initially recovered by the Company from its ratepayers but for which recovery is subsequently disallowed by the FPSC and charged back to the Company may be offset or credited against subsequent payments made by the Company for purchases from the QF, or alternatively, shall be repaid by the QF.

Further, the parties agree that, at the option of QF and upon three (3) months notice to the Company, the QF may terminate this Agreement and the Company shall have no further obligations to the QF if the Legislature of the State of Florida enacts and "Electric Energy Pricing Program" or other similar law that would allow the QF to receive economic benefits in excess of the capacity and energy payments provided herein. If this Agreement is terminated pursuant to this paragraph, the QF agrees to (i) repay the credit balance in the Capacity Account as provided in Paragraph 6(b) and 8.5 and (ii) as long as the QF is not within the Company's service area, never sell energy and capacity produced by the Facility to the Company unless the Company consents to such sale. This option shall expire on December 31, 1992.

9.5 Force Majeure

If either party shall be unable, by reason of force majeure, to carry out its obligations under this Agreement, either wholly or in part, the party so failing shall give written notice and full particulars of such cause or causes to the other party as soon as possible after the occurrence of any such cause; and such obligations shall be suspended during the continuance of such hindrance, which, however, shall be remedied

with all possible dispatch; and the obligations, terms and conditions of this Agreement shall be extended for such period as may be necessary for the purpose of making good any suspension so caused. The term "force majeure" shall be taken to mean acts of God, strikes, lockouts or other industrial disturbances, wars, blockades, insurrections, riots, arrests and restraints of rules and people, environmental constraints lawfully imposed by federal, state or local governmental bodies, explosions, fires, floods, lightning; wind, perils of the sea, accidents to equipment or machinery or similar occurrences; provided, however, that no occurrences may be claimed to be a force majeure occurrence if it is caused by the negligence or lack of due diligence on the part of the party attempting to make such claim. QF agrees to pay the costs necessary to reactivate the Facility and/or the interconnection with the wheeling utility's system if the same are rendered inoperable due to actions of QF, its agents, or force majeure events affecting the Facility or the interconnection with the wheeling utility. The Company agrees to reactivate at its own cost its interconnection with the wheeling utility in circumstances where any interruptions to such interconnections are caused by the Company or its agents.

If, for any reason, the wheeling utility is unable or unwilling to deliver capacity and energy pursuant to this Agreement, such condition will constitute an event of "force majeure".

9.6 Assignment

The QF shall have the right to assign its benefits under this Agreement, but the QF shall not have the right to assign its obligations and duties without the Company's prior written approval, which shall not unreasonably be withheld.

9.7 Disclaimer

In executing this Agreement, the Company does not, nor should it be construed, to extend its credit or financial support for the benefit of any third parties lending money to or having other transactions with QF or any assignee of this Agreement, nor does it create any third-party beneficiary rights in the QF or any third party respecting the Company's rights or actions before any court or regulatory body.

9.8 Notification

For purposes of making any and all non-emergency oral and written notices, payments or the like required under the provisions of this Agreement, the parties designate the following to be notified or to whom payment shall be sent until such time as either party furnishes the other party written instructions to contact another individual.

For QF: John Zebrowski
Cost Building
2400 Ardmore Blvd.
Pittsburg, Pennsylvania 15221
Phone: (412)636-5742

For the Company: James G. Keppeler
Florida Power Corporation
P. O. Box 14042
St. Petersburg, Florida 33733 Phone: (813) 866-4218

9.9 Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

9.10 Severability

If any part of this Agreement, for any reason, be declared invalid, or unenforceable by a public authority of appropriate jurisdiction, then such decision shall not affect the validity of the

remainder of the Agreement, which remainder shall remain in force and effect as if this Agreement had been executed without the invalid or unenforceable portion.

9.11 Complete Agreement and Amendments

All previous communications or agreements between the parties, whether verbal or written, with reference to the subject matter of this Agreement are hereby abrogated. No amendment or modification to this Agreement shall be binding unless it shall be set forth in writing and duly executed by both parties to this Agreement.

9.12 Survival of Agreement

This Agreement as may be amended from time to time, shall be binding and inure to the benefit of the Parties' respective successors-in-interest and legal representative.

IN WITNESS WHEREOF, QF and the Company have executed this Agreement the day and year first above written.

WITNESSES:

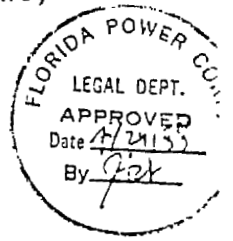
WITNESSES:

FLORIDA POWER CORPORATION

BY: [Signature]
ITS: Senior Vice President,
Operations

BAY RESOURCE MANAGEMENT, INC.
AS QF

BY: [Signature]
ITS: Vice President



TRI-PARTY AGREEMENT

THIS TRI-PARTY AGREEMENT is made and entered into this 22nd day of April, 1988, by and between Bay Resource Management, Inc., the operator of a qualifying facility (the "QF"), as defined by the Public Utilities Regulatory Procedures Act of 1978, as amended ("PURPA"), Bay County, acting by and through its Board of County Commissioners, the recipient of the service from the QF and the owner of the electricity produced by the QF (the "County") and Florida Power Corporation, an investor-owned utility corporation organized under the laws of the State of Florida (the "Company") (The QF, the County and the Company are collectively the "Parties"), whereby the Parties for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, do agree as follows:

1. Recitals. The Parties entered into a Contract for the Purchase of Firm Energy and Capacity From a Qualifying Facility dated February 18, 1988, relative to the sale of electricity generated by a waste-to-energy facility located in Bay County, Florida which has been certified by the Federal Energy Regulatory Commission as a qualified facility under PURPA (the "Previous Contract") and the QF and the County exchanged a letter dated February 18, 1988, relative to the conditions under which the QF entered into the Previous Contract (the "Letter Agreement"). The Parties now desire to restate the Previous Contract and the Letter Agreement as a Contract for the Purchase of Firm Energy and Capacity From a Qualifying Facility between only the QF and

the Company (the "Current Contract") and this Tri-Party Agreement among the QF, the County and the Company. Upon such restatement, the Parties intend for the Current Contract and this Tri-Party Agreement to supersede and replace the Previous Contract and those portions of the Letter Agreement relating to the Previous Contract. To the extent of any conflicts between the terms and conditions of this Tri-Party Agreement and those of the Current Contract, the terms and conditions of the Tri-Party Agreement shall prevail.

2. Responsibilities of the Parties. The QF is a party to the Current Contract for the sole purpose of facilitating an understanding between the Company and the County regarding the subject matter of the Current Contract. Pursuant to Section 9.6 of the Current Contract, the QF hereby makes assignments as follows:

- (a) Except as provided below in this paragraph 2, the QF assigns its obligations and duties under the Current Contract to the County and the County shall be solely responsible to perform the obligations of the QF under the Current Contract and the Company's recourse with regard thereto shall be solely to the County and not the QF; and
- (b) The QF assigns to the County all of the benefits identified or associated with the QF under the Current Contract and the County shall be solely entitled to receive such benefits.

Notwithstanding the above assignments, the QF shall (i) provide the Company with that information required under Section 5 of the Current Contract; (ii) obtain all permits required under Section 9.1 of the Current Contract; and (iii) perform such obligations and duties as the QF may have to the County pursuant to the Service Contract between the County and the QF or as may be imposed by any other agreement between the County and the QF other than the Current Contract or the Agreement for Transmission Service supplied by Company for Qualifying Facility among Gulf Power Company, Bay County and Bay Resource Management, Inc. (the "Wheeling Agreement").

The Company, the County and the QF shall not be liable to one another for incidental, consequential or indirect damages including, but not limited to, the cost of replacement power, whether arising in contract, tort or otherwise as provided in Section 9.3 of the Current Contract.

3. Sale of Electricity. The County as the owner of the electricity generated by the QF hereby designates the QF as its agent for the purpose of selling such electricity to the Company pursuant to the Current Contract, PURPA and the rules of the Florida Public Service Commission.

4. Payments. The QF hereby directs the Company to make all payments now or hereafter payable pursuant to the Current Contract directly to the County and the Company agrees to do so.

5. Security for Repayment of Early Capacity Payments and Other Obligations. The County hereby agrees to provide such

security for the repayment of early capacity payments as may be imposed upon the QF pursuant to the Current Contract and intends to be bound by all such obligations as fully as if the County was a direct party to the Current Contract having such obligations. In addition, the County will be responsible to perform all other obligations, including obligations to pay any fees or costs, and that the County will receive all benefits, associated with the QF. The County shall have a right to require that QF perform only those obligations stated in the Current Contract which QF shall be obligated to perform under the Service Contract or under agreements between QF and the County other than the Previous Contract and the Current Contract. The County hereby agrees to indemnify and hold harmless QF from and against all other liabilities of any kind provided for in the Current Contract or any amendments thereto.

6. Voluntary Bankruptcy of QF. The Company agrees to waive the mandatory default required by Section 8.1 of the Current Contract in the event the QF voluntarily declares bankruptcy, if the County, within thirty (30) days of written demand from the Company, provides such reasonable assurances as the Company may require because of such voluntary bankruptcy.

7. Elections and Directions. The QF shall not make any elections, decisions or otherwise provide any directions pursuant to the Current Contract without having obtained the County's prior written consent thereto. The QF shall make such elections, decisions or otherwise provide such directions pursuant to the

Current Contract as the County may from time to time direct in writing.

8. Notification. The Company agrees to notify the County of any actions required to be performed by the QF pursuant to the Current Contract and to allow such action to be performed by the County under the terms and conditions of the Current Contract.

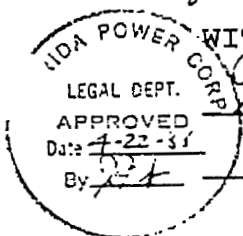
IN WITNESS WHEREOF, QF, the County and the Company have executed this Agreement the day and year first above written.

BAY COUNTY, acting by and through its Board of County Commissioners

WITNESSES:

[Signature]
[Signature]

BY: [Signature]
ITS: Chairman



WITNESSES:

[Signature]
[Signature]

FLORIDA POWER CORPORATION
BY: [Signature]
ITS: Senior Vice President, Operations

WITNESSES:

[Signature]
[Signature]

BAY RESOURCE MANAGEMENT, INC.
AS QF
BY: [Signature]
ITS: Vice President

Appendix
A

INTERCONNECTION AGREEMENT

Gulf Power Company, hereinafter referred to as "the Company", agrees to interconnect with the Board of County Commissioners of Bay County, Florida, hereinafter referred to as the "QF", subject to the following provisions:

1. Facility

The QF's generating facility, hereinafter referred to as "Facility", is located at U.S. Highway 231 approximately 9 miles North of Panama City in the new Industrial Park, within the Company's service territory. The QF intends to have its Facility installed and operational on or about May 1, 1987. The QF shall provide the Company reasonable prior notice of the Facility's initial operation, and it shall cooperate with the Company to arrange initial deliveries of power to the Company's system.

The Facility has been or will be certified as Qualifying Facility pursuant to the rules and regulations of the Florida Public Service Commission (FPSC) or the Federal Energy Regulatory Commission (FERC). The QF shall maintain the qualifying status of the Facility throughout the term of the interconnection.

2. Construction Activities

The QF shall provide the Company with written instructions to proceed with construction of the interconnection facilities as described in this Agreement at least 24 months prior to the date on which the facilities shall be completed. The Company agrees to complete the interconnection facilities as described in this Agreement within 24 months of receipt of written instructions to proceed.

Upon the parties' agreement as to the appropriate interconnection design requirements, and upon receipt of written instructions to proceed from the QF, the Company shall design and perform or cause to be performed all the work necessary to interconnect the Facility with the Company's system.

The QF agrees to pay the Company all expenses incurred by the Company to design, construct, operate, maintain and repair the interconnection facilities necessary for integration of the Facility into the Company's electrical system. If, within five (5) years from the date of interconnection, the Company provides electric service from these facilities, to an industrial customer whose load requires such facilities, the Company agrees to refund to the QF an amount equal to the Net Book value of the common facilities originally constructed for the sole purpose of interconnection with the QF.

The QF agrees to pay the costs for complete interconnection work payable in 36 monthly installments, plus interest on the outstanding balance calculated at the 30 day highest grade commercial paper rate in effect 30 days prior to the date each payment is due, with the first such installment payment being due 30 days after the Company notifies the QF that such interconnection work has been completed.

In the event the QF notifies the Company in writing to cease interconnection work before its completion, the QF shall be obligated to reimburse the Company for the interconnection costs incurred up to the date such notification is received. Payments shall be made within 30 days of the Company rendering of

Payments shall be made within 30 days of the Company rendering of a statement for cost incurred.

3. Cost Estimates

Attached hereto as Exhibit A and incorporated herein by this reference, is a document entitled, "QF Interconnection Cost Estimates". The parties agree that the cost of the interconnection work contained in Exhibit A is a good faith estimate of the actual cost to be incurred and neither party shall be bound by the amount shown therein.

4. Technical Requirements and Operations

The parties agree that the QF's interconnection with, and delivery of electricity into, the Company's system must be accomplished in accordance with the provisions of Exhibit B entitled "General Standards for Safety and Interconnection" contained in Rule 25-17.87, adopted by the FPSC in Order No. 12443, Docket 820406-EU, attached to, and made a part of this Agreement.

The QF agrees to require that the Facility operator immediately notify the Company's System Dispatcher by telephone in the event hazardous or unsafe conditions associated with the parties' parallel operations are discovered. If such conditions are detected by the Company then the Company will likewise immediately contact the operator of the Facility by telephone. Each party agrees to immediately take whatever appropriate corrective action is necessary to correct the hazardous or unsafe conditions.

To the extent the Company reasonably determines the same to be necessary to ensure the safe operation of the Facility or to

protect the integrity of the Company's system, the QF agrees to reduce power generation or take other appropriate actions.

5. Interconnection Facilities

The interconnection facilities shall include the items included in Exhibit C, which is made an integral part of this Agreement.

Interconnection facilities on the Company's side of the ownership line with the QF shall be owned, operated, maintained and repaired by the Company. The QF shall be responsible for the cost of designing, installing, operating and maintaining the interconnection facilities on the QF's side of the ownership line as indicated in Exhibit C. The QF shall be responsible for establishing and maintain controlled access by third parties to the interconnection facilities.

6. Maintenance and Repair Payments

The Company will separately invoice the QF monthly for all costs associated with the operation, maintenance and repair of the interconnection facilities. A charge of ___ dollars per month shall be made to the QF for such costs. The monthly charge shall be adjusted annually, commencing _____, 198__, and computed ~~at~~ the then existing fixed charge rate for operation and maintenance. The QF agrees to pay the Company within 20 days of receipt of each such invoice.

7. Site Access

In order to help ensure the continuous, safe, reliable and compatible operation of the Facility with the Company's system, the QF hereby grants to the Company for the period of intercon-

nection the reasonable rights of ingress and egress, consistent with the safe operation of the Facility, over property owned or controlled by the QF to the extent the Company deems such ingress and egress necessary in order to examine, test, calibrate, coordinate, operate, maintain or repair any interconnection equipment involved in or associated with the parallel operation of the Facility and the Company's system, including the Company's metering equipment.

8. Construction Responsibility

In no event shall any Company statement, representation, or lack thereof, either express or implied, relieve the QF of its exclusive responsibility for the Facility. Specifically, any Company inspection of the Facility shall not be construed as confirming or endorsing the Facility's design or its operation or maintenance procedures not as a warranty or guarantee as to the safety, reliability, or durability of the Facility's equipment. The Company's inspection, acceptance, or its failure to inspect shall not be deemed an endorsement of any Facility equipment or procedure.

9. Insurance and Indemnity

The QF shall deliver to the Company at least 15 days prior to the start of any interconnection work, a certified copy or duplicate original of a liability insurance policy issued by a reputable insurance company authorized to do business in the State of Florida, jointly protecting and indemnifying the QF and the Company, their officers, employees, and representatives, against all liability and expense on account of claims and suits

for injuries or damages to persons or property arising out of the interconnection to the QF, or caused by operation of any of the QF's equipment or by the QF's failure to maintain the Facility's equipment in satisfactory and safe operating conditions, or otherwise arising out of the performance by the QF or the Company of the terms and conditions of this Agreement. The Company shall be included as an additional insured on the QF's policy.

The policy providing such coverage shall provide comprehensive general liability insurance, including property damage, but in an amount not less than \$1,000,000 for each occurrence. In addition, the above required policy shall be endorsed with a provision whereby the insurance company will notify the Company within 30 days prior to the effective date of cancellation or material change in policy. The QF shall pay all premiums and other charges due on said policy in force during the entire period of interconnection with the Company.

The QF agrees to indemnify and save harmless the Company, its subsidiaries, and their respective employees, officers, and directors against any and all liability, loss, damage, cost or expense which the Company, its subsidiaries, and their respective employees, officers, and directors may hereafter incur, suffer or be required to pay by reason of negligence on the part of the QF in performing its obligations pursuant to this Agreement or the QF's failure to abide by the provision of this Agreement. The Company agrees to indemnify and save harmless the QF against any and all liability, loss, damage, cost or expense which the QF may

hereafter incur, suffer, or be required to pay by reason of negligence on the part of the Company in performing its obligations pursuant to this Agreement or the Company's failure to abide by the provisions of this Agreement.

10. Default

The Company may declare the QF to be in default at any time the Company deems the QF to have failed to comply with the terms of this agreement. The Company shall give the QF written notice of the default, giving the QF fifteen (15) days from the date of said notice in which to cure the default. If the default has not been cured within said fifteen (15) days, the Company may deem this agreement to be terminated and may disconnect its facilities from those of the QF.

11. Electric Service to the QF

The Company will provide the class or classes of electric service requested by the QF, to the extent that they are consistent with applicable tariffs, provided, however, that interruptible service will not be available under circumstances where interruptions would impair the QF's ability to generate and deliver electricity to the Company.

12. Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

13. Survival of Agreement

This Agreement as may be amended from time to time, shall be binding and inure to the benefit of the Parties' respective successors-in-interest and legal representatives.

14. Complete Agreement and Amendments

All previous communications or agreements between the parties, whether verbal or written, with reference to the subject matter of this Agreement are hereby abrogated. No amendment or modification to this Agreement shall be binding unless it shall be set forth in writing and duly executed by both parties to this Agreement.

15. Notification

For purpose of making emergency or any communications relating to the operation of the Facility, under the provisions of this Agreement, the parties designate the following people for notification:

For Gulf: _____

Phone: _____

For QF: _____

Phone: _____

IN WITNESS WHEREOF, the QF and the Company executed this Agreement this ____ day of _____.

ATTEST:

John A. Osting, Jr.
Director of Power Delivery

ATTEST:

Kevin J. Zimmerman
Witness as to QF

Thomas S. Waller
Witness as to QF

GULF POWER COMPANY

Earl B. Parsons, Jr.
Vice President

Date: 11/6/86

QUALIFYING FACILITY

By: [Signature]

Title: Chairman
Official Capacity

Date: December 17, 1985

APPENDIX "B"
(Appropriate Parts of Rate Schedule COG-2)

Bay County
Contract



RATE SCHEDULE COG-2
 APPENDIX B
 STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
 FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
 (QUALIFYING FACILITIES)

NORMAL PAYMENT OPTION PARAMETERS

Where, for a one year deferral:

		Value
VAC _m	= utility's value of avoided capacity, in dollars per kilowatt per month, during month m;	16.04
C	= a constant risk multiplier for the purpose of the utility's standard contract offer;	0.8
K	= present value of carrying charge for one dollar of investment over L years with carrying charges assumed to be paid at the end of each year;	1.4885
I _n	= total direct and indirect cost, in dollars per kilowatt including AFUDC but excluding CWIP, of the statewide avoided unit with an in-service date of year n;	2137
O _n	= total first year's fixed and variable operating and maintenance expense, less fuel and in dollars per kilowatt per year, of the statewide avoided unit deflated to the beginning of the year n by i _o ;	69.79
i _p	= annual escalation rate associated with the plant cost of the statewide avoided unit;	6.6%
i _o	= annual escalation rate associated with the operation and maintenance expense of the statewide avoided unit;	5.6%
r	= annual discount rate, defined as the utility's incremental after tax cost capital;	10.72%
L	= expected life of the statewide avoided unit;	30
n	= year for which the statewide avoided unit is deferred starting with its original anticipated in-service date and ending with the termination of the contract for the purchase of firm energy and capacity;	1995

EARLY PAYMENT OPTION PARAMETERS

A_m	= monthly avoided capital cost component of capacity payments to be made to the Qualifying Facility starting as early as seven years prior to the anticipated in-service date of the statewide avoided unit, in dollars per kilowatt per month;	3.75
i _p	= annual escalation rate associated with the plant cost of the statewide avoided unit;	6.6%
n	= year for which early capacity payments to a Qualifying Facility are made;	1988
F	= the cumulative present value (January, 1988) of the avoided capital cost component of capacity payments which would have been made had capacity payments commenced with the anticipated in-service date of the statewide avoided unit and continued for a period of 10 years;	523.39
r	= annual discount rate, defined as the utility's incremental after tax cost capital;	10.72%
t	= the minimum term, in years, of the contract for the purchase of firm capacity commencing prior to the in-service date of the statewide avoided unit.	17

ISSUED BY: T. W. Raines, Jr., Director, Rate Department
 EFFECTIVE: JANUARY 26, 1988



**RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)**

Availability:

Florida Power Corporation will purchase Firm Capacity and Energy offered by any Qualifying Facility, irrespective of its location, which is either directly or indirectly interconnected with the Company under the provisions of this schedule. Florida Power Corporation will negotiate and may contract with any Qualifying Facility, irrespective of its location, which is either directly or indirectly interconnected with the Company for the purchase of Firm Capacity and Energy pursuant to terms and conditions which deviate from this schedule where such negotiated contracts are in the best interest of the Company's ratepayers.

Applicable:

To any cogeneration or small power production Qualifying Facility, irrespective of its location, producing capacity and energy for sale to the Company on a firm basis pursuant to the terms and conditions of this schedule and the Company's "Standard Offer Contract" or a separately negotiated contract. Firm Capacity and Energy are described by the Florida Public Service Commission (FPSC) Rules 25-17.083, F.A.C., and are capacity and energy produced and sold by a Qualifying Facility pursuant to a negotiated or standard Company contract offer and subject to certain contractual provisions as to quantity, time, and reliability of delivery. Criteria for achieving Qualifying Facility status shall be those set out in FPSC Rule 25.17.080, F.A.C.

Character of Service:

Purchases within the territory served by the Company shall be, at the option of the Company, single or three phase, 60 hertz, alternating current at any available standard Company voltage. Purchases from outside the territory served by the Company shall be three phase, 60 hertz, alternating current at the voltage level available at the interchange point between the Company and the entity delivering Firm Capacity and Energy from the Qualifying Facility.

Limitation of Service:

Purchases under this schedule are subject to the Company's "General Standards for Safety and Interconnection of Cogeneration and Small Power Production Facilities to the Electric Utility System" and to FPSC Rules 25-17.080 through 25-17.091, F.A.C., and are limited to those Qualifying Facilities which:

- A. Execute a Company "Standard Offer Contract" prior to January 1, 1993 for the Company's purchase of Firm Capacity and Energy; and
- B. Commit to commence deliveries of Firm Capacity and Energy no later than January 1, 1995, and to continue such deliveries through at least December 31, 2004.
- C. Provide capacity which would not result in the subscription limit on capacity deficit (500 MW) as identified in the FPSC Order No. 17480 to be exceeded.

Rates for Purchases by the Company:

Firm Capacity and Energy are purchased at a unit cost, in dollars per kilowatt per month and cents per kilowatt hour, respectively, based on the value of deferring additional generating capacity in Florida. For the purpose of this schedule, a Statewide Avoided Unit has been designated by the FPSC and is considered to be a jointly owned, peninsular Florida base load generating plant consisting of one (1) 500 MW coal fired generating unit with an in-service date of April 1, 1992. Appendix A of this schedule describes the methodology used to calculate payment schedules, general terms, and conditions applicable to the Company's "Standard Offer Contract" pursuant to FPSC Rules 25-17.080 through 25-17.091, F.A.C.

A. Firm Capacity Rates

Three options, A through C, as set forth below, are available for payment for Firm Capacity which is produced by the Qualifying Facility and delivered to the Company. Once selected, an option shall remain in effect for

(Continued on Page No. 2)

ISSUED BY: T. M. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 2)

Option B - Variable Value of Deferral

Payment schedules under this option are based on the value of a year-by-year deferral of the Statewide Avoided Unit with an in-service date of January 1, 1995. Once this option is selected, the Statewide Avoided Unit designation and its in-service date shall remain fixed for the term of the "Standard Offer Contract." The value of deferral, however, shall be recalculated annually and the payment schedule shall be adjusted, upon approval by the FPSC, to reflect the most recent factors affecting the cost of constructing the Statewide Avoided Unit. The Qualifying Facility shall select the month and year in which the delivery of Firm Capacity and Energy to the Company is to commence and capacity payments are to start pursuant to this option.

The methodology used to determine the level of payment each year is the same as that used in Option A of this schedule and is described in Appendix A. For informational purposes only, the current projection of payments are those contained in Option A on the previous page.

Option C - Average Embedded Book Cost of Fossil Steam Production Plant

Monthly capacity payments made under this option shall be based on the Company's current average embedded book cost of fossil steam production plant approved by the FPSC and in effect in the year in which payment is made.

The following monthly payment schedule is provided for informational purposes only. It reflects the Company's current projection of payments.

Projected Monthly Capacity Payment Rate - \$/KW/Month

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
3.91	3.86	3.82	3.75	3.65	3.40	3.22	3.76	3.61	4.13	3.95	4.44	4.39	4.94	4.76	5.41	5.88

B. Energy Rates

1. Payments Prior to January 1, 1995

The energy rate in cents per kilowatt-hour (¢/KWH) shall be based on the Company's actual hourly avoided energy costs which are calculated by the Company in accordance with FPSC Rule 25-17.0825, F.A.C. Avoided energy costs include incremental fuel, identifiable operation and maintenance expenses, and an adjustment for line losses reflecting delivery voltage. When economy transactions take place, the incremental costs are calculated after the purchase or before the sale of the economy energy.

The calculation of payments to the Qualifying Facility shall be based on the sum, over all hours of the billing period of the product of each hour's avoided energy cost times the purchases by the Company for that hour. All purchases shall be adjusted for losses from the point of metering to the point of interconnection.

2. Payments Starting on January 1, 1995

The energy rate in cents per kilowatt-hour (¢/KWH), shall be the lesser of an hour-by-hour comparison of: (1) the fuel component of the Company's avoided energy costs calculated in accordance with Rule 25-17.0825, F.A.C.; and (b) the Statewide Avoided Fuel Cost. The Statewide Avoided Unit Fuel Cost, in cents per kilowatt-hour (¢/KWH) shall be defined as the product of: (a) the average monthly inventory charge out price of coal burned at Tampa Electric Company's Big Unit No. 4, in cents per million BTU; and (b) an average annual heat rate of 9.79 million BTU per megawatt hours.

(Continued on Page No. 4)

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988



RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
 (Continued from Page No. 1)

Firm Capacity Rates: (Continued)

the term of the contract with the Company. Exemplary payment schedules, shown below, contain the monthly rate per kilowatt of Firm Capacity the Qualifying Facility has contractually committed to deliver to the Company and are based on a contract term which extends a minimum of ten (10) years beyond the anticipated in-service date of the Statewide Avoided Unit (i.e., through December 31, 2004). Payment schedules for longer contract terms will be made available to a Qualifying Facility upon request and may be calculated based on the methodologies described in Appendix A.

Option A - Fixed Value of Deferral

Payment schedules under this option are based on the value of a year-by-year deferral of the Statewide Avoided Unit with an in-service date of January 1, 1995; calculated in accordance with FPSC Rule 25-17.083, F.A.C., as described in Appendix A. Once this option is selected, the current schedule of payments shall remain fixed and in effect throughout the term of the "Standard Offer Contract."

The Qualifying Facility shall select the month and year in which the delivery of Firm Capacity and Energy to the Company is to commence and capacity payments are to start. The Company will provide the Qualifying Facility with a schedule of capacity payment rates based on the month and year in which the delivery of Firm Capacity and Energy are to commence and the term of the contract. The following exemplary payment schedule is based on the minimum required contract term which must extend at least ten (10) years beyond the anticipated in-service date of the Statewide Avoided Unit. The currently approved parameters used to calculate the following schedule of payments are found in Appendix B of this schedule.

MONTHLY CAPACITY PAYMENT RATE \$/KW/MONTH

Contract Year		Normal Payment Option Starting 1/1/95	Early Payment Option Starting						
From	To		1/1/94	1/1/93	1/1/92	1/1/91	1/1/90	1/1/89	1/1/88
01/87	12/87	-	-	-	-	-	-	-	-
01/88	12/88	-	-	-	-	-	-	-	3.78
01/89	12/89	-	-	-	-	-	-	4.37	4.03
01/90	12/90	-	-	-	-	-	5.08	4.66	4.30
01/91	12/91	-	-	-	-	5.92	5.41	4.97	4.58
01/92	12/92	-	-	-	6.94	6.31	5.77	5.30	4.88
01/93	12/93	-	-	8.18	7.40	6.73	6.15	5.65	5.21
01/94	12/94	-	9.71	8.72	7.88	7.17	6.58	6.02	5.55
01/95	12/95	16.04	14.78	13.72	12.84	12.08	11.42	10.85	10.35
01/96	12/96	17.06	15.71	14.59	13.64	12.83	12.13	11.52	10.98
01/97	12/97	18.14	16.70	15.50	14.49	13.63	12.88	12.23	11.66
01/98	12/98	19.29	17.75	16.48	15.40	14.48	13.68	12.99	12.38
01/99	12/99	20.51	18.87	17.51	16.36	15.38	14.54	13.80	13.15
01/00	12/00	21.81	20.06	18.61	17.39	16.34	15.44	14.65	13.96
01/01	12/01	23.19	21.33	19.78	18.48	17.36	16.40	15.56	14.82
01/02	12/02	24.65	22.67	21.03	19.64	18.45	17.42	16.53	15.74
01/03	12/03	26.22	24.10	22.35	20.87	19.60	18.51	17.55	16.71
01/04	12/04	27.88	25.63	23.75	22.18	20.83	19.66	18.64	17.75

(Continued on Page No. 3)

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988



RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
 (Continued from Page No. 3)

Energy Rates: (Continued)

Calculation of payments to the Qualifying Facility shall be based on the sum, over all hours of the billing period, of the product of each hour's avoided energy cost times the purchases by the Company for that hour. All purchases shall be adjusted for losses from the point of metering to the point of interconnection.

Estimated Firm Energy Cost:

For informational purposes only, the estimated incremental avoided energy costs for the next four semi-annual periods are as follows. These estimates include a credit for estimated variable operating and maintenance expense of 0.056¢/KWH. The variable O & M credit will be recomputed monthly in accordance with the Company's methodology.

<u>Applicable Period</u>	<u>On-Peak ¢/KWH</u>	<u>Off-Peak ¢/KWH</u>	<u>Average ¢/KWH</u>
October, 1987 - March, 1988	2.541	1.886	2.174
April, 1988 - September, 1988	3.069	2.000	2.497
October, 1989 - March, 1989	2.634	1.963	2.257
April, 1989 - September, 1989	3.233	2.034	2.592

A 100 MW block has been used to calculate the estimated avoided energy cost.

Performance Criteria:

Payments for firm capacity are conditioned on the Qualifying Facility's ability to maintain the following performance criteria.

A. Commercial In-Service Date

Capacity payments shall not commence until the Qualifying Facility has attained and demonstrated, commercial in-service status. The commercial in-service date of a Qualifying Facility shall be defined as the first day of the month following the successful completion of the Qualifying Facility maintaining an hourly kilowatt (KW) output, as metered at the point of interconnection with the Company, equal to or greater than the Qualifying Facility's "Standard Offer Contract" committed capacity for a 24 hour period. A Qualifying Facility shall coordinate the selection of and operation of its facility during this test period with the Company to insure that the performance of its facility during this 24 hour period is reflective of the anticipated day to day operation of the Qualifying Facility.

B. Capacity Factor

~~Upon achieving commercial in-service status, payments for Firm Capacity shall be made monthly in accordance with the capacity payment rate option selected by the Qualifying Facility and subject to the provision that the Qualifying Facility maintains a 70% capacity factor on a 12-month rolling average basis as defined in Appendix A. Failure to achieve this capacity factor shall result in the Qualifying Facility's forfeiture of payments for Firm Capacity during the month in which such failure occurs. Where early capacity payments have been elected and starting with the month of January, 1995, failure of a Qualifying Facility to maintain a 70% capacity factor on a 12 month rolling average basis shall also result in payments by the Qualifying Facility to the Company. The amount of such payments shall be equal to the difference between: (1) what the Qualifying Facility would have been paid had it elected the normal payment option starting January 1, 1995; and (2) what it would have been paid pursuant to the early payment option had it maintained the capacity factor performance criteria.~~

(Continued on Page No. 5)

ISSUED BY: T. M. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 4)

Performance Criteria (Continued)

All capacity payments made by the Company prior to January 1, 1995 are considered "early payments." The owner or operator of the Qualifying Facility, as designated by the Company, shall secure its obligation to repay, with interest, the cumulative amount of early capacity payments in the event the Qualifying Facility defaults under the terms of its "Standard Offer Contract" with the Company. The Company will provide monthly summaries of the total outstanding balance of such security obligations. A summary of the types of security instruments which are generally acceptable to the Company is discussed in Appendix A.

C. Additional Criteria

1. The Qualifying Facility shall provide monthly generation estimates by October 1 for the next calendar year; and
2. The Qualifying Facility shall promptly update its yearly generation schedule when any changes are determined necessary; and
3. The Qualifying Facility shall agree to reduce generation or take other appropriate action as requested by the Company for safety reasons or to preserve system integrity; and
4. The Qualifying Facility shall coordinate scheduled outages with the Company; and
5. The Qualifying Facility shall comply with the reasonable requests of the Company regarding daily or hourly communications.

Delivery Voltage Adjustment:

Energy payments to Qualifying Facilities within the Company's service territory shall be adjusted according to the delivery voltage by the following multipliers:

<u>Qualifying Facility Delivery Voltage</u>	<u>Adjustment Factor</u>
69 KV or Greater	1.042
4 KV, 12 KV, 25 KV	1.058
600 Volts or Lower	1.085

Metering Requirements:

Qualifying Facilities within the territory served by the Company shall be required to purchase from the Company hourly recording meters to measure their energy production. Energy purchases from Qualifying Facilities outside the territory served by the Company shall be measured as the quantities scheduled for interchange to the Company by the entity delivering firm capacity and energy to the Company.

For the purpose of this schedule, the on-peak hours occur Monday through Friday except holidays, April 1 - October 31 from 12 noon to 9:00 p.m., and November 1 - March 31 from 6:00 a.m. to 10:00 a.m. and 6:00 p.m. to 10:00 p.m. All hours not mentioned above and all hours of the holidays of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day are off-peak hours.

Billing Options:

The Qualifying Facility may elect to make either simultaneous purchases and sales or net sales. The decision to change billing methods can be made once every twelve (12) months coinciding with the next Fuel and Purchased Power Cost Recovery Factor billing period provided the Company is given at least thirty (30) days written notice before the change is to take place. In addition, allowance must be made for the installation or alteration of needed metering or interconnection equipment for which the qualifying facility must pay; and such purchases and/or sales must not abrogate any provisions of the tariff or contract with the Company.

(Continued on Page No. 6)

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 5)

Billing Options: (Continued)

A statement covering the charges and payments due the Qualifying Facility is rendered monthly, and payment normally is made by the twentieth business day following the end of the billing period.

Charges to Qualifying Facility:

A. Customer Charges

Monthly customer charges for meter reading, billing and other applicable administrative costs by Rate Schedule are:

RS-1	\$ 5.25
RST-1	9.71
GS-1	5.25
GST-1	9.71
GSD-1	15.27
GSDT-1	19.73
GSLD-1	78.31
GSLDT-1	82.76
GSLDT-2	228.03
GSLD-2	228.03
CS-1	150.59
CST-1	150.59
IS-1	408.74
IST-1	408.74
MS-1	5.25

B. Interconnection Charge for Non-Variable Utility Expenses

The Qualifying Facility shall bear the cost required for interconnection including the metering. The Qualifying Facility shall have the option of payment in full for interconnection or making equal monthly installment payments over a thirty-six (36) month period together with interest at the rate then prevailing for thirty (30) days prior to the date of each payment.

When equal monthly payments are elected, the Qualifying Facility shall provide a surety bond or equivalent assurance of repayment of interconnection costs in the event the Qualifying Facility is unable to meet the terms and conditions of its contract. Depending on the nature of the Qualifying Facility's operation, financial health and solvency, one of the following may constitute an equivalent assurance of repayment:

- (1) Surety bond;
- (2) Escrow;
- (3) Irrevocable letter of credit;
- (4) Unsecured promise by a municipal, county, or state government to repay early capacity payments in the event of default in conjunction with a legally binding commitment from such government allowing the utility to levy a surcharge on either the electric bills of the government's electric consuming facilities or the constituent electric customers of such government to assure that early capacity payments are repaid;
- (5) Unsecured promise by a privately owned Qualifying Facility to repay early capacity payments in the event of default in connection with a legally binding commitment from the owner(s) of the Qualifying Facility, parent company, and/or subsidiary companies allowing the utility to levy a surcharge on the electric bills of the owner(s), parent company, and/or subsidiary companies located in Florida to assure that early capacity payments are repaid; or
- (6) Other guarantee acceptable to the Company.

(Continued on Page No. 7)

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988



RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 6)

~~The Company will cooperate with each Qualifying Facility applying for monthly payments to determine the exact form of an "equivalent assurance of repayment" to be required based on the particular aspects of the Qualifying Facility. The Company will endeavor to accommodate an equivalent assurance which is in the best interests of both the Qualifying Facility and the Company's ratepayers.~~

- ~~C. Interconnection Charge for Variable Utility Expenses
The Qualifying Facility shall be billed monthly for the cost of variable utility expenses associated with the operation and maintenance of the interconnection. These include (a) the Company's inspections of the interconnection and (b) maintenance of any equipments beyond that which would be required to provide normal electric service to the Qualifying Facility if no sales to the Company were involved.~~

~~In lieu of payments for actual charges, the Qualifying Facility may pay a monthly charge equal to 0.49% of the installed cost of the interconnection facilities.~~

- ~~D. Taxes and Assessments
The Qualifying Facility shall be billed monthly an amount equal to the taxes, assessments, or other impositions, if any, for which the Company is liable as a result of its purchases of Firm Capacity and Energy produced by the Qualifying Facility.~~

~~Terms of Service:~~

- ~~1. It shall be the Qualifying Facility's responsibility to inform the Company of any change in its electric generating capability.~~
- ~~2. Any electric service delivered by the Company to the Qualifying Facility shall be metered separately and billed under the applicable retail rate schedule and the terms and conditions of the applicable rate schedule shall pertain.~~
- ~~3. A security deposit will be required in accordance with FPSC Rules 25-17.082(5) and 25-6.097, F.A.C. and the following:
 - ~~a. In the first year of operation, the security deposit should be based upon the singular month in which the QF's projected purchases from the utility exceed, by the greatest amount, the utility's estimated purchases from the QF. The security deposit should be equal to twice the amount of the difference estimated for that month. The deposit should be required upon interconnection.~~
 - ~~b. For each year thereafter, a review of the actual sales and purchases between the QF and the utility should be conducted to determine the actual month of maximum difference. The security deposit should be adjusted to equal twice the greatest amount by which the actual monthly purchases by the QF exceed the actual sales to the utility in that month.~~~~
- ~~4. The Company shall specify the point of interconnection and voltage level.~~
- ~~5. The Company will, under the provisions of this Schedule, require an agreement with the Qualifying Facility upon the Company's filed Standard Offer Contract and Standard Agreement for Parallel Operation between the Qualifying Facility and the Company. The Qualifying Facility shall recognize that its generation facility may exhibit unique interconnection requirements which will be separately evaluated, modifying the Company's General Standard for Safety and Interconnection where applicable.~~
- ~~6. Service under this rate schedule is subject to the rules and regulations of the Company and the Florida Public Service Commission.~~

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ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 7)

Special Provision:

1. Special contracts deviating from the above standard rate schedule are allowable provided they are agreed to by the Company and approved by the Florida Public Service Commission.
2. A Qualifying Facility located within the Company's service territory may sell Firm Capacity and Energy to a utility other than the Company. Where such agreements exist and existing transmission capacity is available, the Company will provide transmission wheeling service to deliver the Qualifying Facility's power to the purchasing utility or to an intermediate utility.

When a Qualifying Facility located within the Company's service territory exercises its option to sell As Available Energy to a utility other than the Company prior to the in-service date (April 1, 1992) of the Statewide Avoided Unit and existing transmission capacity is available, the Company will also provide transmission wheeling service to deliver the Qualifying Facility's power to the purchasing utility or to an intermediate utility. In addition, the Company will provide transmission wheeling service through its territory of a Qualifying Facility located outside the Company's service territory, for delivery of the Qualifying Facility's power to the purchasing utility or to an intermediate utility. Transmission service that is determined to be an interstate transaction will be provided, subject to availability, under the rates, terms and conditions set forth in Rate Schedule COG-3 or, as provided for therein, under a separate, compensatory contract. Transmission service that is determined to be an interstate transaction will be provided, subject to availability, under rates, terms and conditions filed with, and accepted for filing by, the Federal Energy Regulatory Commission (a copy of the Company's currently effective wholesale tariff rate schedule applicable to transmission service is on file with the Florida Public Service Commission and is available from the Company upon request).

Interstate transactions are defined as those determined to be jurisdictional by the Federal Energy Regulatory Commission. Intrastate transactions are defined as all other transactions.

The Qualifying Facility shall be responsible for all costs associated with such wheeling including:

- A. Wheeling charges
- B. Line losses incurred by the Company
- C. Inadvertent energy flows resulting from such wheeling

Energy delivered to the Company shall be adjusted before delivery to another utility as follows:

<u>Qualifying Facility Delivery Voltage</u>	<u>Adjustment Factor</u>
69 KV or Greater	0.960
4 50 KV, 25 KV	0.945*
600 Volts or Lower	0.922*

* The 69 KV or greater adjustment factor shall apply if the following conditions are met for Qualifying Facility power and energy input to the Company's distribution facilities:

- (1) The input power and energy fully displace power and energy that the Company would otherwise be required to supply to other customers on the same distribution facility, and
- (2) The delivery voltage to the receiving utility system is 69 KV or greater.

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ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

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~~7~~

~~RATE SCHEDULE COG-2
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 8)~~

~~The Company may deny, curtail or discontinue providing transmission service under this special provision if the provision of such service would adversely affect the adequacy, reliability or cost of providing electric service to its general body of retail and wholesale customers.~~

~~For a more complete description of the rates, terms and conditions under which intrastate transmission service may be offered, refer to Rate Schedule COG-3 commencing on sheet 9.700 of this tariff section. For similar information related to interstate transmission service, refer to the Company's currently effective wholesale tariff rate schedule applicable to transmission service, a copy of which is on file with the Florida Public Service Commission and available from the Company upon request.~~

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
APPENDIX A
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)

Applicability:

Appendix A provides a detailed description of the methodology used by the Company to calculate the monthly values of deferring the Statewide Avoided Unit referred to in Schedule COG-2. When used in conjunction with the current FPSC approved cost parameters associated with the Statewide Avoided Unit contained in Appendix B, a Qualifying Facility may determine the applicable value of deferral capacity payment rate associated with the timing and operation of its particular facility should the Qualifying Facility enter into a "Standard Offer Contract" with the utility.

Also contained in Appendix A is the methodology used by the Company to calculate the 12 month rolling average capacity factor of a Qualifying Facility and a discussion of the types and forms of surety bond requirements or equivalent assurance of repayment of early capacity payments acceptable to the Company in the event of contractual default by a Qualifying Facility.

Calculation of Value of Deferral:

FPSC Rules 25-17.083(7) specifies that avoided capacity costs, in dollars per kilowatt per month, associated with firm capacity sold to a utility by a Qualifying Facility pursuant to the utility's standard offer shall be defined as the value of a year-by-year deferral of the Statewide Avoided Unit and shall be calculated as follows:

$$VAC_m = \frac{C}{12} \left[K I_n \left[\frac{1 - \left[\frac{(1 + i_p)}{(1 + r)} \right]^L}{1 - \left[\frac{(1 + i_p)}{(1 + r)} \right]} \right] + O_n \left[\frac{1 + i_0}{1 + r} \right] \right]$$

Where, for a one year deferral:

- VAC_m = utility's value of avoided capacity, in dollars per kilowatt per month, during month m ;
- C = a constant risk multiplier equal to 0.8 for the purpose of the utility's standard offer agreement;
- K = present value of carrying charge for one dollar of investment over L years with carrying charges assumed to be paid at the end of each year;
- I_n = total direct and indirect cost, in dollars per kilowatt including AFUDC but excluding CWIP, of the statewide avoided unit with an in-service date of year n ;
- O_n = total first year's fixed and variable operating and maintenance expense, less fuel and in dollars per kilowatt per year, of the statewide avoided unit deflated to the beginning of year n by i_0 ;

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ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

RATE SCHEDULE COG-2
APPENDIX A
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
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(Continued from Page No. 1)

Calculation of Value of Deferral: (Continued)

- i_p = annual escalation rate associated with the plant cost of the statewide avoided unit;
- i_o = annual escalation rate associated with the plant O & M cost of the statewide avoided unit;
- r = annual discount rate, defined as the utility's incremental after tax cost of capital;
- L = expected life of the statewide avoided unit; and
- n = year for which the statewide avoided unit is deferred starting with its original anticipated in-service date and ending with the termination of the contract for the purchase of firm energy and capacity.

Normally, payment for firm capacity shall not commence until the in-service date of the statewide avoided unit. At the options of the Qualifying facility, however, the utility may begin making early capacity payments consisting of the capital cost component of the value of a year-by-year deferral of the statewide avoided unit starting as early as seven years prior to the anticipated in-service date of the statewide avoided unit. ~~When such early capacity payments are elected, the avoided capital cost component of capacity payments shall be paid monthly commencing no earlier than the Commercial In-Service date of the Qualifying facility, and shall be calculated as follows:~~

~~$$A_m = \frac{A(1+i_p)^n}{12}; \text{ for } n \leq 0, n$$~~

Where:

~~A_m = monthly avoided capital cost component of capacity payments to be made to the Qualifying Facility starting as early as seven years prior to the anticipated in-service date of the statewide avoided unit, in dollars per Kilowatt per month;~~

~~i_p = annual escalation rate associated with the plant cost of the statewide avoided unit;~~

~~n = year for which early capacity payments to a Qualifying Facility are made;~~

Where:

$A = F$

$$\left[\frac{1 - \left[\frac{(1+i_p)}{(1+r)^p} \right]}{1 - \left[\frac{(1+i_p)}{(1+r)^p} \right]^c} \right]$$

(Continued on Page No. 3)

ISSUED BY: T. M. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

**RATE SCHEDULE COG-2
APPENDIX A
STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
FROM QUALIFYING COGENERATION AND SMALL POWER PRODUCTION FACILITIES
(QUALIFYING FACILITIES)
(Continued from Page No. 2)**

- F** = the cumulative present value of the avoided capital cost component of capacity payments which would have been made had capacity payments commenced with the anticipated in-service date of the statewide avoided unit;
- r** = annual discount rate, defined as the utility's incremental after tax cost of capital; and (Continued on Page No. 3)

Calculation of Value of Deferral: (Continued)

- t** = the term, in years, of the contract for the purchase of firm capacity commencing prior to the in-service date of the statewide avoided unit, and commencing with the year in which the Qualifying Facility elects to receive early capacity payments.

Currently approved parameters applicable to the formulas above are found in Appendix B.

Calculation of 12 Month Rolling Average Capacity Factor:

Pursuant to FPSC Rule 25-17.083(3)(a)(ii), F.A.C., and Order 13247, Docket No. 830377-EU, a Qualifying Facility must maintain a 70% capacity factor in order to receive capacity payments. For the purpose of this schedule, the capacity factor of the Qualifying Facility shall be defined as: the total kilowatt-hours of energy delivered to the utility during the preceding 12 months, divided by the product of: (1) the maximum kilowatt capacity contractually committed for delivery to the Company by the Qualifying Facility during the preceding 12 months; and (2) the sum of the total hours during the preceding 12 months less those hours during which the Company was unable to accept energy and capacity deliveries from the Qualifying Facility. The Company shall be relieved of its obligation under FPSC Rule 25-17.082 F.A.C. to purchase electricity from a Qualifying Facility when purchases result in higher costs to the Company than without such purchases, and where service to the Company's other customers may be impaired by such purchases. The Company shall notify the Qualifying Facility(ies) as soon as possible or practical, and the FPSC of the problems leading to the need for such relief.

During the first 12 months in which the 70% capacity factor performance criteria is imposed, the Qualifying Facility's capacity factor shall be calculated by dividing the sum of the kilowatt hours delivered to the Company by the Qualifying Facility for the number of months since the performance criteria became applicable by the product of: (1) the number of hours in the months which have transpired and in which deliveries were accepted by the Company; and (2) the maximum kilowatt capacity contractually committed by the Qualifying Facility. This calculation shall be performed each month until enough months have transpired to calculate a true 12 month rolling average capacity factor.

Surety Bond Requirements:

FPSC Rule 25-17.083(3)(c), F.A.C., requires that when early capacity payments are elected, the Qualifying Facility must provide a surety bond or equivalent assurance of repayment of early capacity payments in the event the Qualifying Facility is unable to meet the terms and conditions of its contract. Depending on the nature of the Qualifying Facility's operation, financial health and solvency, and its ability to meet the terms and conditions of the Company's "Standard Offer Contract" one of the following may constitute an equivalent assurance of repayment:

- (1) Surety bond;
- (2) Escrow;

(Continued on Page No. 4)

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988



RATE SCHEDULE COG-2
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STANDARD OFFER CONTRACT RATE FOR PURCHASE OF FIRM CAPACITY AND ENERGY
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~~Surety Bond Requirements: (Continued)~~

- ~~(3) Irrevocable letter of credit;~~
- ~~(4) Unsecured promise by municipal, county, or state government to repay early capacity payments in the event of default in conjunction with a legally binding commitment from such government allowing the utility to levy a surcharge on either the electric bills of the government's electricity consuming facilities or the constituent electric customers of such government to assure that early capacity payments are repaid;~~
- ~~(5) Unsecured promise by a privately owned Qualifying Facility to repay early capacity payments in the event of default in conjunction with a legally binding commitment from the owner(s) of the Qualifying Facility, parent company, and/or subsidiary companies allowing the utility to levy a surcharge on the electric bills of the owner(s), parent company, and/or subsidiary companies located in Florida to assure that early capacity payments are repaid; or~~
- ~~(6) Other guarantee acceptable to the Company.~~

~~The Company will cooperate with each Qualifying Facility applying for early capacity payments to determine the exact form of an "equivalent assurance of repayment" to be required based on the particular aspects of the Qualifying Facility. The Company will endeavor to accommodate an equivalent assurance of repayment which is in the best interests of both the Qualifying Facility and the Company's ratepayers.~~

ISSUED BY: T. W. Raines, Jr., Director, Rate Department

EFFECTIVE: JANUARY 26, 1988

Bay County

APPENDIX "C"

CAPACITY PAYMENT RATE

January 1, 1988	-	December 31, 1988	10.98/kW-Mo.	
January 1, 1989	-	December 31, 1989	11.31/kW-Mo.	
January 1, 1990	-	December 31, 1990	11.66/kW-Mo.	
January 1, 1991	-	December 31, 1991	12.04/kW-Mo.	
January 1, 1992	-	December 31, 1992	12.44/kW-Mo.	
January 1, 1993	-	December 31, 1993	6.93/kW-Mo.	
January 1, 1994	-	December 31, 1994	7.39/kW-Mo.	
January 1, 1995	-	December 31, 1995	12.31/kW-Mo.	
January 1, 1996	-	December 31, 1996	13.08/kW-Mo.	
January 1, 1997	-	December 31, 1997	13.89/kW-Mo.	
January 1, 1998	-	December 31, 1998	14.76/kW-Mo.	
January 1, 1999	-	December 31, 1999	15.68/kW-Mo.	
January 1, 2000	-	December 31, 2000	16.66/kW-Mo.	
January 1, 2001	-	December 31, 2001	17.70/kW-Mo.	
January 1, 2002	-	December 31, 2002	18.81/kW-Mo.	
January 1, 2003	-	December 31, 2003	19.99/kW-Mo.	
January 1, 2004	-	December 31, 2004	21.24/kW-Mo.	
January 1, 2005	-	December 31, 2005	22.57/kW-Mo.	
January 1, 2006	-	December 31, 2006	23.98/kW-Mo.	
January 1, 2007	-	December 31, 2007	25.48/kW-Mo.	
January 1, 2008	-	December 31, 2008	27.08/kW-Mo.	
January 1, 2009	-	December 31, 2009	28.77/kW-Mo.	
January 1, 2010	-	December 31, 2010	30.58/kW-Mo.	
January 1, 2011	-	December 31, 2011	32.50/kW-Mo.	
January 1, 2012	-	December 31, 2012	34.53/kW-Mo.	25
January 1, 2013	-	December 31, 2013	0	
January 1, 2014	-	December 31, 2014	0	
January 1, 2015	-	December 31, 2015	0	
January 1, 2016	-	December 31, 2016	0	
January 1, 2017	-	December 31, 2017	0	
January 1, 2018	-	December 31, 2018	0	
January 1, 2019	-	December 31, 2019	0	
January 1, 2020	-	December 31, 2020	0	
January 1, 2021	-	December 31, 2021	0	
January 1, 2022	-	December 31, 2022	0	35

Board of County Commissioners
Bay County

OFFICE OF THE COUNTY ATTORNEYS
221 MCKENZIE AVENUE
POST OFFICE BOX 70
PANAMA CITY FLORIDA 32402
TELEPHONE (904) 769-1414
TELECOPY (904) 784-0857

ATTORNEYS
BURKE & BLUE PA
LES W BURKE
NEVIN J ZIMMERMAN

COMMISSIONERS
JOHN B HUTT JR
DISTRICT I
RALPH BURGESS
DISTRICT II
S RICHARD SELTZER
DISTRICT III
HAROLD T PHILLIPS
DISTRICT IV
TOMMY LOFTIN
DISTRICT V

February 18, 1988

Florida Power Corporation
3201 30 - 4th Street South
P.O. Box 14042
St. Petersburg, Florida 33733

Re: Security for Power Purchase Contract

Dear Sirs:

Please be advised that as attorney for Bay County, it is our opinion that the obligations under the Power Purchase Contract entered into with Florida Power Corporation dated February 18, 1988, including the obligation to repay early capacity payments in the event of a default or a "buy-out," is part of the "Cost of Operation and Maintenance" of the solid waste and resource recovery system as that term is defined in the Indenture of Trust entered into between Bay County and Bay Bank and Trust Company dated December 1, 1984, as amended.

Also, please be advised that pursuant to the Trust Indenture, Bay County has the obligation to the bondholders to raise in each fiscal year 100% of the Cost of Operation and Maintenance for such fiscal year.

We acknowledge that this letter will become a part of the Contract and that Florida Power Corporation is relying upon the assurances herein as ~~partial~~ inducement to accept the aforesaid Contract.

Sincerely yours,



Nevin J. Zimmerman

NJZ/mdg
cc: Mr. J.G. Keppeler

APPENDIX E
NORMAL CAPACITY PAYMENTS
BEGINNING IN 1995

January 1, 1995 - December 31, 1995	16.04/kW-Mo.
January 1, 1996 - December 31, 1996	17.06/kW-Mo.
January 1, 1997 - December 31, 1997	18.14/kW-Mo.
January 1, 1998 - December 31, 1998	19.29/kW-Mo.
January 1, 1999 - December 31, 1999	20.51/kW-Mo.
January 1, 2000 - December 31, 2000	21.81/kW-Mo.
January 1, 2001 - December 31, 2001	23.19/kW-Mo.
January 1, 2002 - December 31, 2002	24.65/kW-Mo.
January 1, 2003 - December 31, 2003	26.22/kW-Mo.
January 1, 2004 - December 31, 2004	27.88/kW-Mo.
January 1, 2005 - December 31, 2005	29.65/kW-Mo.
January 1, 2006 - December 31, 2006	31.53/kW-Mo.
January 1, 2007 - December 31, 2007	33.53/kW-Mo.
January 1, 2008 - December 31, 2008	35.65/kW-Mo.
January 1, 2009 - December 31, 2009	37.92/kW-Mo.
January 1, 2010 - December 31, 2010	40.33/kW-Mo.
January 1, 2011 - December 31, 2011	42.89/kW-Mo.
January 1, 2012 - December 31, 2012	45.61/kW-Mo.
January 1, 2013 - December 31, 2013	48.51/kW-Mo.
January 1, 2014 - December 31, 2014	51.59/kW-Mo.
January 1, 2015 - December 31, 2015	54.87/kW-Mo.
January 1, 2016 - December 31, 2016	58.36/kW-Mo.
January 1, 2017 - December 31, 2017	62.08/kW-Mo.
January 1, 2018 - December 31, 2018	66.03/kW-Mo.
January 1, 2019 - December 31, 2019	70.23/kW-Mo.
January 1, 2020 - December 31, 2020	74.70/kW-Mo.
January 1, 2021 - December 31, 2021	79.46/kW-Mo.

EXHIBIT C

**CALCULATION OF COST SAVINGS TO
FLORIDA POWER'S CUSTOMERS FROM
AMENDMENT OF THE CURRENT AGREEMENT**

Exhibit C

Bay County Early Termination Comparison

Based on PROSYM Analysis

Year	Existing Capacity	Existing Energy	Existing Total	Modified Capacity	Modified Energy	Replacement and Added Costs	Modified Total	Savings/(Cost)
2002	\$2,483	\$1,673	\$4,156	\$2,483	\$1,673	\$610 *	\$4,766	-\$610
2003	\$2,639	\$1,693	\$4,332	\$2,639	\$1,693		\$4,332	\$0
2004	\$2,803	\$1,783	\$4,586	\$2,803	\$1,783		\$4,586	\$0
2005	\$2,979	\$1,245	\$4,224	\$2,979	\$1,245		\$4,224	\$0
2006	\$3,165	\$1,264	\$4,429	\$3,165	\$1,264		\$4,429	\$0
2007	\$3,363	\$1,283	\$4,646			\$2,567	\$2,567	\$2,079
2008	\$3,575	\$1,307	\$4,882			\$2,229	\$2,229	\$2,653
2009	\$3,798	\$1,323	\$5,121			\$2,539	\$2,539	\$2,582
2010	\$4,036	\$1,337	\$5,373			\$2,256	\$2,256	\$3,117
2011	\$4,290	\$1,350	\$5,640			\$2,487	\$2,487	\$3,153
2012	\$4,569	\$1,367	\$5,936			\$2,468	\$2,468	\$3,468
2013		\$1,377	\$1,377			\$2,623	\$2,623	-\$1,246
2014		\$1,391	\$1,391			\$2,569	\$2,569	-\$1,178
2015		\$1,405	\$1,405			\$2,680	\$2,680	-\$1,275
2016		\$1,423	\$1,423			\$2,621	\$2,621	-\$1,198
2017		\$1,433	\$1,433			\$2,742	\$2,742	-\$1,309
2018		\$1,447	\$1,447			\$2,690	\$2,690	-\$1,243
2019		\$1,462	\$1,462			\$2,809	\$2,809	-\$1,347
2020		\$1,481	\$1,481			\$2,792	\$2,792	-\$1,311
2021		\$1,491	\$1,491			\$2,972	\$2,972	-\$1,481
2022		\$1,506	\$1,506			\$2,859	\$2,859	-\$1,353

NPV @ 8.94%
Sum **\$4,367**
\$3,501

* Denotes the added up front costs for 2002 of \$610,000.