

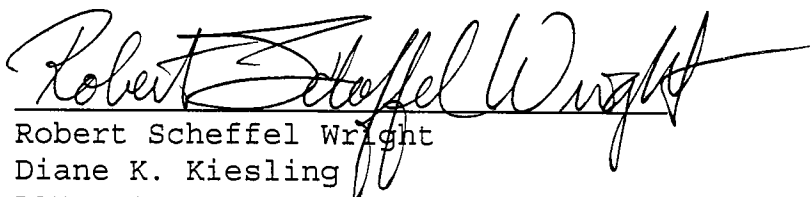
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Amendments to) DOCKET NO. 001574-EQ
Rule 25-17.0832, F.A.C., Firm)
Capacity and Energy Contracts) Filed: March 1, 2002
_____)

NOTICE OF FILING COMMENTS OF GERARD J. KORDECKI

Lee County, Miami-Dade County, and Montenay-Dade, Ltd.,
by and through their undersigned counsel, hereby give notice that
on this 1st day of March, 2002, they filed Comments of Gerard J.
Kordecki in the above-styled rulemaking docket.

Respectfully submitted this 1st day of March 2002.



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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE
DOCKET NO. 001574 EQ

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served by hand delivery (*), or by U.S. Mail, on this 1st day of March, 2002, to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 001574-EQ,
In Re: Proposed Amendments to Rule 25-17.0832, F.A.C.,
Firm Capacity and Energy Contracts

COMMENTS OF GERARD J. KORDECKI

ON BEHALF OF

LEE COUNTY, FLORIDA,

MIAMI-DADE COUNTY, FLORIDA,

AND

MONTENAY-DADE, LTD.

March 1, 2002

COMMENTS OF GERARD J. KORDECKI

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I. INTRODUCTION

Q. Please state your name, address and occupation.

A. My name is Gerard J. Kordecki. My business address is 10301 Orange Grove Drive, Tampa, Florida 33618. I am self-employed as an energy and regulatory consultant.

Q. Please summarize your educational background and work experience.

A. I received a Bachelor of Science degree in Advertising in 1963 and a Master of Arts in Marketing in 1965. Both degrees are from the University of Florida. I also pursued graduate courses in Economics at the University of Florida. I worked for Tampa Electric Company for 33 years in various capacities involving marketing, sales, conservation, resource planning, and rates and regulation. I have participated in the development of and supervised the preparation of numerous studies and plans involving conservation goals and programs, cost allocations, rates, load research and resource plans. Since January 1999, I have consulted with power plant developers, and industrial and institutional utility customers on rates, regulatory policy, and transmission access issues.

COMMENTS OF GERARD J. KORDECKI

1 Q. Mr. Kordecki, have you previously testified before the
2 Florida Public Service Commission ("FPSC" or "Commission")?

3 A. Yes, I have testified regarding the subjects identified
4 above on more than 37 occasions. Proceedings in which I
5 have testified include rate cases, determination of need
6 hearings, various conservation dockets and hearings
7 concerning allocation of costs and benefits between
8 ratepayers and utilities. I have participated in numerous
9 rule hearings, agenda conferences and Commission workshops.

10 Q. On whose behalf are you presenting comments in this rule
11 proceeding?

12 A. My comments are presented on behalf of Lee County, which
13 owns the Lee County Resource Recovery Facility, Miami-Dade
14 County, which owns the Dade County Resources Recovery
15 Facility and Montenay-Dade, Ltd., which operates the Dade
16 County facility pursuant to an operation and management
17 agreement with Miami-Dade County. Both facilities are
18 qualifying small power production facilities under Federal
19 and Florida law and solid waste facilities as I understand
20 the definition of that term in Section 377.709, Florida
21 Statutes.

COMMENTS OF GERARD J. KORDECKI

1 Q. What is the purpose of your comments in this proceeding?

2 A. My comments point out certain problems with the Staff's
3 proposed amendments to the Commission's Rule 25-
4 17.0832(4)(e)3.&7., Florida Administrative Code ("F.A.C."),
5 relating to standard offer contracts (the "Rule"). The
6 most notable problems with the Staff's proposed amendments
7 are: (1) that the proposed amendments treat solid waste
8 facilities and other facilities that are eligible to accept
9 standard offer contracts in a biased and discriminatory way
10 as compared to the regulatory treatment afforded public
11 utilities that construct and operate power plants and (2)
12 that while the proposed amendments are intended to reduce
13 the risks to utility customers (or ratepayers) associated
14 with power sales contracts, they actually impose the
15 virtually identical risks that are associated with utility-
16 built power plants on utility customers. In my comments, I
17 also suggest alternatives that will, in my opinion, better
18 serve the State's declared policy favoring cogeneration and
19 small power production facilities generally and solid waste
20 facilities specifically.

21 Q. What is your understanding of the FPSC's proposed changes
22 to the Rule?

23 A. As published in the Commission's Order No. PSC-01-1844-NOR-

COMMENTS OF GERARD J. KORDECKI

1 EQ, the key substantive amendments to the Rule are a
2 reduction in the minimum standard offer contract term from
3 ten years to five years and a provision requiring that
4 standard offer contracts have a "specific period" or term
5 of years. Presumably, this "specific period" would be
6 designated by the utility in its proposed standard offer
7 contract tariffs and subject to Commission review and
8 approval. In background documents explaining the proposed
9 amendments, the Commission Staff stated: "The attached
10 amendments to Rule 25-17.0832 will reduce the potential for
11 ratepayers to be tied to a purchased power contract that is
12 more expensive than alternative power sources during times
13 of declining avoided cost" and "[t]he five-year minimum
14 term balances the interests of the ratepayers without
15 unduly discouraging the construction of small qualifying
16 facilities."

17 II. BACKGROUND

18 Q. Mr. Kordecki, what documents have you examined or reviewed
19 in preparing your comments concerning the proposed
20 amendments to the Rule?

21 A. Yes, I have reviewed a number of statutes, legislative
22 history documents, Commission orders, documents from
23 previous Commission proceedings regarding the Commission's
24 Cogeneration Rules, and other documents which address the

COMMENTS OF GERARD J. KORDECKI

1 State of Florida's policies regarding resource efficient
2 cogeneration in general and solid waste facility generation
3 specifically. There are numerous dockets from the early
4 1980s well into the 1990s which address cogeneration and
5 standard offer contracts.

6 **Q. Please describe what you learned from these various**
7 **documents.**

8 A. I'll give an overview without going into great detail about
9 the evolution of electricity supply from cogenerators in
10 Florida with emphasis on standard offer contracts.
11 Generally, the Commission moved conservatively in response
12 to its obligations to meet the requirements of the Public
13 Utility Regulatory Policies Act, commonly known as "PURPA".
14 PURPA required utilities to purchase electricity from
15 qualified generators and small power producers. The FPSC
16 rule development overtones were to protect against
17 cogenerator non-performance and assign risk discounts to
18 avoided cost payments. This cautious approach avoided many
19 of the mistakes made in other parts of the country—namely
20 the Far West and Northeast, where long-term cogeneration
21 contracts with all projected prices fixed as of the date of
22 execution frequently turned out to be uneconomic as overall
23 market generation costs declined. On the other hand, the

COMMENTS OF GERARD J. KORDECKI

1 assignment of a statewide base load power plant as the
2 avoided unit appears to have stimulated the development and
3 construction of cogeneration facilities and solid waste
4 facilities. A "hassle-free" or "no-hassle" standard offer
5 alternative was part of the rules.

6 In the late 1980s, the Florida Legislature became more
7 active in the encouragement of cogeneration particularly
8 solid waste facilities. In 1988, the Legislature encouraged
9 the use of solid waste facilities to generate electricity
10 and as an environmentally preferred alternative to
11 conventional solid waste disposal in Florida. During the
12 1989 sunset review of Chapter 366, Florida Statutes, the
13 Legislature enacted Section 366.051, Florida Statutes,
14 which specifically recognized the benefits of qualifying
15 cogeneration and small power production facilities and
16 recognized that power from such facilities was more
17 resource efficient and its value should be calculated at
18 the purchasing utility's avoided costs; the Legislature
19 also required the Commission to remove the 20 percent risk
20 factor assigned to standard offer contracts, provided that
21 the facilities provided satisfactory security, based on
22 their financial stability. More recent changes by the FPSC
23 include requiring individual utility avoided unit analyses
24 as opposed to a statewide avoided unit, removal of security

COMMENTS OF GERARD J. KORDECKI

1 deposits, levelized payments and the limiting of the
2 availability of standard offer contracts to solid waste
3 facilities, small power producers or qualifying facilities
4 with 75 percent renewable resources as their energy source,
5 and qualifying facilities of 100 KW or less. This latter
6 change has eliminated the hassle-free availability of
7 standard offers from most potential cogenerators except
8 solid waste facilities.

9 At this time, there is very little activity in the
10 development of cogeneration facilities in Florida.

11 III. SUMMARY

12 **Q. Mr. Kordecki, please summarize your comments.**

13 **A.** My comments address the inappropriateness of reducing the
14 minimum term for the standard offer from 10 to 5 years,
15 which I believe will effectively result in standard offer
16 contracts being for only 5 years without affording the
17 qualifying facility any flexibility in defining the
18 ultimate contract period. My comments also address the
19 proposed requirement that the standard offer contract
20 contain a utility selected "specified period" for the
21 length of the contract. This proposed amendment is
22 similarly inappropriate; it biases the capacity selection
23 process against cogeneration and solid waste facilities and
24 imposes un-level, discriminatory treatment on those

COMMENTS OF GERARD J. KORDECKI

1 facilities as compared to utility-built generation
2 facilities. Even more importantly, it will quite likely
3 result in public utilities' customers being exposed to
4 exactly the same types of risks associated with utility-
5 built capacity that the Commission Staff are seeking to
6 protect the customers from with respect to QF contracts.

7 My comments also include recommendations that would
8 correct the problems identified above.

9 IV. DISCUSSION

10 **Q. Please summarize your understanding of the basic policy of**
11 **the Florida Legislature as it relates to cogeneration and**
12 **electricity generation from solid waste facilities.**

13 **A.** The Florida Legislature has enacted statutes that recognize
14 the benefits of cogeneration, that express the
15 Legislature's intent that the use of renewable energy
16 sources and cogeneration be encouraged, and that declare
17 the Legislature's policy favoring and encouraging the
18 development of solid waste facilities because they not only
19 represent an effective conservation effort but also
20 represent an environmentally preferred alternative to
21 conventional solid waste disposal.

22 **Q. Do you consider the policy favoring cogeneration and**
23 **generation by solid waste facilities to be sound public**

COMMENTS OF GERARD J. KORDECKI

1 policy that is consistent with the public interest?

2 A. Yes, I do. This policy promotes resource-efficient
3 generation and reduces the amount of land in the State that
4 must be committed to landfills, with their attendant
5 environmental issues.

6 Q. Why do you oppose the Staff's recommendation to reduce the
7 minimum contract period for standard offers from 10 years
8 to 5 years?

9 A. The Commission approved the 10-year minimum contract period
10 based on:

11 "The requirement that a QF be willing to
12 sign a contract for the delivery of firm
13 capacity for at least ten years after the
14 originally anticipated in service date of
15 the avoided unit is important from a
16 planning perspective. While a ten-year
17 contract will not offset the expected
18 thirty-year life of a base load generating
19 unit, we believe it is of sufficient length
20 to confer substantial capacity related
21 benefits on the ratepayers." (Docket No.
22 820406-EU, page 19)

23 The overriding concern here was to protect the public
24 utility and its ratepayers so that the capacity would be
25 available to serve load. The Staff's recommendation
26 implies, or appears to be based on, a belief that this
27 availability, for "at least ten years" is no longer a
28 concern and five years after the in-service date is
29 apparently adequate for utilities. The selection of the 10-

COMMENTS OF GERARD J. KORDECKI

1 year period also afforded the QF some financial protection
2 and certainty. This certainty from a no hassle contract is
3 greatly reduced by this proposed change to the Rule and
4 would effectively require the QF to negotiate a new
5 contract every five years.

6 This is turn will mean that the QF will have its
7 payments re-set to then-current market prices every five
8 years. This biases the process against QFs and
9 discriminates against QFs because it treats them
10 differently than public utilities who build their own
11 plants; utilities that build their own plants, under normal
12 circumstances, get to put the cost of their plants into
13 their rate base and recover the costs associated with
14 owning and operating those plants over the entire useful
15 lives. This includes depreciation to recover the capital
16 invested, return on investment to cover debt service and
17 provide a return on equity, and operating and maintenance
18 ("O&M") costs. Under standard regulatory treatment, if the
19 utility makes additions, repairs, refurbishments, or other
20 improvements to its plants, those costs are typically
21 capitalized and recovered over the plant's remaining life.
22 Under the Staff's proposed amendments, the QF is not
23 afforded comparable treatment.

COMMENTS OF GERARD J. KORDECKI

1 Q. How was the change from 10 years to 5 years arrived at by
2 the Staff?

3 A. The proposed change in the minimum term of the standard
4 offer apparently is based on waivers (five or six requests)
5 granted by the Commission to utilities over the last
6 several years. There was no rationale given in the Staff
7 recommendation concerning how the five-year period was
8 arrived at by the utilities as the appropriate waiver
9 period, or by the Staff as to the minimum period for a
10 standard offer. The Staff states:

11 "the IOU's requested the waiver to reduce
12 the risk that ratepayers would be tied to a
13 long-term contract that is above avoided
14 cost because of the uncertainty in the
15 wholesale generation market." (page 2 of the
16 Staff recommendation).

17 If the standard offer contract was for non-firm or as-
18 available power with some fixed pricing, the statement
19 would have some validity. The selection of longer periods
20 causing risks of higher costs would seem to suggest that
21 public utilities generally overestimate costs of generation
22 in their resource planning. History may not bear this out.

23 Moreover, exactly the same risks are present with a
24 utility-built power plant, which under conventional
25 regulatory treatment (which, to the best of my knowledge,
26 the Commission still employs) allows the utility full
27 recovery of all prudently incurred capital, depreciation,

COMMENTS OF GERARD J. KORDECKI

1 and operating costs for the entire life of the plant, which
2 can be 30 or 40 years or even longer.

3 Taking the Staff's premise to the extreme -- that is,
4 trying to match generation costs to wholesale generation
5 market prices -- when applied to utility built generation,
6 then utility rate-based generators would also only be
7 allowed a five-year cost recovery period by the FPSC, and
8 every sixth year the revenue requirements would have to be
9 adjusted based on changes in avoided capacity costs. This
10 process would then capture the fluctuating generation costs
11 that the Staff feels are problematic with ten-year standard
12 offer contracts and would level the playing field with
13 potential standard offer cogenerators. With an initial
14 five-year recovery and the potential unpredictable future
15 recovery levels, utilities would be expected to have
16 increased borrowing difficulties which in turn would raise
17 borrowing costs. Any financial hardship caused by a
18 shorter recovery period to the utilities would be similar
19 to a cogenerator whose contract period is less than the
20 life of the plant being financed. Changing from a minimum
21 ten-year contract to a five-year contract without the
22 cogenerator having an option for longer periods will only
23 increase the cogenerator's costs, if for no other reason,
24 the increased transaction costs.

COMMENTS OF GERARD J. KORDECKI

1 Q. What effect will the reduction in the "minimum" standard
2 offer period have on cogeneration construction?
3 A. Reducing the standard offer minimum to five years, which I
4 believe will become the maximum period, can only be adverse
5 to cogeneration. Discouragement of cogeneration through
6 biased rules is contrary to the wishes of the Florida
7 Legislature. The Legislature has been emphatic that
8 efficient cogeneration should be encouraged and
9 particularly solid waste generating facilities:

10 "Electricity produced by cogeneration and
11 small power production is of benefit to the
12 public when included as part of the total
13 energy supply of the entire electric grid of
14 the state" Section 366.051, Florida
15 Statutes.

16 "The Legislature further declares that the
17 combustion of refuse by solid waste
18 facilities to supplement the electricity
19 supply not only represents an effective
20 conservation effort but also represents an
21 environmentally preferred alternative to
22 conventional solid waste disposal in this
23 state." Section 377.709(1), Florida
24 Statutes.

25 In this latter section, the Legislature directed the
26 FPSC to establish a funding program to encourage facilities
27 using solid waste as a source of fuel. It seems very clear
28 that the Staff's recommendations, and the proposed
29 amendments, are contrary to the intent of the Florida
30 Legislature and have the effect of discouraging expansion
31 of generation from solid waste facilities and other

COMMENTS OF GERARD J. KORDECKI

1 qualifying facilities.

2 **Q. Why do you believe that the five-year minimum standard**
3 **offer contract proposed by the Staff becomes the maximum**
4 **period?**

5 **A. Under the present Rule and the proposed changes, the**
6 **utilities have absolutely no incentive to offer any**
7 **standard offer beyond the minimum period (10 or 5 years)**
8 **They gain nothing with a longer term. The Commission Staff**
9 **states that a five-year term is preferable to ten because**
10 **"Keeping the ten-year term would continue the possibility**
11 **that IOUs and their ratepayers would be faced with higher**
12 **cost capacity and energy costs for an additional five years**
13 **for new standard offer contracts, even if market costs**
14 **declined." If I were a utility manager and the Commission**
15 **told me to shorten a contract period for a power purchase**
16 **which had no positive upside for my stockholders, who am I**
17 **to disagree. Therefore, the minimum and maximum period will**
18 **likely be the same.**

19 **Q. Mr. Kordecki, isn't an option for a longer period available**
20 **to the cogenerator or solid waste facility?**

21 **A. Reading the text of the Rule and the Staff's recommendation**
22 **leads me to believe that de facto each contract would be**

COMMENTS OF GERARD J. KORDECKI

1 limited to five years and **may** be renegotiated every five
2 years. The solid waste cogenerator will be forced to
3 contract for five years or the expected life of the avoided
4 unit. There appears to be no intervening period allowed at
5 the request of the cogenerator, but the utility may pick
6 "the specific period" or term of the standard offer
7 contract, which may be greater than five years. The option
8 for a longer period is unilateral to the utility, subject
9 to Commission approval.

10 **Q. In an earlier statement you indicated that the standard**
11 **offer rules are biased. How are they biased in your mind?**

12 **A.** Even though the Legislature has clearly stated that QFs
13 should receive full avoided costs, there is a significant
14 difference in how the costs are collected. The utilities
15 recover their "costs" (which includes a return on
16 investment) on a revenue requirements basis. In short,
17 their revenues on the capacity are front-end loaded --
18 highest in the first year and declining there after.
19 Cogenerators receive their capacity payments on a value of
20 deferral basis -- the first year capacity payment is the
21 lowest and the highest payments are on the back end. Even
22 with levelized payments, a differential remains. If the
23 standard offer contract is for the life of the unit, then

COMMENTS OF GERARD J. KORDECKI

1 the revenue requirements and value of deferral totals will
2 be equal only in the last year of the life of the unit.

3 **Q. If the net present value of the overall payments are equal**
4 **in both methods over the life of the unit, do you still**
5 **believe there is bias?**

6 A. Yes. The collection mechanism does make a difference --
7 front-end loaded versus back-end loaded. More front-end
8 dollars would give local government-owned QFs more
9 financial flexibility -- the same as enjoyed by utilities.
10 This type of payment stream can also make a substantial
11 difference in the availability of financing for a new
12 facility.

13 **Q. What is your reaction to standard offers which are less**
14 **than the life of the unit?**

15 A. Looking beyond the natural incentive for the utilities to
16 want to build generating units and earn returns on these
17 investments, the utilities want standard offer contracts to
18 be as short as possible. This allows the utilities to
19 contract at below utility avoided costs without a
20 concurrent long-term obligation.

COMMENTS OF GERARD J. KORDECKI

1 Q. Mr. Kordecki, doesn't that situation give the utility the
2 lowest costs that will be borne by retail ratepayers?

3 A. No, not necessarily. For one reason, the timing of the
4 contracts may not correspond to or correlate with changes
5 in the market. The purchased power may be higher or lower
6 at any one time and the five-year minimum (maximum, in my
7 mind) does not guarantee any ability to match changing
8 market conditions.

9 The important points that should be remembered in this
10 rulemaking are that the Florida Legislature has mandated
11 that QFs be treated financially the same as utilities by
12 receiving revenues equal to the utilities' avoided costs,
13 and that solid waste facilities provide significant
14 environmental benefits to the state.

15 When utilities build the generation, the obligation on
16 ratepayers automatically is extended over the life of the
17 units. The ratepayers' obligations are less under standard
18 offers due to contract length and the value of deferral
19 payment methodology mandated in this Rule. Even under life-
20 of-the-unit contracts, risks are reduced due to the value
21 of deferral payment methodology.

22 Q. Do you believe that the proposed amendments fairly or
23 appropriately balance the interests of the ratepayers with

COMMENTS OF GERARD J. KORDECKI

1 the interests of the QFs who are eligible to accept a
2 utility's standard offer contract?

3 A. No. As explained above, the proposed amendments would
4 impose exactly the same types of risks on ratepayers that
5 the proposed amendments are supposedly intended to avoid.
6 The point is simple: long-term investments, regardless
7 whether they are utility-built power plants or power
8 purchase contracts, have risks associated with them. If
9 market prices for the power drop over the term of the
10 investment or contract, then the investment or contract
11 will be "over-priced" relative to then-current market
12 conditions; on the other hand, if market prices increase,
13 then the investment or contract will be "under-priced." If
14 a utility builds a power plant instead of obtaining power
15 from QFs, and market generation costs and prices
16 subsequently drop, the utility's power plant is just as
17 uneconomic as the QF contract would have been, and the
18 ratepayers are just as "stuck" with the economic
19 consequences of the investment.

20 If anything, since QFs will frequently choose to sign
21 standard offer contracts for less than the full life of the
22 avoided unit, the risk exposure to ratepayers is generally
23 less with such a contract than with a utility-built power
24 plant. The risks associated with standard offer contracts

COMMENTS OF GERARD J. KORDECKI

1 are also less because the QF has no opportunity to come
2 back to the utility or the Commission and ask for its
3 payments to be increased if it has to spend additional
4 money to maintain or upgrade or retrofit its plant, whereas
5 the utility effectively has a right to recover such costs,
6 subject only to a prudency review by the Commission.

7 Q. Do you agree with the Staff that the proposed amendments do
8 not discourage the construction of small QFs and solid
9 waste facilities?

10 A. No, I do not agree with this assertion. Limiting the life
11 of standard offer contracts to five years will make it much
12 more difficult for eligible QFs, including solid waste
13 facilities, to obtain financing. The uncertainty of future
14 capacity payments will be very unattractive to potential
15 lenders, making financing for such facilities difficult if
16 not impossible to obtain. This will greatly discourage the
17 construction of small QFs and solid waste facilities.

18 IV. RECOMMENDED RULE LANGUAGE CHANGES

19 Q. Mr. Kordecki, would you recommend amending the
20 Commission's Cogeneration Rules on this subject, and, if
21 so, how?

22 A. I would recommend that the Commission amend Rule 25-17.0832
23 (4) (b), F.A.C., to read as follows:

COMMENTS OF GERARD J. KORDECKI

1 (4) Standard Offer Contracts.

2 * * *

3 (b) The rates, terms, and other conditions
4 contained in each utility's standard offer contract or
5 contracts shall be based on the need for and equal to
6 the avoided cost of deferring or avoiding the
7 construction or purchase of additional generation
8 capacity or parts thereof by the purchasing utility.
9 Each standard offer contract shall provide the option
10 for the qualifying facility to be paid rates equal to
11 the costs that would be borne by the utility's general
12 body of ratepayers if the utility were to build its
13 avoided unit or purchase capacity and energy from
14 another source. Without limitation, this shall
15 include payments calculated on the same basis as the
16 utility's revenue requirements where the qualifying
17 facility signs a standard offer contract with a term
18 equal to the projected life of the avoided unit,
19 payments calculated on the same basis as payments to
20 be made pursuant to a power purchase arrangement where
21 such power purchase is the generation resource avoided
22 by the purchase from the qualifying facility, and
23 payments calculated on the same basis as the utility's
24 proposed revenue requirements for a proposed plant
25 where the utility plans to limit cost recovery for the
26 proposed plant to a fixed period of time. This
27 requirement shall not preclude the use of the value of
28 deferral payment methodology to calculate capacity
29 payments where the qualifying facility proposes to
30 sign a contract with a term less than the projected
31 life of the avoided unit. Rates for payment of
32 capacity sold by a qualifying facility shall be
33 specified in the contract for the duration of the
34 contract. In reviewing a utility's standard offer
35 contract or contracts, the Commission shall consider
36 the criteria specified in paragraphs (3)(a) through
37 (3)(d) of this rule, as well as any other information
38 relating to the determination of the utility's full
39 avoided costs.

40 Q. What does this change accomplish?

41 A. This change permits the QF to operate under the same

COMMENTS OF GERARD J. KORDECKI

1 economics as the public utilities. First, the standard
2 offer contract would be expanded to include purchases by
3 utilities where such purchases are in fact the public
4 utility's avoided generation resource, i.e., where such
5 purchases are made in lieu of building new generating
6 units. Secondly, each standard offer contract should allow
7 for qualifying facilities to be paid in the same manner as
8 the utilities collect from their ratepayers. Only "life of
9 the unit" contracts would receive revenue requirements and
10 avoided purchases would be dealt with on the same basis as
11 the payments for power purchase contracts.

12 These proposed amendments to this section only level
13 the playing field so that QFs are facing the same treatment
14 that is afforded to the utilities. This transparent
15 treatment is what I believe meets the goals of PURPA and
16 the intent of the Florida Legislature.

17 **Q. What is your next recommended change?**

18 **A.** I would recommend that the Commission amend Rule 25-
19 17.0832(4)(e)7., F.A.C., to read as follows:

20 (e) Minimum Specifications. Each standard offer
21 contract shall, at minimum, specify:

22 * * *

23 7. The period of time over which firm capacity
24 and energy shall be delivered from the qualifying
25 facility to the utility. Firm capacity and energy

COMMENTS OF GERARD J. KORDECKI

1 shall be delivered, at a minimum, for a period of ten
2 years, commencing with the anticipated in-service date
3 of the avoided unit specified in the contract. At a
4 maximum, firm capacity and energy shall be delivered
5 for a period of time equal to the anticipated plant
6 life of the avoided unit, commencing with the
7 anticipated in-service date of the avoided unit.
8 Consistent with the utility's obligation to purchase
9 the firm capacity and energy that a qualifying
10 facility has available to sell to a utility, the
11 qualifying facility shall have the option to specify
12 the duration of its obligation to deliver firm
13 capacity and energy within the above parameters.

14 **Q. What does this change accomplish?**

15 A. This change reflects the fact that utilities are obligated
16 to purchase the qualifying facility's capacity at the point
17 that each utility has nominated a type of unit or purchase
18 and designated a date for commercial operation or purchase.
19 Since QFs are receiving avoided cost in the form of total
20 revenue requirements or value of deferral payments which
21 are less than the annual revenue requirements, utilities'
22 ratepayers are being held harmless.

23 The ultimate customers see the same dollar amounts on
24 their bills if the utilities built the generating units or
25 made firm wholesale purchases or signed a standard offer
26 contract with a qualifying facility. In order to facilitate
27 this process, the QFs should have the option to specify the
28 duration of the obligation within the parameters
29 established for the avoided facilities or purchases.

COMMENTS OF GERARD J. KORDECKI

1 This is also consistent with the policy articulated in
2 PURPA and in Section 366.051, Florida Statutes, that public
3 utilities must buy, at their avoided cost, all electricity
4 offered for sale by cogenerators and small power producers.
5 If the QF has capacity and energy available to sell to a
6 public utility for 17 years, then the law requires the
7 utility to buy it at the utility's avoided cost. This is
8 sound policy that promotes efficient generation and
9 generation from solid waste facilities while protecting
10 utility customers by requiring payments to be made at
11 avoided cost.

12 **Q. Mr. Kordecki, do you have any further comments regarding**
13 **the Commission's Rule?**

14 **A. Yes. I believe that the Commission should also clarify its**
15 **Rule to require a level-playing-field evaluation and**
16 **identification of each utility's avoided unit. More**
17 **specifically, I believe that such evaluations, as well as**
18 **the subsequent calculation of the utility's avoided cost,**
19 **should be based on a generation expansion plan that**
20 **includes only contractually committed or existing demand-**
21 **side management and conservation measures. It is my**
22 **understanding that Lee County, Miami-Dade County, and**
23 **Montenay-Dade, Ltd. have submitted a separate petition**

COMMENTS OF GERARD J. KORDECKI

1 asking the Commission to amend its Rule to accomplish this,
2 and that that issue will be taken up when the Commission
3 acts upon that petition.

4 **Q. Conceptually, what will this last change accomplish?**

5 A. This last suggested change will put standard offer contract
6 purchase options on a consistent basis in the selection of
7 resource alternatives to meet the utilities' load growth.
8 The language requires that all incremental conservation and
9 load management program estimates be removed from the load
10 and energy forecasts so that the avoided unit calculations
11 and the availability of qualifying facility purchases are
12 dealt with in a consistent manner with demand and other
13 supply options.

14 **Q. Mr. Kordecki, does this conclude your comments?**

15 A. Yes, it does.