SIERRA CLUB

October 7, 2016

Chairman Graham, Comm'rs. Brise, Edgar, Brown, and Patronis
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Gulf Power Company's proposed wind PPA, Docket No. 160158-EI

Dear Commissioners:

On behalf of itself and its more than 30,000 Florida members, Sierra Club joins the Southern Alliance for Clean Energy (SACE) to submit these comments supporting Gulf Power Company's proposal to purchase 94 MW of wind power generated from the Kingfisher Windfarm in Oklahoma, Docket No. 160158-EI. For the reasons set out in Section I, below, we agree with Staff that the Commission should approve the proposal. We urge the Commission to condition its approval, however, on Gulf taking additional steps similar to those its sister subsidiaries, Alabama Power and Georgia Power, are already taking to ensure customers get the full benefits of the renewables in the market available to them. We detail these steps in Section II, below. In essence, they are to test the market for additional renewables available to Gulf through a robust, transparent process including meaningful opportunities for stakeholder input.

I. Wind power is a low-cost, low-risk investment that benefits customers.

In 2015, the Commission approved a power purchase agreement (PPA) through which Gulf received 178 MW of electricity from the same Kingfisher Windfarm.[1] Similar to that agreement, the one now pending before the Commission would directly benefit customers by helping reduce the costs and risks of existing generation on Gulf's system.

First, over the course of its 20 year term, Gulf estimates the proposed PPA would save customers approximately $21 million. These savings are due mainly to the low operating and maintenance costs of wind power.

Second, because wind power does not require any fuel purchases to produce the same unit of energy as conventional fossil fuel generation, it can significantly reduce customers' fuel bills. In fact, this PPA may yield even greater savings should fuel prices rise

[1] *See* Order No. PSC-15-0197-PAA-EI (May 13, 2015).

higher than Gulf's projections. There is considerable upside here as Gulf (and other Florida utilities) currently rely on risky, out-of-state fossil fuel imports to supply nearly all of their generation. For Gulf, these are primarily coal imports. Gulf would do well to lock in the all-time low wind power prices as a hedge against coal price/supply shocks, especially given the recent turbulence in coal markets.

Third, wind power has a far smaller environmental footprint than conventional coal, gas, and nuclear generation. This PPA will therefore help Gulf meet its regulatory compliance obligations, which have followed a familiar trend: as regulations grow stronger (i.e., require better practices and equipment) they put upward pressure on the operation and maintenance burden of conventional generation. By investing in an inherently clean and safe alternative, Gulf will reduce that burden going forward.

II. The Commission should condition its approval on Gulf testing the market for renewables through a robust, transparent process, including meaningful opportunities for stakeholder input.

With new transmission lines proposed to wheel in even more wind power from regions with abundant wind resources, the time is ripe to test the market to ensure Gulf is capturing all of the cost-effective wind energy within its market territory. Additionally, given the overwhelming market data showing the competitiveness of solar PV, Gulf's focus should not be limited to wind power. Indeed, in 2015, 100% of generation added by Gulf's sister subsidiary in Alabama came from solar.[2] That same subsidiary issued a request for proposals (RFP) on September 27, 2016 to procure another 80 MW of renewable energy resources.[3] Likewise, Gulf's sister subsidiary in Georgia has committed to issue a series of RFPs to procure 1,200 MW of solar, wind, and other renewables.[4]

The Commission should therefore condition its approval here on Gulf taking steps similar to those its sister subsidiaries are already taking. Specifically, the Commission should require Gulf to work with Staff to issue an RFI for renewables through a robust, transparent process including meaningful opportunities for stakeholder input. Additionally, as part of an RFI process, Gulf should provide current and forecasted operational and transmission limitations for additional wind energy imports, and solicit feedback on technical, contractual or policy solutions to enable additional low-cost wind power procurement. Collecting this information is a necessary first step towards testing the market with an RFP.

[2] Solar Industries Energy Association, *Top 10 Solar States*, http://www.seia.org/research-resources/top-10-solar-states.
[3] Alabama Power, *Request for Proposals*, Sept. 27, 2016, http://www.alabamapower.com/environment/renewable-energy/pdf/RFP-Main-Document.pdf.
[4] Georgia Public Service Commission, *Stipulation*, Docket Nos. 40161-40162, June 23, 2016, http://www.psc.state.ga.us/factsv2/Document.aspx?documentNumber=164501

A. The Commission should require that Gulf issue an RFI for renewables as a first step towards soliciting bids for solar and wind generation within its market.

While we support the PPA here proposed, the absence of a comprehensive evaluation of renewables within Gulf's market area means that the Commission cannot be sure that it is the *most* cost-effective option.[5] Gulf Power has not demonstrated that this PPA is the most cost-effective because it does not even know what other options are available to it.

If Gulf Power had a specific capacity need to meet with renewable energy, then it would be fairly obvious that a Request for Proposal (RFP) process would be called for. As the Commission has affirmed, "the RFP process provides us with valuable information on the available capacity alternatives and is a valid tool for evaluating the cost-effectiveness of proposed generating units."[6] The same logic extends to all resources, including renewables, that support a utility's obligation to provide least-cost electric service. An RFI is the first step to accumulating the data necessary to intelligently conduct an RFP.

Indeed, RFPs by utilities across the Southeast, including Gulf's sister subsidiaries, show there are more cost-effective renewables in the market.[7] It therefore makes sense to require Gulf to issue its own RFI to develop market-based information on the renewables available to it. Collecting this information now will allow the company to solicit bids for further renewable generation in the near future.

Accordingly, we recommend that the Commission should require that the company issue a Request For Information (RFI) to obtain pricing information for renewable energy resources under a number of different scenarios. This will provide the Commission with the benefit of having data on the full range of investment opportunities available to Gulf. For example, the RFI should include a request for pricing and performance data for firmed and non-firmed contracts to ensure that Gulf is not paying any unnecessary premiums. For imported resources, the RFI should also solicit information under a variety of different transmission routes, including high voltage direct current lines designed specifically to carry renewable electricity into the region.

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[5] PPAs, such as the Kingfisher proposal, are not restricted to as-available energy rates and a restrictive capacity payment schedule that assigns no capacity value to solar or wind. The utility may agree to a negotiated, fixed annual rate for the term of the contract. In contrast to the detailed rules, and utility contract terms governing standard offer contracts, the standard of review for negotiated contracts is very general. This effectively amounts to requiring the utility to make a reasonable demonstration that the contract is expected to be cost-effective. R. 25-17.0832, F.A.C. and R. 25-17.240, F.A.C.

[6] Order No. PSC-06-0779-PAA-EI, issued on September 19, 2006, in Docket No. 060426-E1, In re: Petition for exemption under Rule 25-22.082(18), F.A.C., from issuing request for proposals (RFPs), by Florida Power & Light Company.

[7] Simon Mahan, *Southern Wind Energy Opportunities*, Southern Wind Energy Association, Sept. 27, 2016, https://www.youtube.com/watch?v=_sGaJaxJH3c (comparing RFP activity by Southern utilities for renewable energy resources).

To maximize responses from renewables, the Commission should emphasize that the RFI seeks the most cost-effective means of supplying electricity rather than focusing exclusively on a need to increase capacity. Investing in renewables can still benefit customers, even if there is not a capacity need, by displacing expensive generators and reducing fuel and other variable costs. Additionally, any subsequent RFP should be open to bids of various sizes or in multiple units of small generation, i.e. multiples of 5 MW, to better reflect the nature of renewable generation. The RFI should also emphasize best practices, like long-term contracts, that encourage renewable energy bids and focus on the long-term costs of infrastructure investments rather than short-term need. Collecting data under these scenarios will allow the Commission to make an informed decision regarding the most cost-effective option for Gulf's customers.

When selecting bids, Gulf should focus on proposals shown to be near or below projected avoided costs, Gulf should immediately shortlist projects for further review and begin contract negotiation. Due to expiring federal tax incentives for certain renewable energy resources, the RFP process should be completed, with projects selected and regulatory approval received for winning proposals, before September 30, 2017. Wind energy proposals must expend at least 5% of total construction costs prior to December 31, 2017, in order to qualify for that year's federal Production Tax Credit and a faster RFP process will increase the chance that additional generation will qualify for that safe-harbor.

We are confident based on our experience working with state electric utility commissions, utilities, and renewable energy developers across the region that such an RFI would yield instructive market-based data, enabling the Commission to evaluate the cost-effectiveness of additional investments.

B. The Commission should allow meaningful opportunities for stakeholder input throughout the RFP process.

As Gulf prepares to issue the RFI, the Commission should oversee the process and allow for stakeholder input. Our experience from other RFIs is that the combination of Commission oversight and stakeholder participation can help ensure that the company follows industry best practices and serves the best interest of its customers. At a minimum, the process should include the interested persons/parties in this docket and give them an opportunity to consult with Gulf before it issues the RFI. Stakeholders offer a wealth of experiences that can help quickly and effectively shape the scope of the RFI. For instance, Sierra Club and SACE have participated in renewable resource determinations in other states and could share best practices that would help capture the full array of renewable resources available to Gulf.

Participation is also important when Gulf conducts an RFP. The Commission should implement procedures similar to those used by the Georgia Public Service Commission allowing transparent public participation while still respecting confidential business information.[8] To give the relevant stakeholders notice, the Commission may assign Gulf with preparing a list of the stakeholders who participated in its recent dockets regarding renewables as well as those who participated in its sister subsidiaries' RFPs/renewable resource determination.

For all the foregoing reasons, Sierra Club and SACE support Gulf's proposal and urges the Commission to condition its approval on Gulf issuing an RFI in preparation for an RFP as outlined above.

Respectfully submitted,

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[8] Georgia Public Service Commission, *Memorandum*, Docket No. 37854, May 25, 2015.