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January 14, 2008

Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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COMMISSION
CLERK

Re: *Direct Testimony of David W. Gammon to be filed in Docket No. 070235-EQ*

Dear Ms. Cole:

Enclosed please find an original and fifteen copies of the Direct Testimony of David W. Gammon, on behalf of Progress Energy Florida, Inc., to be filed in Docket No. 070235-EQ.

Copies have been served to all other parties and staff, as shown on the attached Certificate of Service, in accordance with Order No. PSC-07-0962-PCO-EQ.

Sincerely,

Lisa C. Scoles

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of David W. Gammon, on behalf of Progress Energy Florida, Inc. was served by U.S. mail or hand delivery this 14th day of January 2008, to the following:

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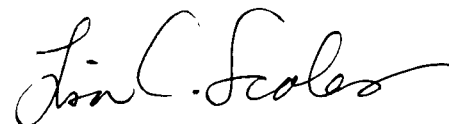
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Lisa C. Scoles

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR APPROVAL OF STANDARD OFFER
CONTRACT FOR PURCHASE OF FIRM CAPACITY AND
ENERGY FROM RENEWABLE ENERGY PRODUCER OR
QUALIFYING FACILITY LESS THAN 100 KW TARIFF, BY
PROGRESS ENERGY FLORIDA, INC.**

DOCKET NO. 070235-EQ

Filed: January 14, 2008

**DIRECT TESTIMONY OF
DAVID W. GAMMON**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA, INC.**

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1 I. INTRODUCTION, QUALIFICATIONS AND PURPOSE

2 Q. Please state your name and business address.

3 A. David W. Gammon, P.O. Box 14042, St. Petersburg, Florida 33733.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by Progress Energy Florida, Inc. ("PEF" or "the Company") as a
7 Senior Power Delivery Specialist.

8

9 Q. What are your job responsibilities?

10 A. I am currently employed as a Senior Power Delivery Specialist for PEF. This position
11 has responsibility for all cogeneration contracts and renewable energy contracts. In
12 this position, I have responsibility for all of PEF's Qualifying Facility ("QF") power
13 purchases, including the development of Standard Offer Contracts. My
14 responsibilities further include administering all long-term QF contracts, negotiating
15 extensions, resolving disputes, and administering payments to cogeneration and
16 renewable suppliers.

17

18 Q. Please describe your educational background and professional experience.

19 A. I received a Bachelor of Science in Engineering degree from the University of Central
20 Florida in 1980 and a Master of Business Administration from the University of
21 South Florida in 2001. I am a registered Professional Engineer in the State of Florida.

22 My employment with Progress Energy Florida/Florida Power Corporation has
23 been related to QF purchases since 1991. Prior to this position, I have had other

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1 positions at Florida Power Corporation including Project Engineer in Energy
2 Management Resources and Project Engineer in Relay Design. My employment with
3 Florida Power Corporation began in 1977.

4
5 **Q. What is the purpose of your testimony?**

6 **A.** The purpose of my testimony is to address the structure and history of PEF's Standard
7 Offer Contracts for QF and Renewable Energy Producers ("Renewables"). I also
8 explain why certain terms and conditions are included in PEF's current Standard
9 Offer Contract.

10
11 **Q. Please summarize your testimony.**

12 **A.** PEF is required by law to have a Standard Offer Contract available for QFs and
13 Renewables. A QF or a Renewable can accept PEF's Standard Offer Contract
14 without any negotiation, and PEF is compelled to abide by the terms and conditions
15 of that contract for any and all counterparties who wish to agree to sell power under
16 it. While almost all QFs and Renewables elect to enter into a negotiated power
17 purchase contract with PEF instead of utilizing PEF's Standard Offer Contract, the
18 Standard Offer Contract provides a comprehensive baseline of acceptable terms and
19 conditions for energy providers to use in their negotiations with PEF, and PEF has
20 had excellent success in obtaining power purchase agreements with QFs and
21 Renewables by using its Standard Offer Contract as a "first draft" against which
22 negotiated contracts are developed.

1 As of late, PEF has made a number of changes to its Standard Offer Contract
2 in order to comply with recent rule changes and to incorporate feedback that PEF has
3 received from QFs and Renewables. By making these changes, PEF has developed a
4 Standard Offer Contract that both promotes Renewables to engage into negotiations
5 with PEF and that strikes a balance between the interests of PEF and its customers
6 and such energy producers.

7
8 **Q. Are you sponsoring your testimony with any exhibits?**

9 **A. No.**

10
11 **II. STANDARD OFFER CONTRACTS, RULES AND TARIFFS**

12 **Q. Please briefly give an explanation of what a Standard Offer Contract is and the**
13 **history of the development of Standard Offer Contracts.**

14 **A. Standard Offer Contracts were developed pursuant to the Public Utility Regulatory**
15 **Policy Act (“PURPA”), which was passed by Congress in 1978. Utilities in Florida**
16 **have had Standard Offer Contracts approved by the Florida Public Service**
17 **Commission (“FPSC” or “Commission”) in effect since 1984, offering the same**
18 **contract terms to any and all suppliers, although different terms can be developed**
19 **through negotiation.**

20 Because the Standard Offer Contract is offered to all renewable suppliers, its
21 terms must be broad enough to cover all possible circumstances. The particular
22 contractual needs of a specific type of supplier, such as a solar supplier, may be
23 different than the contractual needs of another supplier, such as a biomass facility, but

1 the Standard Offer Contract must be available to all suppliers regardless of the
2 resource used. The fact that different types of suppliers may benefit from different
3 terms is the reason that the terms and conditions in a Standard Offer Contract have to
4 be broad-based and comprehensive.

5
6 **Q. Can you also provide a brief history of the development of the rules governing**
7 **Standard Offer Contracts for Renewable Generation?**

8 **A.** The rules regarding Standard Offer Contracts have been in place since 1984. As the
9 rules have evolved and changed over time, the Commission has given careful
10 consideration to the development of contractual terms to balance the needs of
11 suppliers and utility customers. Accordingly, the rules have been amended several
12 times. Most recently, the Standard Offer Contract rules were amended in 2006 to
13 specifically address renewable energy generation. All of the rule changes were made
14 according to the rulemaking procedures in place at the time, and comments from all
15 interested parties were solicited, heard and thoughtfully evaluated by the
16 Commission.

17
18 **Q. You mentioned a rule change in 2006 regarding renewable energy. What**
19 **particular aspects of the Commission's rules promote renewable generation?**

20 **A.** There are numerous provisions of the Commission's rules that promote renewable
21 generation. They include:

- 22
- Removing the previous cap limiting Renewables to 80 MW or less.

- 1 • Requiring updated Standard Offer Contracts be filed by each utility each year by
2 April 1.
- 3 • Requiring a separate Standard Offer Contract for each technology type identified
4 in the utility's Ten Year Site Plan ("TYSP").
- 5 • Requiring that a Standard Offer Contract be continuously available to
6 Renewables.
- 7 • Providing the Renewable the option to choose the term of the Standard Offer
8 Contract between ten years and the economic life of the avoided unit.
- 9 • Allowing a portion of the energy payment under a Standard Offer Contract to be
10 fixed.
- 11 • Removing subscription limits in the Standard Offer Contract.
- 12 • Requiring a provision in the Standard Offer Contract to reopen the contract in the
13 event of changes in environmental and governmental regulations.
- 14 • Requiring that Renewable Energy Credits ("RECs") remain the exclusive
15 property of the Renewable.
- 16 • Requiring prior approval by the Commission before equity adjustments for
17 imputed debt can be made to a utility's avoided cost.
- 18 • Providing for dispute resolution between a Renewable and a utility.

19

20 **Q. What changes did PEF make in its tariff to comply with the FPSC's 2006 rule**
21 **revisions?**

22 **A.** In order to comply with the rule changes and in response to comments received
23 during recent contract negotiations with Renewables, numerous changes were made

1 to PEF's Standard Offer Contract. PEF's Standard Offer Contract now includes the
2 following:

3 • The Standard Offer Contract is based on the next avoidable fossil fueled generating
4 unit identified in PEF's TYSP, as required by Rule 25-17.250(1), F.A.C., which is
5 the 2013 combined cycle unit.

6 • The Standard Offer Contract is available to both Renewables and QFs less than
7 100 kW, as provided by Rule 25-17.250(1), F.A.C.

8 • The Standard Offer Contract is offered on a continuous basis, as required by
9 Section 366.91, F.S., and Rule 25-17.250(2), F.A.C.

10 • The Standard Offer Contract allows a Renewable or QF to choose any contract
11 term from 10 years up to 25 years, which is the projected life of the avoided unit,
12 as required by Section 366.91, F.S., and Rule 25-17.250(3), F.A.C.

13 • The Standard Offer Contract includes normal payments, early payments, levelized
14 payments, and early levelized payments, as required by Rule 25-17.250(4) and (6),
15 F.A.C.

16 • The Standard Offer Contract contains no preset subscription limits for the purchase
17 of capacity and energy from Renewables, as required by Rule 25-17.260, F.A.C.

18 • The Standard Offer Contract contains a provision to reopen the contract based on
19 changes resulting from new environmental or regulatory requirements that affect
20 the utility's full avoided costs of the unit on which the contract is based, as
21 required by Rule 25-17.270, F.A.C.

- 1 • The maximum number of capacity tests specified in the Standard Offer Contract is
2 reduced from six times per year to two times per year.

3 **Q. Other than the changes listed above, is the Standard Offer Contract**
4 **substantially the same as previously-approved versions?**

5 **A.** Yes. Although there were other changes made to PEF's Standard Offer Contract, in
6 addition to those described above, including grammatical changes, capitalization of
7 defined terms, renumbering of sections, and the like, the bulk of the Standard Offer
8 Contract has remained unchanged since it was last reviewed and approved by the
9 Commission in 2003.

10
11 **Q. One of the requirements of Rule 25-17.250, F.A.C., is that the utility make**
12 **separate Standard Offer Contracts available for each type fossil-fueled**
13 **generating unit in that utility's TYSP. Has PEF done that?**

14 **A.** Yes. PEF's 2007 TYSP contained five proposed generating units. Of those five units,
15 Hines Energy Complex Unit #4 and the Bartow Repowering were already under
16 construction, making them ineligible for a Standard Offer Contract. Another proposed
17 generating unit is a nuclear facility, and it is also ineligible for a Standard Offer
18 Contract. The remaining eligible generating units were a 2013 combined cycle unit
19 and a 2014 combined cycle unit. In compliance with Commission rule, PEF's current
20 Standard Offer Contract is based on the 2013 combined cycle unit.

21
22 **Q. Has the FPSC approved PEF's TYSP on which the Standard Offer Contracts in**
23 **this case are based?**

1 A. Yes. PEF's TYSP was approved by the Commission on December 17, 2007.

2

3 **III. SPECIFIC PROVISIONS OF THE STANDARD OFFER CONTRACT**

4 **A. Payments**

5 **Q. How are "avoided costs" derived for both energy and capacity payments in**
6 **PEF's Standard Offer Contract?**

7 A. The "avoided costs" for capacity are calculated using the data from the TYSP and in
8 accordance with the formula in Rule 25-17.0832(6), F.A.C. The formula in Rule 25-
9 17.0832(6), F.A.C., utilizes the value of deferral method to determine the capacity
10 cost. Simply stated, the value of deferral method determines the savings produced by
11 deferring the construction of generation.

12 The avoided energy cost is determined in accordance with Rule 25-
13 17.0832(5), F.A.C., which states that the avoided energy cost is determined using the
14 heat rate of the avoided unit when the avoided unit would have operated; and, when
15 the avoided unit would not have operated, the avoided energy cost is equal to the as-
16 available rate. For purposes of the Standard Offer Contract, it is assumed that the
17 avoided unit would operate in any hour when the as-available rate is greater than the
18 energy cost calculated using the heat rate of the avoided unit. Therefore, the energy
19 payment rate is determined hourly by comparing the as-available rate to the energy
20 cost using the avoided unit heat rate and then using the lower of those two values.
21 This methodology to determine the hourly rate has been used in Standard Offer
22 Contracts for a number of years.

1 The as-available energy cost is PEF's marginal cost of energy before the sale
2 of interchange energy and is calculated in accordance with Rule 25-17.0825, F.A.C.,
3 and PEF's Rate Schedule COG-1.

4
5 **Q. Does PEF's Standard Offer Contract include a provision requiring a renewable**
6 **energy generator to maintain a 71% or greater capacity factor in order to**
7 **qualify for a capacity payment and a 91% capacity factor or greater in order to**
8 **qualify for the full capacity payment?**

9 **A. Yes.**

10
11 **Q. Why is it appropriate to require a renewable generator to maintain a 91% or**
12 **greater capacity factor to qualify for the full capacity payment?**

13 **A.** It is appropriate to require a Renewable to maintain a 91% capacity factor to qualify
14 for the full capacity payment because 91% is the projected availability of the avoided
15 unit. Under the Standard Offer Contract, the supplier has the right to deliver to PEF
16 whenever it chooses. To ensure that PEF's customers receive the capacity that they
17 are paying for and have contracted to receive, the Standard Offer Contract must
18 require the supplier to deliver to PEF at the same capacity factor during the on-peak
19 hours (91%) that the avoided unit would deliver. Said another way, the Standard
20 Offer Contract requires the supplier to be available 91% of the on-peak hours.

21
22 **Q. Why is the specified capacity factor included in PEF's Standard Offer Contract?**

1 A. The specified capacity factor ensures that PEF's customers are receiving equivalent
2 capacity compared to the avoided unit and are therefore receiving what they are
3 paying for. In addition, the specified capacity factor ensures that PEF can count on
4 the Standard Offer Contract to meet its capacity and reserve margin requirements.

5

6 **B. Right of Inspection**

7 **Q. PEF's Standard Offer Contract includes a provision granting PEF a right to**
8 **inspect a renewable generator's facility and books. Why is this provision**
9 **included?**

10 A. A right to inspection provision is included because it assures PEF has the ability to
11 inspect a facility and/or its books to determine a supplier's compliance with the terms
12 of the Standard Offer Contract, if PEF has reason to believe that the supplier may not
13 be complying with the contract. For instance, if a renewable supplier has contracted
14 to use biomass as its fuel to qualify as a renewable generator, but PEF has reason to
15 believe that it may be using only natural gas, then an inspection and/or review of the
16 facility and its books would verify the type of fuel that was being consumed. The
17 intention of this provision is not for PEF to be a nuisance or hindrance to a facility by
18 repeatedly and unreasonably inspecting a facility and/or its books, but for PEF to
19 have the ability to inspect when necessary. This has been a requirement in previous
20 versions of PEF's approved Standard Offer Contract.

21

22

23

1 **C. Conditions Precedent**

2 **Q. Does PEF's Standard Offer Contract include a provision outlining conditions**
3 **precedent for a renewable energy generator to meet?**

4 **A. Yes.**

6 **Q. Why is this provision included in PEF's Standard Offer Contract?**

7 **A. A provision regarding conditions precedent is included in the Standard Offer Contract**
8 **to provide protection to PEF's customers. Most facilities that enter into a QF or**
9 **renewable contract with PEF are new facilities. The conditions precedent section**
10 **provides milestones that the supplier must meet to ensure that the project continues to**
11 **move forward and that the facility will be on-line when expected. In other words, the**
12 **conditions precedent section gives PEF assurances that a project will stay on course**
13 **for successful completion, and it gives PEF advance notice that it may need to make**
14 **other plans to secure replacement capacity to meet customer demand if a counterparty**
15 **cannot comply with those conditions.**

17 **D. Renewable Energy Credits**

18 **Q. Does PEF's Standard Offer Contract include a provision specifying that PEF**
19 **has the right of first refusal to purchase any RECs?**

20 **A. Yes, as have previous versions of PEF's approved Standard Offer Contract.**

22 **Q. Could a renewable generator negotiate a different arrangement regarding**
23 **RECs?**

1 A. Yes. As with most provisions of the Standard Offer Contract, the supplier has the
2 right to negotiate different terms than those contained in the Standard Offer Contract.
3 PEF has done so a number of times, most recently in its contracts with the Florida
4 Biomass Group and Biomass Gas and Electric.

5
6 **E. Use of Interruptible Standby Service for Start-up**

7 **Q. PEF's Standard Offer Contract includes a provision restricting the use of a**
8 **renewable energy generator's ability to use interruptible stand-by service tariffs.**
9 **Why is this provision included?**

10 A. This provision is part of PEF's Standard Offer Contract to ensure that the supplier's
11 generation is available when it is needed most. If the generating unit was off-line
12 when PEF interrupted its interruptible customers, then the generating unit could not
13 return to service because it would not have power from PEF. The standby service
14 purchased must be firm stand-by service to assure there is power available to start the
15 unit. This has been a requirement in previously-approved versions of PEF's Standard
16 Offer Contract.

17
18 **F. Committed Capacity Test Results**

19 **Q. Does PEF's Standard Offer Contract include a provision requiring that a**
20 **renewable energy generator demonstrate that it can deliver at least 100% of**
21 **Committed Capacity?**

22 A. Yes.

1 **Q. Why is this provision included in PEF's Standard Offer Contract?**

2 **A.** This provision is included simply to ensure that PEF's customers receive the capacity
3 that they have contracted to purchase. If a contract is for 100 MW, but the facility can
4 only reliably deliver 90 MW, then PEF's customers are being short-changed. This
5 provision has been included in previously-approved versions of PEF's Standard Offer
6 Contract.

7
8 **G. Test Period**

9 **Q. Does PEF's Standard Offer Contract include a provision setting the test period**
10 **to establish a facility's capacity?**

11 **A.** Yes.

12
13 **Q. Why is this provision part of PEF's Standard Offer Contract?**

14 **A.** This provision is included to ensure that PEF's customers receive all the capacity that
15 they have contracted to purchase. Under the provisions of the Standard Offer
16 Contract, the supplier selects a time when it will perform a Committed Capacity Test.
17 During that period, the supplier is to run the facility consistent with industry standards
18 without exceeding its design parameters, and supplying the normal station service
19 load. The capacity of the facility is the minimum hourly net output of the facility.
20 Although this has been a requirement in previously-approved versions of PEF's
21 Standard Offer Contract, as I have previously explained, PEF has lowered the number
22 of tests PEF can request in a year from six to two, in response to suggestions from
23 Renewables.

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H. Detailed Annual Plan

Q. PEF’s Standard Offer Contract includes a provision requiring that a renewable energy facility prepare a detailed plan of the electricity to be generated and delivered to PEF. Why is this provision included?

A. The Standard Offer Contract requires the supplier to provide an estimate of its deliveries to PEF. These estimates are required so that PEF can coordinate the planned outages of the supplier with the outages of its own facilities and the other facilities under contract with PEF. This has been a requirement in previously-approved versions of PEF’s Standard Offer Contract.

I. Total Electrical Output

Q. PEF’s Standard Offer Contract includes a provision requiring a renewable energy facility to provide its “total electrical output” to PEF. Why is this provision included?

A. In the event the supplier is selling its output to PEF and another party, contract provisions to accommodate partial deliveries to both parties would need to be negotiated. These types of negotiations are unique to each facility, exist with multiple purchasers, and are outside of the scope of the Standard Offer Contract. Such provisions would be handled through a negotiated contract. This provision requiring “total electric output” has been included in previously-approved versions of PEF’s Standard Offer Contract.

1

2 **J. Operating Personnel**

3 **Q. Does PEF's Standard Offer Contract include a provision requiring that a**
4 **renewable energy facility have operating personnel on duty 24 hours a day,**
5 **seven days a week?**

6 **A.** Yes.

7

8 **Q. Why is this provision included in PEF's Standard Offer Contract?**

9 **A.** The Standard Offer Contract is a firm contract, so the facility needs to have operating
10 personnel on duty 24 hours a day, seven days a week to comply with the requests of
11 PEF's generation dispatcher. Personnel must be available to respond to requests to
12 reduce output or alter the power factor to maintain system reliability. In rare cases,
13 the unit may need to be taken off-line to prevent overloads to the transmission
14 system, or be brought on-line, if possible, to address local or system-wide reliability
15 issues. A similar requirement has been included in previously-approved versions of
16 PEF's Standard Offer Contract.

17

18 **K. Three Day Fuel Supply**

19 **Q. Does PEF's Standard Offer Contract include a provision requiring a three day**
20 **supply of fuel?**

21 **A.** Yes.

22

23 **Q. Why is this provision part of PEF's Standard Offer Contract?**

1 A. This provision is included because it helps to ensure that during an extreme operating
2 event, such as a cold snap or after a natural disaster such as a hurricane, the supplier
3 will be able to continue operating for 72 hours. Just as with other generating plants,
4 Renewables should be required to maintain a fuel inventory to assure availability of
5 the unit if for some reason the fuel supply is interrupted. Accordingly, this
6 requirement has been included in previously-approved versions of PEF's Standard
7 Offer Contract.

8

9 **Q. What if a facility does not store its fuel on site, such as wind or solar power?**

10 A. If a facility uses a fuel that cannot be stored, such as wind, then this provision
11 obviously would not apply. If such a facility wished to utilize PEF's Standard Offer
12 Contract with the exception of this provision, the simple solution would be to simply
13 delete this section and enter into an otherwise identical negotiated contract with PEF.

14

15 **L. Performance Security**

16 **Q. PEF's Standard Offer Contract includes a provision setting performance**
17 **security. Why is this provision included?**

18 A. Performance securities are typically found in all firm energy and capacity contracts
19 and have been included in approved Standard Offer Contracts for many years. They
20 are used to help ensure that if a supplier can no longer meet its obligations under the
21 contract, then the purchaser has funds available to cover a portion of the replacement
22 cost of energy. The performance security typically does not cover all the costs of the
23 replacement energy, but it does offset some of the costs that are otherwise borne by

1 PEF's customers. These provisions are important to appropriately shift some of the
2 risk of default away from PEF's customers and to the party that is not meeting its
3 obligations under a purchase power contract.
4

5 **M. Termination Fee and Insurance**

6 **Q. Does PEF's Standard Offer Contract include provisions setting a termination fee
7 and requiring insurance?**

8 **A.** Yes.
9

10 **Q. Why are these provisions included in PEF's Standard Offer Contract?**

11 **A.** Both of these provisions are required by Commission rule. The termination fee is
12 required by Rule 25-17.0832(4)(e)10, F.A.C. The termination fee is designed to
13 ensure the repayment of capacity payments to the extent that the capacity payments
14 made to the supplier exceed the capacity that has been delivered. For example, early
15 capacity payments, as defined in applicable rules, are capacity payments made before
16 the in-service date of the avoided unit. In this example, those payments made before
17 the avoided unit's in-service date must be secured to ensure that if the supplier does
18 not operate for the term of the contract, PEF's customers are refunded the payments
19 for the capacity that they did not receive. A termination fee has always been a part of
20 the Standard Offer Contract. The insurance provision is required by Rule 25-
21 17.087(5)(c), F.A.C., and helps to protect the utility and its customers from liability
22 claims resulting from the operations of the supplier.
23

1 **N. Default**

2 **Q. PEF's Standard Offer Contract includes a provision listing events of default.**
3 **Can you explain the purpose of this provision?**

4 **A.** Like all contracts for capacity and energy, the Standard Offer Contract contains a
5 listing of events of default so that the parties know the circumstances under which the
6 contract can be terminated for non-performance. These provisions are basic to any
7 purchase power contract that I have ever seen and have been a requirement in
8 previously-approved versions of PEF's Standard Offer Contract.

9
10 **O. Force Majeure**

11 **Q. Does PEF's Standard Offer Contract include a provision setting forth *force***
12 ***majeure* terms?**

13 **A.** Yes.

14
15 **Q. Why is this provision included in PEF's Standard Offer Contract?**

16 **A.** *Force Majeure* sections have always been included in PEF's Standard Offer
17 Contracts and every other power purchase agreement that I have seen. These
18 provisions define the responsibilities of the parties in the event that something outside
19 the control of the parties makes one party unable to perform its obligations under the
20 contract. The *force majeure* language is designed to limit damages for such an event
21 outside the control of the parties but also to limit the financial exposure of PEF's
22 customers.

1 **P. Representations and Warranties**

2 **Q. Does PEF's Standard Offer Contract include a provision requiring the**
3 **renewable energy generator make representations, warranties or covenants?**

4 **A. Yes.**

5
6 **Q. Why is this provision a part of PEF's Standard Offer Contract?**

7 **A. This provision is a standard contract term that helps ensure that the supplier entering**
8 **into the Standard Offer Contract can do so legally, is responsible for its compliance**
9 **with environmental laws, has any governmental approvals required, and so forth.**
10 **These kinds of provisions have been contained in previously-approved versions of**
11 **PEF's Standard Offer Contract.**

12
13 **Q. Assignment**

14 **Q. PEF's Standard Offer Contract includes a provision prohibiting assignment**
15 **without approval from PEF. Why is this provision included?**

16 **A. A provision prohibiting assignment without approval is included because it is not**
17 **uncommon for a contract to be sold and assigned, possibly numerous times. The**
18 **requirement for PEF's approval of any such assignments ensures that PEF can assess**
19 **the purchasing party's ability to perform under the contract. This, of course, allows**
20 **PEF to mitigate some degree of risk that would otherwise be borne by its customers.**
21 **This provision has been a part of previously-approved versions of PEF's Standard**
22 **Offer Contract.**

1 **R. Record Retention**

2 **Q. Does PEF's Standard Offer Contract include a provision specifying that the**
3 **renewable energy facility must retain its performance records for five years?**

4 **A. Yes.**

5
6 **Q. Why is this provision part of PEF's Standard Offer Contract?**

7 **A.**This provision is included so that in the event that a dispute arises regarding the
8 operation of the supplier, the supplier's records will be available for five years. PEF
9 retains these records for a minimum of five years as well. Record retention has been a
10 requirement in previously-approved versions of PEF's Standard Offer Contract and
11 has allowed PEF to successfully resolve would-be disputes with counterparties in the
12 past.

13
14 **IV. FINANCING**

15 **Q. Does PEF's Standard Offer Contract permit the financing of renewable energy**
16 **projects?**

17 **A.**Yes. Most renewable energy projects require financing, and PEF's current Standard
18 Offer Contract does more than ever to help projects obtain financing. Typically, the
19 issue with financing is the certainty of the payment stream to the power generator. To
20 address this issue, the capacity payments in the current Standard Offer Contract can
21 be front-end loaded to help with financing and a portion of the energy payment can be
22 fixed as well.

23

1 **Q. Have any generators signed a Standard Offer Contract with PEF in the past two**
2 **years?**

3 **A.** No, but this is not surprising. Given the fact that power producers almost always
4 have unique projects, circumstances, and needs, some modifications, even if minor in
5 nature, usually have to be made to PEF's Standard Offer Contract, which will result
6 in a negotiated contract.

7
8 **Q. Have any generators signed significant negotiated contracts with PEF in the past**
9 **two years?**

10 **A.** Yes. In 2006, PEF entered into a negotiated contract for 116.6 MW with the Florida
11 Biomass Energy Group LLC and in 2007 PEF entered into two negotiated contracts
12 with Biomass Gas & Electric for 75 MW each. These contracts show that while
13 PEF's Standard Offer Contract provides a good baseline of acceptable terms and
14 conditions for energy producers to work with, negotiated contracts best address the
15 unique concerns of renewable suppliers. Thus, the combination of PEF's Standard
16 Offer Contract and the ability for energy producers to negotiate contracts against that
17 Standard Offer Contract advances and promotes the use of renewable energy in PEF's
18 service territory.

19

20 **V. CONCLUSION**

21 **Q. Does this conclude your testimony?**

22 **A.** Yes.