BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for approval of agreement for generation services and related terms and conditions with Gulf Power Company for Northwest Division (Marianna) beginning 2008, by Florida Public Utilities Company.	DOCKET NO. 070108-EI ORDER NO. PSC-07-0476-PAA-EI ISSUED: June 6, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING PURCHASED POWER AGREEMENT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On February 8, 2007, Florida Public Utilities Company (FPUC) filed a petition with the Florida Public Service Commission (Commission) seeking approval of an agreement for the purchase of generation services from Gulf Power Corporation (Gulf). FPUC is seeking to recover, through its Capacity and Purchased Power Cost Recovery Clauses, the prudently incurred costs that it will incur under the agreement.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.041, and 366.05, Florida Statutes.

DECISION

FPUC provides electric utility service to customers located in two sections of north Florida. The Northwest Division serves Jackson, Calhoun, and Liberty Counties, and is commonly called the "Marianna Division." The Northeast Division is located in the Fernandina Beach area, and serves Nassau County. The Company does not generate any of the power it sells, but has met the needs of its customers through contracts for purchased power.

The purchased power contracts for both divisions were set to expire December 31, 2007. In the first quarter of 2005, FPUC began the work of obtaining replacement contracts for both divisions. FPUC hired the consulting firm of Christensen Associates to provide expertise and guidance over the entire process, from planning and releasing the request for proposals (RFP) to entering the final contract for the purchase of electricity.

The RFP was designed to hold a minimum level of constraints and impediments to serious potential bidders. Bidders were free to offer multiple packages and various bundles of services. Offers covering full requirements, partial requirements, and energy only services were invited. The RFP also offered flexible terms for proposed charges. Offers could be based on fixed charges, demand charges, energy charges, and could include indexed charges. Initially, the RFP sought offers for a five-year term, although shorter term offers were acceptable and ten-year options were encouraged. Thirty-five entities expressed interest initially, leading to seven formal offers.

During 2006, FPUC reached an agreement with JEA for the supply of purchased power to the Northeast Division beginning January 1, 2007. That agreement was presented for consideration by the Commission in Docket No. 060001-EI, In Re: Fuel and purchased power cost recovery clause with generating performance incentive factor. The Commission approved cost recovery for these purchased power costs by Order No. PSC-06-1057-FOF-EI, issued on December 22, 2006.

At issue here is FPUC's contract with Gulf to meet the needs of the Northwest Division. Based on its analysis of offers and negotiations with service providers, FPUC selected Gulf for a ten-year power supply agreement to begin January 1, 2008. The contract for power supply was executed on December 28, 2006. FPUC seeks cost recovery approval for this agreement.

The expiring contract was negotiated a decade ago, in a time when costs related to the provision of electric energy were relatively stable. Consequently, that contract included firm prices for the provision of electric service, with transmission service included in the firm price. The new contract includes market based costs, with environmental costs rolled into the energy costs. The transmission costs are separately negotiated with the transmission services provider, which is Southern Company Services.

The process of selecting a supplier began with a request for power supply over a five-year period. Offers for a ten-year period were then negotiated and evaluated. The longer term provides more stability with regard to prices that are increasing and volatile.

The contract with Gulf is the best power supply alternative known by and available to FPUC. We have reviewed FPUC's confidential analysis of responses to the request for proposals. The projected costs associated with Gulf's offer are far below the costs associated with competing offers. FPUC describes Gulf as a good business partner, providing high service reliability and prompt response to technical issues that have developed.

Under the new agreement, FPUC will assume the position of a direct customer for transmission services. FPUC will have a transmission service agreement with Southern Company which will define the charges for monthly scheduling services, voltage control, and reactive power, plus a federal regulatory fee. Although the new agreement has FPUC paying for interconnection services, including metering and substation facilities, the charges are expected to be very similar to charges under the current contract.

The new agreement will result in an increase to the charges borne by customers. A residential customer using 1,000 KWH will pay an increase of approximately $25.30/month over the charge for the same energy and transmission services under the expiring contract. During the 1997 - 2007 period of the current contract, customers have enjoyed relatively favorable rates. FPUC asserts that every available option would have resulted in a rate increase, and the agreement executed is the most prudent arrangement for continued purchased power.

FPUC is attempting to educate its body of ratepayers regarding the anticipated increase in charges. The utility has hired a public relations firm to direct the process of educating the community about the increase. Media releases have been used to advise of the expected increase, and suggest ways to conserve power.

Over a period of several months, our staff has had an opportunity to observe the process used by FPUC to obtain a new contract for purchased power. Both the process and the results appear reasonable. Therefore, we find that the agreement is approved and that the reasonable and prudently incurred costs arising from exercise of the contract are appropriate for purposes of cost recovery through the fuel and purchased power cost recovery clause.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Public Utility Company's Petition for approval of the purchased power agreement between Florida Public Utility Company and Gulf Power Company is granted. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 6th day of June, 2007.

Ann Cole

ANN COLE
Commission Clerk

(S E A L)

LCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 27, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.