



Florida Power

A Progress Energy Company

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL

May 7, 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

020404-EQ

Re: Petition of Florida Power Corporation for approval of its plan to share the risks of the Bay County QF contract modification.

Dear Ms. Bayó:

Pursuant to the Commission's directive in Order No. PSC-02-0483-PAA-EQ, Docket No. 011365-EQ, 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

cc: Robert Vandiver, Esquire
Vicki Gordon Kaufman, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power Corporation for approval of its plan to share the risks of the Bay County QF contract modification.

Docket No. _____

Submitted for filing:
May 8, 2002

P E T I T I O N

Florida Power Corporation (Florida Power, or the Company), pursuant to Order No. PSC-02-0483-PAA-EQ¹ (Order 0483), issued April 8, 2002 in Docket No. 011365-EQ, hereby petitions the Florida Public Service Commission (the Commission) for approval of the Company's plan, Exhibit A hereto, for sharing the risk of forecast uncertainty associated with the projected benefits of its recently restructured qualifying facility (QF) power purchase contract with Bay County. In support of this petition, Florida Power states as follows:

1. Petitioner, Florida Power, is a public utility subject to the jurisdiction of the Commission under Chapter 366, Florida Statutes. Florida Power's General Offices are located at 100 Central Avenue, 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 33733-4042
Facsimile: (727) 820-5519

For express deliveries by private courier, the address is:

100 Central Avenue
St. Petersburg, FL 33701

¹ This Proposed Agency Action order was made effective and final by Consummating Order No. PSC-02-0587-CO-EQ, issued April 30, 2002.

Background

3. By Order 0483, the Commission granted Florida Power's petition for approval of a modification and early termination of an existing QF contract with Bay County for the purchase of 11 megawatts of capacity and associated energy from the County's Resource Recovery Facility. Florida Power estimated the net present value of cost savings from approval of the modified contract to be \$4.4 million based on the difference between the costs under the original contract and an estimate of the costs to replace the contract in the wholesale power market over the period from 2007, the first year after the modified contract terminates, through 2022, when the original contract would have terminated.

4. The Commission recognized that these estimated savings would be affected, positively or negatively, by variances from the Company's long term market price estimates, which were seen to have a greater risk and volatility than the relatively stable and predictable costs under the existing contract. Since the risk associated with these variances are borne entirely by Florida Power's ratepayers, the Commission found that "[a] sharing of both the risks and rewards associated with this [contract] amendment could be beneficial to both the utility and its customers."

Order 0483, page 7. Accordingly, Florida Power was directed to consider a sharing plan and, within 30 days of Order 0483's issuance, either file a petition for approval of such a plan, or submit a report detailing why a sharing plan was not proposed. This petition complies with the first of these alternative directives.

The Proposed Sharing Plan


5. Florida Power proposes to share the risks and benefits of the modified Bay County contract with its customers on a 50/50 basis. As is more fully described in Exhibit A, the sharing plan will be implemented through the fuel adjustment proceeding beginning with the filing of the Company's projections to establish its fuel cost recovery factors for calendar year 2007, and thereafter through the term of the original Bay County contract. Each year's filing will include an estimate for the upcoming projection period of the payments that would have been made under the original contract and an estimate of the costs to replace the contract purchases. One-half of the difference between the estimated contract costs and replacement costs will be charged or credited to Florida Power's recoverable fuel costs for the projection period to reflect the Company's share of the savings or additional costs attributable to the modified contract. Because of the significant additional work effort and expense, coupled with the lack of precision that can be achieved in attempting to recreate the projected replacement cost estimates using actual data for a contract as small as Bay County's (approximately 0.1% of the Company's generation resources), Florida Power proposes that the true-up feature not be utilized for its Bay County sharing plan.

6. In recognition of the Commissioners' comments regarding the desirability of a risk sharing plan applicable to QF contract restructurings in general, Florida Power is willing to consider similar sharing mechanisms as opportunities to restructure its existing QF contracts present themselves in the future.

WHEREFORE, Florida Power Corporation respectfully requests the Commission to (a) find that this petition complies with the filing directive contained in Order 0483, and (b) approve the Company's Bay County sharing plan as set forth in Exhibit A hereto.

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

**FLORIDA POWER'S PLAN FOR SHARING
THE RISKS AND BENEFITS OF MODIFYING
THE BAY COUNTRY QF CONTRACT**

Florida Power's Sharing Plan for the Bay County Contract Modification

Florida Power will share the risks and benefits of the early termination modification to the Bay County contract with its customers on a 50/50 basis. This sharing plan will be implemented through the fuel adjustment proceeding beginning with the filing of Florida Power's projections to establish its fuel cost recovery factors for calendar year 2007, and thereafter with the Company's projection filing for each succeeding calendar year through 2022.

Procedure:

Each of Florida Power's projection filings subject to this sharing plan shall include an estimate of the costs of purchases under the original Bay County contract for the upcoming projection period, and an estimate of the costs to replace the purchases under the original Bay County contract for the projection period.

The estimate of the costs of purchases under the original Bay County contract for each projection period will be based on the lower of (a) the forecasted cost of coal in dollars per MMBTU for Tampa Electric Company's Big Bend Unit 4, multiplied by a heat rate of 9,790 MMBTU per kWh, or (b) Florida Power's hourly marginal energy cost in cents per kWh, plus the applicable capacity payments, if any, specified in the original contract, assuming a capacity factor of 75% for the Bay County facility spread evenly over each hour of each day.

The estimate of the costs to replace the purchases under the original Bay County contract for each projection period will be based on Florida Power's hourly marginal energy cost in cents per kWh for the quantity of energy that would have been provided under the original contract, assuming a 75% capacity factor for the Bay County facility spread evenly over each hour of each day.

If the estimated replacement costs are lower than the estimated contract costs, one-half of the cost savings will be added to Florida Power's recoverable fuel costs for the projection period. If the estimated replacements costs are higher than the estimated contract costs, one-half of the cost increase will be subtracted from Florida Power's recoverable fuel costs for the period. Absent extraordinary circumstances, these estimates will not be subject to re-estimation using actual data for the period.

Example 1 - Sharing calculation for the 2007 projection period.

At a 75% capacity factor, the Bay County facility would have generated 72,270 MWHs at its Committed Capacity of 11 MWs. Assuming a Big Bend 4 coal cost of \$1.761 per MMBTU, energy payments under the original Bay County contract would have been \$1,300,000. Capacity payments under the original contract would have been \$3,363,000, for a total estimated contract cost of \$4,663,000 for the projection period. Assuming that Florida Power's estimated hourly marginal costs averaged 4.013 cents per kWh for the year, the estimated replacement costs would be \$2,900,000 for the projection period. The difference would be an annual savings of \$1,763,000, of which one-half, or \$881,500, would be added to Florida Power's recoverable fuel costs for the 2007 projection period.

Example 2 - Sharing calculation for the 2014 projection period.

At a 75% capacity factor, the Bay County facility would have generated 72,270 MWHs at its Committed Capacity of 11 MWs. Assuming a Big Bend 4 coal cost of \$2.032 per MMBTU, energy payments under the original Bay County contract would have been \$1,500,000. No capacity payments would have been made in 2014 under the original contract, for a total estimated contract cost of \$1,500,000 for the projection period. Assuming that Florida Power's estimated hourly marginal costs averaged 4.289 cents per kWh for the year, the estimated replacement costs would be \$3,100,000 for the projection period. The difference would be an annual cost increase of \$1,600,000, of which one-half, or \$800,000, would be subtracted from Florida Power's recoverable fuel costs for the 2014 projection period.