

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: December 4, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Matthews, Mtenga) *mm pu TS*
Division of Economics (Garl) *J.O.W.*
Office of the General Counsel (Murphy) *cm AT*

RE: Docket No. 140180-EQ – Petition for approval of amendment to extend term of negotiated renewable energy power purchase contract with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company.

AGENDA: 12/18/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Consider recommendations for Docket Nos. 140180-EQ and 140185-EQ simultaneously

Case Background

On September 12, 2014, Florida Public Utilities Company (FPUC) filed a petition requesting the approval of an amendment to the approved purchased power agreement (Amended Agreement) between FPUC and Rayonier Performance Fibers, LLC (Rayonier). The original purchased power agreement was approved by the Commission for purposes of cost recovery by Order No. PSC 12-0380-PAA-EQ, issued July 23, 2012, in Docket 120058-EQ.¹ The facility is a certified Qualifying Facility (QF) as that term is defined by the Federal Energy Regulatory Commission rules and Rule 25-17.080, Florida Administrative Code (F.A.C).

¹ See Docket No. 120058-EQ, In re: Petition for approval of a negotiated renewable energy power purchase contract for power purchased with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company.

Docket No. 140180-EQ
Date: December 4, 2014

Rayonier currently owns and operates mills in Jessup, Georgia and Fernandina Beach, Florida, that produce high-purity cellulose products from wood chips. The steam created by this process is utilized by Rayonier's existing steam turbines to partially mitigate its electric demand. As such, the Rayonier facility is a renewable energy resource as defined by Section 366.91 (2)(d), Florida Statutes (F.S.).

The original purchased power agreement has been in place and producing savings for FPUC's customers for two years. This recommendation addresses FPUC's petition to extend the term of the original agreement an additional 14 years, from October 2022 to September 2036. The Commission has jurisdiction over this matter pursuant to Sections 366.051, 366.91 and 366.92, F.S.

Discussion of Issues

Issue 1: Should FPUC's request to extend the term of its negotiated purchased power agreement with Rayonier be approved?

Recommendation: Yes. The terms and conditions of the approved original purchased power agreement will continue under the extension period. Extending the term of the negotiated purchased power agreement is estimated to provide a net present value (NPV) savings of \$8.2 million over the entire Amended Agreement's term. (Matthews, Mtenga)

Staff Analysis: The original purchased power agreement between FPUC and Rayonier currently provides FPUC with a viable source of renewable capacity and energy. The parties have been operating under the original purchased power agreement for almost two years, and have encountered no notable operational issues.

Because the anticipated benefits have been realized since the original purchased power agreement began in October 2012, the parties believe these benefits will continue to accrue over an extended period. Therefore, the parties have negotiated an Amendment No. 1 to extend the term of the original agreement an additional 14 years. (See Attachment A) The Amended Agreement extends the expiration date from 2022 to 2036 which is the same expiration date as the new Eight Flags Energy, LLC (Eight Flags) purchased power agreement discussed in Docket 140185-EQ. Rayonier will purchase low pressure steam from Eight Flags, an affiliate of Chesapeake Utilities, which is also the parent company of FPUC. The low pressure steam from Eight Flags will allow Rayonier to channel additional high pressure steam into its electric generating unit. The high pressure steam will enable Rayonier to increase the output of its generator and potentially sell additional renewable energy to FPUC, thereby increasing the savings to FPUC's customers. The current purchased power agreement already allows for the purchase of this additional energy. FPUC's petition in this docket is solely requesting approval of the extension of the original purchased power agreement.

In its response to a staff data request, FPUC stated that the increase in capacity gained from the additional output will have no impact on the transmission facilities connecting the Rayonier generating unit to FPUC's system. In fact, FPUC plans to relocate the transmission facilities from an inaccessible, marshy area to a more easily accessible road right-of-way, which will greatly improve the overall system reliability by conforming to FPUC's storm hardening standards.²

The annual savings projected for the Amended Agreement was provided (confidential) with the petition in the instant docket. The Amended Agreement payments are estimated to provide a net present value (NPV) savings of \$8.2 million over the entire term.

² See FPUC's responses to staff's first data request, No. 2.

Conclusion

The terms and conditions of the approved original purchased power agreement will continue under the extension period. Extending the term of the negotiated purchased power agreement is estimated to provide a net present value (NPV) savings of \$8.2 million over the entire Amended Agreement's term. Therefore, staff recommends that the Amended Agreement be approved as requested by FPUC.

Issue 2: Should this docket be closed?

Recommendation: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Murphy)

Staff Analysis: This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.

ATTACHMENT A

***AMENDMENT NO. 1
TO NEGOTIATED CONTRACT
FOR THE PURCHASE
OF ELECTRIC ENERGY FROM
A RENEWABLE GENERATING FACILITY***

**AMENDMENT NO. 1 TO
NEGOTIATED CONTRACT
BETWEEN
FLORIDA PUBLIC UTILITIES COMPANY
AND
RAYONIER PERFORMANCE FIBERS, LLC
FOR THE PURCHASE OF
ELECTRIC ENERGY FROM A RENEWABLE GENERATING FACILITY**

The agreements and covenants set forth herein and entered into this 5th day of September, 2014, ("Effective Date") represent an Amendment to the original Negotiated Contract for the Purchase of Electric Energy from a Renewable Generating Facility (the "March 2012 Agreement"), by and between Florida Public Utilities Company, an investor-owned utility company and subsidiary of Chesapeake Utilities Corporation (hereinafter "Buyer") and Rayonier Performance Fibers, LLC, the owner/operator of the Facility, as further defined below (hereinafter "Seller"), which is referred to herein as "Amendment No. 1." Buyer and Seller may herein be referred to jointly as "Parties" or individually as "Party".

WITNESSETH:

WHEREAS, the Parties' desire to enter into this Amendment No. 1 to reflect the modification of the Termination Date set forth in the March 2012 Agreement to; and

WHEREAS, the Parties intend to modify only the Termination Date of the March 2012 Agreement as specifically set forth herein and to otherwise adhere to all other existing Terms and Conditions of the March 2012 Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be bound hereby, the Parties do therefore agree and amend the March 2012 Agreement as follows:

1. TERM OF THE AGREEMENT AND TERMINATION

This Amendment No. 1 shall be in full force and effect as of the Effective Date. Upon the Effective Date, the Termination Date set forth herein shall apply to and supersede the termination date set forth in Section 2(a) of the March 2012 Agreement. The Termination Date hereunder shall be that date which is twenty-two (22) years from the Effective Date of this Amendment No. 1, unless otherwise extended or terminated earlier in accordance with the provisions of this Amendment No. 1 and the March 2012 Agreement.

**AMENDMENT NO. 1 TO
NEGOTIATED CONTRACT
BETWEEN
FLORIDA PUBLIC UTILITIES COMPANY
AND
RAYONIER PERFORMANCE FIBERS, LLC
FOR THE PURCHASE OF
ELECTRIC ENERGY FROM A RENEWABLE GENERATING FACILITY**

In paragraph 1 of page 1 hereof, the originally referenced month, August, 2014, has been changed to reflect the accurate Effective Date of September 5, 2014, coinciding with the final execution of this Amendment No. 1.

Errata

2. REGULATORY APPROVALS

(a) The obligations of the Parties hereunder, including but not limited to Buyer's and Seller's respective obligations to perform under this Amendment No. 1, shall be conditioned upon Buyer obtaining any regulatory approvals from Governmental Bodies it, acting in its sole discretion, deems necessary or desirable, and a final non-appealable order or other regulatory determination from the FPSC that Buyer shall have cost recovery associated with its performance under the extended term contemplated by this Amendment No. 1. If such FPSC regulatory approval is not obtained to Buyer's satisfaction, in its sole discretion, within ninety (90) days of such request being made to the FPSC, then this Amendment shall terminate upon fifteen (15) days' notice given by either Party, with neither Party having any liability beyond the original Termination Date contemplated in Section 2(a) of the March 2012 Agreement.

(b) Consistent with Section 2(a) hereof and Rule 25-17.0836, Florida Administrative Code, Buyer intends to promptly submit this Amendment No. 1 to the FPSC for review and approval, as appropriate, within twenty (20) days after the Execution Date for purposes of ensuring FPSC approval of full recovery by Buyer from Buyer's customers of all payments required to be made by this Amendment No. 1, consistent with FPSC Order No. 25668 ("Fuel Clause"), issued February 3, 1992. Should the FPSC issue an adverse decision or order determining that the transactions arising hereunder are not appropriate or eligible for cost recovery by Buyer through the Fuel Clause, this Amendment No. 1 shall immediately terminate upon fifteen (15) days' notice to Seller with no surviving rights or obligations of any Party arising under this Amendment No. 1, and no corresponding assessments of Liability or Default.

(c) Except as expressly contemplated herein, neither the execution of this Amendment No. 1 nor the consummation of any transactions hereunder, requires the consent or approval of, notice to or recording with, or any other action by a Governmental Body.

3. SEVERABILITY

This Amendment No. 1 together with the March 2012 Agreement, and including any Appendices, Exhibits or Attachments hereto and thereto, represents the entire agreement of the Parties with respect to the subject matter contained herein. If this Amendment No. 1, for any reason, is declared invalid, or unenforceable by a court or public authority of appropriate jurisdiction, then such decision shall not affect the validity of the March 2012 Agreement, which shall remain in force and effect.

4. COUNTERPARTS

This Amendment No. 1 may be executed in two (2) or more counterparts, all of which will be considered one and the same Amendment No. 1 and each of which will be deemed an original.

IN WITNESS WHEREOF, Seller and Buyer have executed this Amendment No. 1 to the Parties' March 2012 Agreement effective as of the day and year first above written.

WITNESSES:

Shelley Simmons
Bruce K. Davis

RAYONIER PERFORMANCE FIBERS, LLC

BY: [Signature]
Title: President

WITNESSES

Cheryl Martin
[Signature]

FLORIDA PUBLIC UTILITIES COMPANY

BY: [Signature]
Title: PRESIDENT

ATTACHMENT B

(REDACTED)

SUMMARY OF PROJECTED ANNUAL SAVINGS

Attachment B

PROJECTED NET BENEFITS FROM AMENDED CONTRACT BETWEEN FPUC AND RAYONIER								
	2016	2017	2018	2019	2020	2025	2030	2036
Wholesale Costs of Power Including G&T (\$/MWh)								
Projected JEA Contract Price*								
Price of Rayonier Contract								
Margin, Rayonier Unit								
* I.e., Avoided Cost w/capacity								
Capacity Gain, Rayonier (MW)								
Capacity Factor								
Net Benefits arising from Amended Contract between FPUC and Rayonier								
Total:								