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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: April 2, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Graves)
Division of Accounting and Finance (Barrett, Fletcher)
Division of Economics (McNulty, Wu)
Office of the General Counsel (Tan)
Office of Industry Development and Market Analysis (Clemence)

RE: Docket No. 150035-EI – Petition for approval of energy purchase agreements between Gulf Power Company and Gulf Coast Solar Center I, LLC, Gulf Coast Solar Center II, LLC, and Gulf Coast Solar Center III, LLC.

AGENDA: 04/16/15 – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: The Agreements each contain a termination provision for failure to obtain Commission approval through a final non-appealable order within 180 days of filing. Based on the critical date contained in the Agreements, a Commission decision must be rendered by June 1, 2015.

SPECIAL INSTRUCTIONS: None

Case Background

On January 22, 2015, Gulf Power Company (Gulf Power or Company) filed a petition requesting approval for cost recovery of three negotiated contracts for the purchase of energy between Gulf Power and Gulf Coast Solar Center I, LLC, Gulf Coast Solar Center II, LLC, and Gulf Coast Solar Center III, LLC (collectively the Agreements). Gulf Coast Solar Center I, LLC, Gulf Coast Solar Center II, LLC and Gulf Coast Solar Center III, LLC (collectively Gulf Coast) are wholly owned subsidiaries of HelioSage, LLC.

The three solar facilities, totaling 120 megawatts (MW), associated with the Agreements are expected to deliver approximately 240,000 megawatt-hours (MWh) of energy to Gulf Power on an annual basis. Each agreement is for a term of 25 years beginning in 2017. In addition to receiving the full energy output of the facilities, Gulf Power will be entitled to receive and retain all environmental attributes, including renewable energy credits (RECs) associated with the output of each respective facility.

For discussion purposes, the individual agreements will be referred to as the Eglin Agreement, the Holley Agreement, and the Saufley Agreement. The following is a summary of the solar facilities associated with each agreement:

- The Eglin Agreement contemplates that Gulf Coast Solar Center I, LLC, will develop, construct, own, operate and maintain a 30 MW solar facility located within the confines of Eglin Air Force Base in Okaloosa County, Florida.

- The Holley Agreement contemplates that Gulf Coast Solar Center II, LLC, will develop, construct, own, operate and maintain a 40 MW solar facility located within the confines of the Navy's Holley Outlying Field in Santa Rosa County, Florida.

- The Saufley Agreement contemplates that Gulf Coast Solar Center III, LLC, will develop, construct, own, operate and maintain a 50 MW solar facility located within the confines of the Navy's Saufley Outlying Field in Escambia County, Florida.

Contemporaneously with the Agreements, the parties also executed separate Right of First Refusal Agreements (ROFRs). The ROFRs provide Gulf Power with a right to purchase one or more of the solar facilities in the event that Gulf Coast decides to sell one or more facilities to a third party. Gulf Power is currently in the process of negotiating land lease agreements with the Navy and Air Force and anticipates finalizing those agreements in calendar year 2015. Gulf Power intends to sublease the land to Gulf Coast who will bear full responsibility for cash payments under the lease agreement. Neither the pending lease agreements nor the ROFRs contain costs that impact the economic evaluation of the Agreements as presented by Gulf.

The Agreements each contain a termination provision for failure to obtain Commission approval of the Agreements through a final non-appealable order within 180 days of filing. Based on the termination provision contained in the Agreements, a Commission decision must be rendered by June 1, 2015. In its petition, Gulf Power indicated that timely Commission approval is critical because the solar facilities associated with the Agreements must be in-service on or before December 31, 2016, in order to qualify for federal business energy investment tax credits.

On January 26, 2015, the Office of Public Counsel filed a petition to intervene in the docket. The Commission granted intervention to the Office of Public Counsel on March 11, 2015.[1]

The Commission has jurisdiction over this matter pursuant to Sections 366.051, 366.91, and 366.92, Florida Statutes (F.S.).

[1] See Order No. PSC-15-0125-PCO-EI issued: March 11, 2015, in Docket No. 150035-EI, In re: Petition for approval of energy purchase agreements between Gulf Power Company and Gulf Coast Solar Center I, LLC, Gulf Coast Solar Center II, LLC, and Gulf Coast Solar Center III, LLC.

Discussion of Issues

Issue 1: Should the Commission approve Gulf Power's petition requesting recovery of costs incurred under negotiated energy purchase agreements with Gulf Coast Solar Center I, LLC, Gulf Coast Solar Center II, LLC and Gulf Coast Solar Center III, LLC?

Recommendation: Yes. The Agreements will provide cost-effective renewable generation that will enhance fuel diversity in the state. The Agreements are projected to produce savings between $2.8 million and $17.4 million and contain provisions to ensure that the associated solar facilities will not adversely affect the adequacy or reliability of electric service to Gulf Power's customers. (Graves, Barrett, Fletcher, McNulty, Wu)

Staff Analysis: Gulf Power's petition requests approval for the recovery, through the Fuel and Purchased Power Cost Recovery Clause (fuel clause), of costs associated with three Agreements between the Company and Gulf Coast. The proposed Agreements are for the purchase of energy with no requirements with respect to the timing of the energy delivered. Therefore, staff's evaluation of the Agreements is based on the requirements of Rule 25-17.0825, Florida Administrative Code (F.A.C.). Per Rule 25-17.0825(6), F.A.C., utility payments for energy made to qualifying facilities pursuant to a negotiated contract shall be recoverable if the payments to the qualifying facility are: (1) not reasonably projected to result in higher cost electric service to the utility's general body of ratepayers, and (2) the qualifying facility will not adversely affect the adequacy or reliability of electric service to all customers.

Economic Evaluation of Payments

The Agreements were analyzed, negotiated, and executed under Gulf Power's 2014 energy budget which included the Company's 2014 fuel price forecasts. Based on the Company's 2014 energy budget, the Agreements would result in a savings of approximately $17.4 million (in 2015 dollars) with savings occurring in each year of the 25 year term.[2] Following the negotiation and execution of the Agreements, Gulf Power's 2015 energy budget was released and the Company performed a second economic evaluation based upon the 2015 forecasts. Based on Gulf Power's second economic evaluation, the Agreements would result in a savings of approximately $2.8 million with savings occurring in 17 of the 25 contract years. Staff notes that the cumulative savings are positive over the term of the Agreements with significant savings occurring over the first ten years of the Agreement. Table 1, below, summarizes the results of Gulf Power's economic evaluations.

[2] The annual prices in the Agreements are conditioned on all three agreements being approved by the Commission. In the event that only two agreements are approved by the Commission, the prices will increase by 1.5 percent. In the event that only one agreement is approved by the Commission, the prices will increase by 2.5 percent. Such price increases would reduce the overall savings to Gulf Power's customers.

Table 1: Summary of Economic Evaluations

Energy Budget	Net Present Value Savings (millions 2015 $)
2014	17.4
2015	2.8

Gulf Power indicated that the primary driver of the differences between the 2014 and 2015 evaluations is a lower fuel cost projection for the 2015 energy budget. Staff reviewed both of the fuel price forecasts as well as the process and methodology by which the forecasts were developed. In response to a staff data request, the Company asserted that the methodology it employed in developing the fuel price forecasts used in this docket is the same as that used by the Company to develop its 2014 Ten-Year Site Plan. Staff agrees that Gulf Power's 2014 and 2015 fuel price forecasts are reasonable for evaluating the Agreements.

Gulf Power's payments to Gulf Coast are based on a fixed annual contract energy rate. Total payments to Gulf Coast will vary depending on the annual performance of the solar facilities; however, the rate, in ¢/Kwh, will not change as Gulf Power's avoided energy costs change. This allocates the risk of fuel price fluctuations, which impact avoided energy costs, to Gulf Power's ratepayers.

Although there is a risk that fuel costs may be lower than those forecasted by Gulf Power which would reduce the benefits of the Agreements, other variables not considered in Gulf Power's economic evaluation could increase the benefits. Specifically, staff believes an economic evaluation that considered the potential benefits associated with renewable attributes and potential carbon dioxide (CO_2) regulations would increase the benefits of the Agreements.

In its petition, Gulf Power stated that proceeds from the sale of renewable attributes would be returned to Gulf Power's ratepayers in the form of credits to the fuel clause. Gulf Power anticipates receiving more than 5.6 million RECs (one REC per delivered MWh) over the term of the Agreements. Gulf Power stated that RECs are presently selling on the voluntary market for approximately $0.75 per REC. Based on pricing in the voluntary market as it exists today, Gulf Power estimates approximately $4.26 million in potential benefits associated with the sale of RECs over the term of the Agreements. The RECs also have the potential to assist the Company in complying with Renewable Portfolio Standards or similar compliance obligations should they arise in the future. Staff recommends that Gulf Power's proposed treatment of RECs associated with the solar PPAs is appropriate because the proceeds from any sale of the RECs will benefit ratepayers in the form of credits to the fuel clause.

Gulf Power's economic evaluations did not include consideration of potential rules or regulations concerning CO2 emissions. In response to a staff data request, Gulf indicated the Agreements could provide future value in terms of CO_2 compliance. Based on estimates provided by the Company, the Agreements will avoid more than 300,000 tons of coal and more than 50 million MMBtu of natural gas. The avoided fossil fueled energy generation is projected to result in a reduction of more than 3.5 million tons of CO_2. If CO_2 regulation costs were included in Gulf Power's analysis, staff believes that the economic benefits associated with the Agreements would increase.

Based on the information provided, staff concludes that Gulf Power's economic evaluations demonstrate that the Agreements are cost-effective. While the inherent risk associated with the Agreements and potential fuel price fluctuations are recognized, staff believes that consideration of potential benefits from renewable attributes increases the likelihood that the Agreements will result in savings to Gulf Power's ratepayers over the life of the contracts.

Electric Service Adequacy and Reliability

In its petition, Gulf Power stated that Gulf Coast will bear full responsibility for costs of facilities necessary to interconnect the solar array to Gulf Power's transmission system. Based on studies performed by Southern Company Services Transmission Planning, its relevant substations and transmission facilities can accommodate the the output of each solar facility without any adverse impacts or expense to Gulf Power. Additionally, the Agreements contain a variety of provisions that are intended to ensure that the adequacy and reliability of electric service will not be adversely affected by the solar facilities. Such provisions include: requiring that the facilities be designed and operated in accordance with prudent industry practices and operating procedures, requiring Gulf Coast to curtail or cease energy deliveries under various circumstances including emergency conditions on Gulf Power's system and load balancing situations, and requiring reasonable notice to Gulf Power of any unplanned outages.

Staff believes that Gulf Power has taken reasonable steps to ensure that its electric service will not be adversely affected by the solar facilities associated with the Agreements. Additionally, staff believes that the Agreements contain provisions to further ensure that the adequacy and reliability of Gulf Power's electric service will not be impacted by the solar facilities.

Additional Considerations

While not required by the aforementioned Rule, the Agreements contain provisions that provide protection to Gulf Power's ratepayers in the event the solar facilities fail to meet certain performance requirements. Per the Agreements, Gulf Power will pay Gulf Coast a specified dollar per MWh amount for each year of the contract. The Agreements also specify an annual amount of energy to be delivered by Gulf Coast. In the event Gulf Coast fails to meet contractual energy targets, Gulf Power's dollar per MWh payment will be reduced. Staff believes that this provision preserves the economic benefits associated with the Agreements.

The Agreements also contain provisions to encourage commercial operation prior to March 1, 2017. In the event the solar facilities are not commercially operable prior to March 1, 2017, Gulf Coast will pay Gulf Power liquidated damages. If the facilities fail to achieve commercial operation within 270 days after the required commercial operation date, Gulf Power will be entitled to terminate the agreement.

The Agreements could increase Gulf Power's energy generation from renewable sources by more than 600 percent. The energy from the Agreements will enhance fuel diversity which can improve system reliability and mitigate the effects of fuel price volatility. The energy from the Agreements will also reduce the state's dependence on fossil fuel for electric production.

As discussed above, the Agreements contain provisions, above those required for energy only contracts, which are favorable to Gulf Power and its ratepayers. Furthermore, the energy from the Agreements will displace energy generated by fossil fuels, reducing the state's dependence on these resources and promoting fuel diversity.

Conclusion

Staff recommends that the Agreements satisfy the minimum requirements of Rule 25-17.0825(6), F.A.C. The Agreements will provide cost-effective renewable generation that will enhance fuel diversity in the state. The Agreements are projected to produce savings between \$2.8 million and \$17.4 million and contain provisions to ensure that the associated solar facilities will not adversely affect the adequacy or reliability of electric service to Gulf Power's ratepayers.

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. (Tan)

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.