Florida Power
A **Progress Energy** Company

ASSOCIATE GENERAL COUNSEL

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April 1, 2002

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 001574-EQ

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of Florida Power Corporation's Comments on the proposed amendments to Rule 25-17.0832, F.A.C.

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 Word format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

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Docket No. 001574-EQ
Re: Proposed Amendments to Rule 25-17.0832

Comments of Florida Power Corporation

Florida Power Corporation submits these comments in response to proposed amendments to Rule 25-17.0832, Florida Administrative Code, regarding standard offer contracts. The Florida Public Service Commission initiated changes to the standard offer rule because of numerous waivers that had been requested and granted regarding the minimum term of standard offer contracts. The initial proposal was to change the minimum term of a standard offer contract from ten years to five years. Florida Power Corporation strongly supports the rule change as initiated by the FPSC.

Lee County, Miami-Dade County, Montenay-Dade, LTD., the City of Tampa and the Solid Waste Authority of Palm Beach County, Florida (the "Parties") have requested additional changes to rule 25-17.0832. These suggested amendments are contrary to established Commission policy in implementing Statute 366.051. These newly proposed amendments include: (1) requiring that standard offer rates, terms, and conditions be based upon the purchase of additional generation rather than only on the construction of the next avoided unit, (2) allowing the use of revenue requirements as the basis to calculate payments pursuant to a standard offer, (3) allowing the Qualifying Facility to specify the duration of the standard offer contract, (4) requiring that a minimum of 20% of the energy purchased with standard offer contracts be purchased at a fixed energy price based on the projected energy cost of the avoided unit, and (5) excluding all demand side management alternatives not implemented or under contract from the utility's analyses used to identify its avoided unit. FPC strongly opposes these proposed amendments. The arguments presented by the Parties to support these amendments

have been presented to the Commission in the past and have been rejected. FPC therefore believes that it is a waste of time of the Commission's time to consider the Parties' amendments.

These amendments significantly increase the risk that the utility's customers will be required to pay costs higher than under the current rules. As initiated by the Commission, this rulemaking was to reduce the minimum term of a standard offer from ten years to five years. Such an amendment limits the risk that the utility's customers will be obligated to long-term contracts that become uneconomic. On the other hand, the additional amendments proposed by the Parties would increase the risk of such uneconomic contracts.

The Commission has been mandated to establish standard offer rates that are equal to the purchasing utilities avoided cost and the Commission has taken a balanced approach in implementing this mandate by balancing the risks and benefits associated with purchases from Qualifying Facilities.

Requiring Standard Offer Rates, Terms, And Conditions Be Based Upon the Purchase of Additional Generation Rather Than Only On the Construction of the Next Avoided Unit

Purchases of additional generation by Florida utilities are and have been a common practice. However, the majority of such purchases are to address short-term needs. Purchases for such short-term needs are typically executed shortly before the need begins making the requirement of writing and approving a standard offer contract for such a need impractical to everyone.

Long-term purchases can provide benefits to the utility's customers that cannot be achieved from a single QF facility. For instance, FPC's long-term purchase agreements are system backed products and the reliability cannot be matched by any single facility. This additional reliability has value to the utility's customers. Therefore, a standard offer contract

based on the rates of such a purchase would not account for such loss in value and result in costs in excess of avoided costs.

The Use of Revenue Requirements as the Basis to Calculate Payments Pursuant to a Standard Offer

The use of Revenue Requirements methodology in calculating capacity payments was rejected in the early days of QF rulemaking. The Commission determined that the preferred methodology to be used in calculating avoided costs payments has always been the value of deferral methodology. This methodology balances the benefit of purchasing from QFs with the risk of the purchasing utility paying more than full avoided cost. The basis of the value of deferral methodology is that it determines the cost to defer the construction of a plant for one year. Therefore, under the value of deferral the term of the contract is not relevant as long as it is less than the economic life of the avoided unit. This is because for each successive year the avoided cost is the cost of deferring the construction of the avoided unit for another year until the end of the life of the avoided unit.

A standard offer contract with a term equal to the life of the avoided unit using the value of deferral will yield payments on a net present value basis that are equal to payments using revenue requirements methodology. However, the practical result of the revenue requirements approach is a significant increase in the risk to the utility's customers. This increased risk is because if the QF fails to perform for any reason prior to the end of the contract, the utility's customers would pay more than under the value of deferral methodology. This additional risk is further exacerbated by the decreasing payments under the revenue requirement methodology.

Allowing the Qualifying Facility to Specify the Duration of the Standard Offer Contract

The burden of justifying the term of the Standard Offer Contract has been placed on the utility, where it belongs. The minimum term only needs to be long enough to incorporate the

utility's planning needs. The criteria that are specified in the Commission's rules and must be met in order to qualify for a Standard Offer contract are narrow. This is appropriate because the standard offer is a pre-approved contract. If the QF does not meet the criteria in the standard offer, then the utility is obligated to negotiate in good faith under 25-17.0834(1).

Requiring that A Minimum of 20% of the Energy Purchased with Standard Offer Contracts Be Purchased at a Fixed Energy Price Based on the Projected Energy Cost of the Avoided Unit

The energy payments associated with a standard offer contract are tied to the cost of fuel delivered to the utility associated with the avoided unit. History has demonstrated the speculative nature of forecasting fuel costs. More often than not, the forecasted energy payments have been higher that market prices. Once again, the suggestion that the energy payments should be, in part, tied to forecasted fuel prices shifts the risks from the QF to the customer. After all, the price for fuel delivered to the utility is the best approximation of the price of fuel to be used at the avoided unit. Each time the Commission has taken up the issue of payments to QFs in the past the outcome has been to mitigate risks associated with energy payments by tying them to the actual utility prices at the time of the purchase.

Excluding All Demand Side Management Alternatives Not Implemented or Under Contract From the Utility's Analyses Used To Identify Its Avoided Unit

Finally, the issue of excluding demand side management alternatives that are not implemented or currently under contract only serves to artificially increase the avoided costs associated with the avoided unit. The process of identifying the next unit to be avoided typically starts with the Ten Year Site Plan. The Ten Year Site Plan represents the utility's current official generation expansion planning document. The demand side alternatives included in the plan are previously presented and approved by the Commission. To exclude the approved demand side management plan in the utility's determination of its next unit to be avoided can only results in

Standard Offer Contract with payment terms and conditions higher than the Utility's avoided cost.

Conclusion

In conclusion, with their proposed amendments the Parties are clearly attempting to increase the payments they would receive under a standard offer contract. The criteria that are specified in the Commission's rules and must be met in order to qualify for a Standard Offer contract are narrow. Again, this is appropriate because the standard offer is a pre-approved contract. If the QF does not meet the criteria in the standard offer, then the utility is obligated to negotiate in good faith under 25-17.0834(1). The Parties that proposed these changes are all governmental bodies or large corporations that would negotiate many large contracts that are required for a solid waste facility and they are certainly capable to negotiate with a utility or any other wholesale purchaser in the event that the standard offer contract does not meet their needs.