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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: June 2, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Analysis (Matthews)
Office of the General Counsel (Tan)

RE: Docket No. 110089-EQ – Petition for approval of revisions to renewable energy tariff, by Florida Public Utilities Company.

AGENDA: 06/14/11 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Take up following Docket No. 110041-~~EQ~~ EI

FILE NAME AND LOCATION: S:\PSC\RAD\WP\110089.06-14-11.RCM.DOC

Case Background

Florida Public Utilities Company (FPUC) serves two geographically separate regions. The Northwest Division consists of FPUC territory in Jackson, Calhoun, and Liberty Counties. The Northeast Division consists of FPUC territory in Nassau County.

Since January 1, 2006, each investor owned electric utility (IOU) has been required to continuously offer to purchase capacity and energy from specific types of renewable resources. Section 366.91(3), Florida Statutes (F.S.), specifies that the contracts for purchase must be based on the utility's full avoided cost as defined in Section 366.051, F.S., and provide a term of at least ten years. Rules 25-17.200 through 25-17.310, Florida Administrative Code (F.A.C.), implement the statutes.

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On March 31, 2011, FPUC filed its petition for approval of revisions to the renewable energy tariff. Because FPUC does not own or operate any electric generating plants, this utility does not have any planned generating unit that can be avoided. For such a circumstance, Rule 25-17.250(1), F.A.C., requires the utility to base the standard offer contract on avoiding or deferring a planned purchase. FPUC currently has purchased power agreements with Gulf Power Company (Gulf) for the Northwest Division and JEA for the Northeast Division. The rate schedules submitted, REN-1 and REN-2, reflect pricing for each division in accordance with the purchased power agreements for that region.

The Commission has jurisdiction over this matter pursuant to Sections 366.04 through 366.06, 366.91, and 366.92, F.S.

Discussion of Issues

Issue 1: Should the Commission approve the standard offer renewable energy tariff filed by Florida Public Utilities Company?

Recommendation: Yes. The standard offer renewable energy tariffs comply with Rules 25-17.200 through 25-17.310, F.A.C. Staff recommends that if the Commission approves the amended purchased power agreement between FPUC and Gulf in Docket No. 110041-EI, FPUC should be required to file, in a subsequent docket, a revision to rate schedule REN-2 to offer capacity payments to renewable providers in its Northwest Division in the event its overall demand exceeds the contract minimum of 91 megawatt (MW). (Matthews)

Staff Analysis: Because FPUC is an IOU, Rule 25-17.250(1), F.A.C., requires the utility to continuously make available a standard offer contract for purchase of firm capacity and energy from renewable generating facilities and small qualifying facilities with a design capacity of 100 kilowatts (kW) or less. The Commission approved FPUC's initial renewable energy tariff by Order No. PSC-05-1260-TRF-EQ, issued December 27, 2005, in Docket No. 050809-EI, In re: Petition for approval of renewable energy tariff by Florida Public Utilities Company. The instant petition represents the fourth revision to the original tariff.[1]

Since FPUC does not generate any electric energy for sale to retail customers, FPUC does not file a Ten-Year Site Plan and has no planned unit that can serve as an avoided unit. In such a case, Rule 25-17.250(1), F.A.C., requires that the standard offer be based on avoiding or deferring a planned purchase. The standard offer contract provided by FPUC meets this requirement as it is based on avoiding or deferring planned purchases under the current electric purchased power agreements FPUC holds with its suppliers, Gulf Power Company for the Northwest Division and JEA for the Northeast Division.

Northwest Division

FPUC submitted proposed revisions to the renewable energy tariff for the Northwest Division consisting of Sheet Nos. 18, 20, 21, and 23. The proposed rate schedule REN-1 for the Northwest Division is unchanged in all respects with one exception. The base fuel cost in the energy rate for FPUC's wholesale supplier was reduced from 5.705 cents per kWh ($57.05 per MWh) to 5.056 cents per kWh ($50.56 per MWh). The rate schedule REN-2 for the Northwest Division is not changed in any respect. Payments for firm capacity from FPUC to the renewable provider remain at $0.00 per kW of billing capacity.

Table 1 below shows the estimated payments to a renewable energy provider in the Northwest Division generating 50 MW at a capacity factor of 70 percent. Although no capacity payment is made for firm energy in the Northwest Division, the minimum performance requirement for the standard offer contract in the Northeast Division was used for this example. Because the purchased power agreement currently in force between FPUC and Gulf ends in 2017, payments beyond 2017 cannot be calculated at this time.

[1] Updates to FPUC's Renewable Energy Tariff have been approved by Order Nos. PSC-08-0545-TRF-EQ issued August 19, 2008; PSC-09-0519-TRF-EQ issued July 24, 2009; and PSC-10-0303-TRF-EQ issued May 12, 2010.

Table 1 - Estimated Annual Payments to a 50 MW Renewable Facility (70 % Capacity Factor) in FPUC's Northwest Division

Year	Energy	Renewable Provider Payments				
		Capacity Rate	Total Capacity Payments	Energy Rate	Total Energy Payments	Total Payments to Renewable Provider
	MWh	($/kW-mo)	($000)	($/MWh)	($000)	($000)
2012	306,600	0.00	0.00	50.56	15,502	15,502
2013	306,600	0.00	0.00	50.56	15,502	15,502
2014	306,600	0.00	0.00	50.56	15,502	15,502
2015	306,600	0.00	0.00	50.56	15,502	15,502
2016	306,600	0.00	0.00	50.56	15,502	15,502
2017	306,600	0.00	0.00	50.56	15,502	15,502

The methodology used in FPUC's contract with Gulf for delivery of power to the Northwest Division is the reason that no capacity payments can be made in this region. The terms of the purchased power agreement between FPUC and Gulf are such that demand payments will not decrease based on a decrease in the overall demand or the addition of generation resources. The original purchased power agreement was executed in December 2006 and became effective January 1, 2008.[2] That contract includes a ratchet provision for computing the minimum capacity purchase, and as a result the capacity payment does not decrease from the amount initially established, even if the overall demand is subsequently reduced.

On January 26, 2011, FPUC petitioned the Commission for an amendment to this contract which, among other modifications, would eliminate the ratchet provision above a minimum demand of 91 MW for years after 2010.[3] If the Commission approves the contract amendment, a renewable energy provider could contribute to avoiding additional capacity over and above 91 MW.

For this reason staff recommends that if the Commission approves the amended purchased power agreement between FPUC and Gulf in Docket No. 110041-EI, FPUC should be required to file, in a subsequent docket, a revision to rate schedule REN-2 to offer capacity payments to renewable providers in its Northwest Division in the event its overall demand exceeds the contract minimum of 91 MW.

Northeast Division

FPUC submitted proposed revisions to the renewable energy tariff for the Northeast Division consisting of Sheet Nos. 24, 26, 27, and 29. The proposed rate schedule REN-1 for the Northeast Division is unchanged in all respects with one exception. The base fuel cost in the

[2] Approved by Order No. PSC-07-0476-PAA-EI, issued June 6, 2007, in Docket No. 070108-EI, 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.
[3] Docket No. 110041-EI, In re: Request for Approval of Amendment No. 1 to the Agreement for Generation Services Between Gulf Power Company and Florida Public Utilities Company, by Florida Public Utilities Company.

energy rate for FPUC's wholesale supplier was increased from 4.416 cents per kWh ($44.16 per MWh) to 5.064 cents per kWh ($50.64 per MWh). The proposed rate schedule REN-2 for the Northeast Division increases payments to renewable providers from $10.67 per kW to $11.38 per kW of billing capacity.

Table 2 below shows estimated payments to a renewable energy provider in the Northeast Division generating 50 MW at a capacity factor of 70 percent, the minimum performance requirement for the standard offer contract in the Northeast Division. As in the Northwest Division with Gulf, the term of the contract with JEA is limited such that only the amounts shown below can be determined at this time.

Table 2 - Estimated Annual Payments to a 50 MW Renewable Facility (70 % Capacity Factor) in FPUC's Northeast Division

Year	Energy	Renewable Provider Payments				
		Capacity Rate	Total Capacity Payments	Energy Rate	Total Energy Payments	Total Payments to Renewable Provider
	MWh	($/kW-mo)	($000)	($/MWh)	($000)	($000)
2012	306,600	11.38	6,828	50.64	15,526	22,354
2013	306,600	11.38	6,828	50.64	15,526	22,354
2014	306,600	11.38	6,828	50.64	15,526	22,354
2015	306,600	11.38	6,828	50.64	15,526	22,354
2016	306,600	11.38	6,828	50.64	15,526	22,354
2017	306,600	11.38	6,828	50.64	15,526	22,354

Conclusion

Staff believes that the payments for capacity and energy provided in the tariff revisions are representative of the FPUC's avoided cost. The payments for capacity and energy are based on FPUC avoiding or deferring planned purchases it would otherwise make from its wholesale suppliers. The provisions of the standard offer contract, including proposed tariff revisions, are in compliance with Rules 25-17.200 through 25-17.310, F.A.C., and should therefore be approved. If FPUC's petition in Docket No. 110041-EI is approved by the Commission, staff recommends that FPUC be required to file, in a subsequent docket, a revised rate schedule REN-2 for its Northwest Division to allow capacity payments to be made to renewable providers to compensate for any portion of FPUC's overall demand that exceeds the contract minimum of 91 MW.

Issue 2: Should this docket be closed?

Recommendation: If the Commission approves staff's recommendation to approve the proposed standard offer contract and tariffs filed by FPUC, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 110089-EQ should be closed upon issuance of a Consummating Order, and the standard offer contracts and tariffs filed by FPUC should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's Order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that approval of FPUC's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised. (Tan)

Staff Analysis: If the Commission approves staff's recommendation to approve the proposed standard offer contract and tariffs filed by FPUC, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 110089-EQ should be closed upon issuance of a Consummating Order, and the standard offer contracts and tariffs filed by FPUC should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's Order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that approval of FPUC's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised.