State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 7, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Analysis (Ellis)
Office of the General Counsel (Robinson)

RE: Docket No. 120071-EQ – Petition for approval of new standard offer for purchase of firm capacity and energy from renewable energy facilities or small qualifying facilities and approval of revised tariff schedule REF-1, by Gulf Power Company.

AGENDA: 06/19/12 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\RAD\WP\120071.06-07-12.RCM.DOC

Case Background

Section 366.91(3), Florida Statutes (F.S.) requires that each investor-owned utility (IOU) continuously offer to purchase capacity and energy from renewable energy generators. Rules 25-17.200 through 25-17.310, Florida Administrative Code (F.A.C.) require each IOU to file with the Commission by April 1 of each year a standard offer contract based on the next avoidable generating unit or planned purchase. Gulf Power Company (Gulf or Company) filed its petition for approval of an amended standard offer contract on April 2, 2012.

The Commission has jurisdiction over this standard offer contract pursuant to Sections 366.04 through 366.06 and 366.91, F.S.

Discussion of Issues

Issue 1: Should the Commission approve the standard offer contract filed by Gulf Power Company?

Recommendation: Yes. The proposed standard offer contract and related tariffs submitted by Gulf conform to all requirements of Rules 25-17.200 through 25-17.310, F.A.C. (Ellis)

Staff Analysis: Pursuant to the relevant Rule 25-17.250(1), F.A.C., Gulf is required to continuously make available a standard offer contract for the purchase of firm capacity and energy from renewable energy facilities or small qualifying facilities with a design capacity of 100 kilowatts (kW) or less. Gulf complied with the Commission's Rule through its standard offer contract and related tariff schedule REF-1.

The standard offer contract's language is updated on an annual basis to reflect the utility's next avoidable generating unit on which the contract's performance characteristics and payments are based. Based on its 2012 Ten-Year Site Plan, Gulf has not identified any fossil-fueled generating units for the period 2012-2021. Gulf also has no avoidable purchased power agreements within this period.

As a result, Gulf has the option of offering an energy-only standard offer contract, but to encourage renewable generation, the Company has identified the next avoidable unit. The unit would be a 349 megawatt (MW) natural gas-fired combustion turbine with a projected in-service date of June 1, 2022. The proposed modifications to Gulf's standard offer contract reflect this projected unit.

Gulf's petition seeks modification to three tariff sheets. These modifications reflect the change in size of the avoided unit on Sheet No. 9.82, an example capacity payment streams for the new avoided unit on Sheet No. 9.85, and changes in technical and economic characteristics on Sheet No. 9.103. These changes are reflective of the most recent avoided unit identified by Gulf and the Company's economic assumptions. These tariff sheets are included as Attachment A.

A renewable generator can elect to have no performance requirements and deliver energy on an as-available basis. If the renewable generator commits to certain performance requirements based on the avoided unit, including being online and delivering capacity by the in-service date, it can receive a capacity payment under the proposed standard offer contract or a separately negotiated contract. To promote renewable generation, the Commission requires multiple options for capacity payments, including the option to receive normal, levelized, early, or early levelized payments.

If a renewable generator elects to receive payments under the normal or levelized option, it would receive capacity payments starting on June 1, 2022. If the early or early levelized options are selected, capacity payments may begin earlier than June 1, 2022, but the renewable generator is required to provide sufficient security to ensure ratepayers are not impacted in the event of a default. In all cases, capacity payments over the full term of the standard offer contract are equivalent in terms of net present value, regardless of the option selected.

Energy payments are based on a comparison of when the avoided unit would have been dispatched, with payments based on the avoided unit's projected energy rate, and when the unit would not have been dispatched, with payments based on the as-available energy rate. The renewable generator would receive payments based on the as-available energy rate for the period before the in-service date of June 1, 2022.

Table 1, below, provides an estimate of the firm capacity and energy payments to a renewable generator with a 50 MW capacity, operating at a 90 percent capacity factor, which is the lowest allowable capacity factor to receive the full capacity payment. For a renewable generator that does not provide firm capacity, it would receive only the energy portion of the payments listed below, which is based on an annual production of 394,200 megawatt-hours (MWh).

Table 1 – Estimated Payments to 50 MW Renewable Generator with 90% Capacity Factor

Year	Energy Payment	Capacity Payment			
		Normal	Levelized	Early	Early Levelized
	($000)	($000)	($000)	($000)	($000)
2013	$14,581	$0	$0	$1,257	$1,436
2014	$15,583	$0	$0	$1,282	$1,438
2015	$20,025	$0	$0	$1,307	$1,441
2016	$22,221	$0	$0	$1,333	$1,444
2017	$23,380	$0	$0	$1,360	$1,447
2018	$24,913	$0	$0	$1,386	$1,450
2019	$26,471	$0	$0	$1,414	$1,454
2020	$27,996	$0	$0	$1,442	$1,457
2021	$29,577	$0	$0	$1,470	$1,460
2022	$30,779	$2,145	$2,318	$1,499	$1,463
2023	$32,447	$3,735	$3,980	$1,529	$1,467
2024	$33,684	$3,809	$3,989	$1,559	$1,470
2025	$35,722	$3,884	$3,998	$1,590	$1,474
2026	$35,612	$3,961	$4,007	$1,621	$1,477
2027	$36,905	$4,039	$4,016	$1,653	$1,481
2028	$38,864	$4,119	$4,025	$1,686	$1,485
2029	$39,534	$4,200	$4,035	$1,719	$1,489
2030	$40,733	$4,283	$4,044	$1,753	$1,493
2031	$41,797	$4,368	$4,054	$1,788	$1,497
2032	$42,814	$4,454	$4,064	$1,823	$1,501
NPV	**$289,163**	**$15,370**	**$15,370**	**$15,370**	**$15,370**

Beyond the revisions discussed above, all other terms, such as provisions for performance, payments, and security, are the same as the 2011 standard offer contract and related tariffs.

The provisions of the proposed standard offer contract and related Tariff REF-1 submitted by Gulf conform to all the requirements of Rules 25-17.200 through 25-17.310, F.A.C. The standard offer contract offers flexibility in the arrangements for payments so that a developer of renewable generator may select the payment stream best suited to its financial needs. As such, staff believes the proposed modifications to the standard offer contract and related tariffs submitted by Gulf should be approved as filed.

Issue 2: Should this docket be closed?

Recommendation: Yes. If the Commission approves staff's recommendation to approve the proposed standard offer contract and related tariff submitted by Gulf, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 120071-EQ should be closed, and the standard offer contracts and related tariff submitted by Gulf 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 tariff should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that Gulf's tariff and standard offer contract may be subject to a request for hearing, and if a hearing is held, may be subsequently revised. (Robinson)

Staff Analysis: If the Commission approves staff's recommendation to approve the proposed standard offer contract and related tariff submitted by Gulf, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 120071-EQ should be closed, and the standard offer contract and related tariff submitted by Gulf 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 tariff should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that Gulf's tariff and standard offer contract may be subject to a request for hearing, and if a hearing is held, may be subsequently revised.

(Continued from Schedule REF-1, Sheet No. 9.81)

LIMITATIONS:

Purchases under this schedule are subject to the Company's "General Standards for Safety and Interconnection of Cogeneration and Small Power Production Facilities to the Electric Utility System" and to FPSC Rules 25-17.080 through 25-17.091, F.A.C., and are limited to those Facilities that:

A. Beginning upon the date, as prescribed by the FPSC, that a Renewable Standard Offer is deemed available, execute the Company's Renewable Standard Offer Contract for the purchase of firm capacity and energy; and

B. Commit to commence deliveries of firm capacity and energy no later than the date specified by the Facility's owner or representative, or the anticipated in-service date of the Company's generating facility or purchased power resource ("Avoided Unit or Resource") that is designated herein. Such deliveries will continue for a minimum of ten (10) years from the anticipated in-service date of the Company's Avoided Unit or Resource up to a maximum of the life of the Company's Avoided Unit or Resource.

DETERMINATION OF FACILITY'S COMMITTED CAPACITY VALUE

Prior to execution of a Renewable Standard Offer Contract, or negotiated contract, between the Company and a Facility, the Company will determine the Facility's capacity value in relation to the Company's Avoided Unit or Resource during the term of the contract as provided in FPSC Rules 25-17.240 (2), 25-17.250 (1), and 25-17.0832 (3) and (4) F.A.C. If it is determined by the Company that the Facility will provide capacity value, then this capacity amount will be designated as the "Committed Capacity" and will be used as the basis for capacity payments to be received by the Facility from the Company during the term of the Renewable Standard Offer Contract.

RATES FOR PURCHASES BY THE COMPANY

Firm capacity is purchased in accordance with the provisions of paragraph A below at a unit cost, in dollars per kilowatt per month, based on the value of the Avoided Unit or Resource that Gulf has designated below for purposes of the Renewable Standard Offer. The Avoided Unit is currently designated as ~~366~~ 349 MWs of Combustion Turbine generation with a June 1, 2022 anticipated in-service date. Energy is purchased at a unit cost, in cents per kilowatt-hour, at the Company's energy rates in accordance with the provisions of paragraph B below.

ISSUED BY: Mark Crosswhite

GULF POWER
A SOUTHERN COMPANY

(Continued from Schedule REF-1, Sheet No. 9.84)

capacity payments made to the Facility over the term of the contract shall not exceed the cumulative present value of the capacity payments which would have been made to the Facility had such payments been made pursuant to Option 1.

All capacity payments made by the Company prior to the anticipated in-service date of the Company's Avoided Unit or Resource are considered "Early Payments". The owner, owner's representative, or operator of the Facility, as designated by the Company, shall secure its obligation to repay, with interest, the accumulated amount of Early Payments to the extent that the cumulative present value of the capacity payments made to the Facility over the term of the contract exceeds the cumulative present value of the capacity payments which would have been made to the Facility had such payments been made pursuant to Option 1, or to the extent that annual firm capacity payments made to the Facility in any year exceed that year's annual value of deferring the Company's Avoided Unit or Resource in the event the Facility defaults under the terms of its Renewable Standard Offer Contract with the Company. The Company will provide to the Facility monthly summaries of the total outstanding balance of such security obligations. A summary of the types of security instruments which are generally acceptable to the Company is set forth in Paragraph C of the SPECIAL PROVISIONS Section below.

MONTHLY CAPACITY PAYMENT RATE (MCR)
BASED ON GULF'S CURRENTLY SPECIFIED
AVOIDED UNIT OR RESOURCE

June - May Contract Period	Option 1 Normal $/KW-MO	Option 2 Early $/KW-MO	Option 3 Levelized $/KW-MO	Option 4 Early Levelized $/KW-MO
2018 to 2019	0.00	~~3.94~~3.63	0.00	~~4.33~~4.00
2019 to 2020	0.00	~~4.01~~3.71	0.00	~~4.34~~4.01
2020 to 2021	0.00	~~4.09~~3.78	0.00	~~4.35~~4.02
2021 to 2022	0.00	~~4.18~~3.85	0.00	~~4.36~~4.03
2022 to 2023	~~6.81~~6.15	~~4.26~~3.93	~~7.30~~6.60	~~4.36~~4.03
2023 to 2024	~~6.94~~6.28	~~4.34~~4.01	~~7.31~~6.61	~~4.37~~4.04
2024 to 2025	~~7.08~~6.40	~~4.43~~4.09	~~7.33~~6.63	~~4.38~~4.05
2025 to 2026	~~7.22~~6.53	~~4.51~~4.17	~~7.34~~6.64	~~4.39~~4.06
2026 to 2027	~~7.36~~6.66	~~4.60~~4.25	~~7.36~~6.66	~~4.40~~4.07
2027 to 2028	~~7.51~~6.79	~~4.70~~4.33	~~7.37~~6.67	~~4.41~~4.08
2028 to 2029	~~7.66~~6.92	~~4.79~~4.42	~~7.38~~6.69	~~4.42~~4.09
2029 to 2030	~~7.81~~7.06	~~4.88~~4.51	~~7.40~~6.70	~~4.43~~4.10
2030 to 2031	~~7.96~~7.20	~~4.98~~4.60	~~7.42~~6.72	~~4.43~~4.11
2031 to 2032	~~8.12~~7.34	~~5.08~~4.69	~~7.43~~6.74	~~4.44~~4.12

ISSUED BY: Mark Crosswhite

GULF POWER
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(Continued from Standard Offer Contract, Sheet No. 9.102)

4.2.2 Actual Committed Capacity. The capacity committed by the Facility (Committed Capacity or CC) for the purposes of this Agreement is ______ kilowatts beginning ________________, ________. The Facility is committing this amount of capacity based on its agreement and commitment that this capacity will maintain an Equivalent Availability Factor (EAF) of 95%. The EAF will be based on the economic operation of a combustion turbine generating facility (Avoided Unit) that Gulf has designated as the Avoided Unit for purposes of the Standard Offer. The Facility elects to receive, and the Company agrees to commence calculating, capacity payments in accordance with this Agreement starting with the first billing month following the date specified in this paragraph as the date on which capacity sales under this Agreement will begin.

4.2.3 Capacity Payments. The Facility chooses to receive capacity payments from the Company under Option ________ or ________ a customized payment stream as described in the Company's Schedule REF-1 of the Company Tariff for Retail Electric Service as it exists at the time this Agreement is properly submitted by the Facility to the Company as tendered acceptance of the Company Standard Offer. If the customized payment option is chosen by the Facility as the preferred capacity payment option, the details underlying the derivation of such payment stream will be described in an exhibit to this Standard Offer Contract.

The Capacity Payments to be made by the Company to the Facility are based upon the Avoided Unit that the Company has designated for purposes of the Standard Offer. The Capacity Payments to the Facility are based on a two unit Combustion Turbine generating facility with the following economic assumptions:

Size: ~~366~~ 349 MW total
Discount Rate: ~~7.94~~7.07%
Annual Inflation: 1.96%
Annual Capacity Factor: 10%
Equivalent Availability: 95%

Installed Costs (2022): ~~$875~~871/kw
AFUDC Rate: ~~9.31~~8.38%
K-factor: ~~1.3502~~1.3355
Fixed O & M: ~~$8.00~~8.52/kw-yr
Unit Life: 40 years

ISSUED BY: Mark Crosswhite