

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Gulf Power Company for approval of negotiated renewable energy power purchase agreement with Bay County, Florida.

DOCKET NO. 20170169-EI  
ORDER NO. PSC-2017-0449-PAA-EI  
ISSUED: November 20, 2017

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman  
ART GRAHAM  
RONALD A. BRISÉ  
DONALD J. POLMANN  
GARY F. CLARK

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING CONTRACT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

**Case Background**

On August 1, 2017, Gulf Power Company (Gulf) filed a petition requesting approval of a negotiated renewable energy contract (Contract) with Bay County, Florida, for the purchase of energy. The Contract was executed on July 21, 2017, and provides for Gulf to purchase the entire net electrical output, 13.65 megawatts (MW), from the Bay County Resource Recovery Facility at a fixed price for six years beginning on July 23, 2017. This Contract is a continuation of two previous contracts executed between Gulf and Bay County, in 2008<sup>1</sup> and 2014<sup>2</sup> respectively, which were approved by this Commission. In addition to the purchase of energy, the Contract specifies that Gulf will receive all “Renewable Attributes,” such as Renewable Energy Credits (RECs), green tags, carbon credits or allowances, or other tradable environmental interests associated with the generation of electricity from the facility.

<sup>1</sup>Order No. PSC-09-0012-PAA-EI, issued January 5, 2009, in Docket No. 080612-EI, In re: Petition of Gulf Power Company for approval of negotiated renewable energy power purchase agreement with Bay County, Florida.

<sup>2</sup>Order No. PSC-14-0701-FOF-EI, issued December 19, 2014, in Docket No. 140001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

This Order addresses Gulf's petition for approval of the Contract with Bay County. We have jurisdiction over this matter pursuant to Sections 366.051 and 366.81, Florida Statutes (F.S.).

### **Decision**

The Bay County Resource Recovery Facility uses municipal solid waste (MSW) as its primary fuel. MSW is considered a renewable fuel and the facility is a renewable generating facility as defined by Rule 25-17.210, F.A.C. Gulf has contracted to buy all of the energy from the facility at fixed prices for six years beginning on July 23, 2017. An interconnection agreement between Gulf and Bay County has been in place since 1987. Gulf maintains the interconnection between Gulf's system and the facility. Bay County pays Gulf for the cost of maintenance of the interconnection site. These costs, therefore, do not impact this analysis.

The Contract is substantially similar to two prior contracts between Gulf and Bay County, which were previously approved by this Commission. Changes since the last approved contract include a revision of the commencement date of the Contract, adding clarifying terminology, and deleting redundant language. For example, section two of the Contract clarifies the meaning of the terms "Approve" and "Approval" to reflect a Final Order from this Commission and deletes redundant language with the same meaning.

As required by Rule 25-17.0832(3), F.A.C., review of a negotiated contract requires us to consider the following: the need for power, the cost-effectiveness of the contract, security provisions for payments, and performance guarantees. Each of these factors is evaluated below.

#### Need for Power

After serving internal loads, the facility will provide net generation of approximately 13.65 MW to Gulf. We note that this capacity will not contribute to Gulf's reserve margin as it is a non-firm contract. However, Section 366.91, F.S., states that it is in the public interest to promote the development of renewable energy resources. Doing so helps diversify fuel types in order to reduce Florida's growing dependency on natural gas for electric production. Rule 25-17.001(5)(d), F.A.C., encourages electric utilities to:

. . . [a]ggressively integrate nontraditional sources of power generation including cogenerators with high thermal efficiency and small power producers using renewable fuels into the various utility service areas near utility load centers to the extent cost effective and reliable.

We find that the characteristics of the energy associated with this Contract are desirable and encourage the use of renewable fuels in Florida.

#### Cost-Effectiveness

Gulf and Bay County have agreed upon an energy rate fixed at \$30.59 per megawatt hour (MWh) for the entire six year term of the Contract. No capacity payments are involved with the

Contract, so the price paid is only for the actual energy provided by the facility. We compared the Contract's rate with the cost of generating or purchasing the same amount of energy from an existing source, known as the as-available energy cost, provided by Gulf. As the table below shows, the Contract rate makes purchasing energy from the facility more cost-effective overall than Gulf generating the same amount from existing resources. Although Gulf estimates a negative difference in 2017 and 2018, the total savings over the six year period of the Contract are predicted to result in a net present value (NPV) sum of \$246,234.

<b>Avoided Cost vs Power Purchase Agreement (PPA) Cost</b>					
<b>(A)</b>	<b>(B) Avoided Cost (\$/MWh)</b>	<b>(C) MWh</b>	<b>(D) Total Avoided Cost (B x C)</b>	<b>(E) PPA Revenue (C x \$30.59)</b>	<b>(F) Margin (D - E)</b>
<b>2017</b>	\$28.73	35,000	\$1,005,518	\$1,070,650	(\$65,132)
<b>2018</b>	\$28.27	60,000	\$1,696,373	\$1,835,400	(\$139,027)
<b>2019</b>	\$30.75	60,000	\$1,844,899	\$1,835,400	\$9,499
<b>2020</b>	\$32.03	60,000	\$1,921,820	\$1,835,400	\$86,420
<b>2021</b>	\$33.35	60,000	\$2,000,892	\$1,835,400	\$165,492
<b>2022</b>	\$34.24	60,000	\$2,054,527	\$1,835,400	\$219,127
<b>2023</b>	\$36.26	25,000	\$906,578	\$764,750	\$141,828
	<b>Total</b>	360,000	\$11,430,606	\$11,012,400	\$418,206
	<b>NPV</b>	279,453	\$8,794,691	\$8,548,457	\$246,234

Source: Gulf's Response to Commission Staff's First Data Request<sup>3</sup>

The Contract requires that Bay County maximize its generation and that Gulf is the exclusive purchaser for all of the facility's net generation. In addition to the energy provided by the facility, the Contract states that RECs associated with the electric energy produced from the facility will belong to Gulf, consistent with the prior contract. In response to Commission Staff's First Data Request, number 2, Gulf stated that it did not assign any monetary value to the RECs in its economic evaluation of the PPA.<sup>4</sup> We note that, as part of the Contract, Gulf will receive any renewable attributes or RECs resulting from electrical energy generated at the Bay County facility during the Contract term and we find that any proceeds received as a result of selling RECs shall go to the benefit of the ratepayers.

#### Security for Payments

No capacity payments are associated with this Contract; provisions are only for Bay County's delivery of energy to Gulf. The security of this energy-only Contract is that payments

<sup>3</sup>Document No. 07948-2017, filed September 28, 2017, in Docket No. 20170169-EI, p. 27.

<sup>4</sup>Document No. 07948-2017, filed September 28, 2017, in Docket No. 20170169-EI, p. 4.

from Gulf are directly proportional to the amount of energy provided. If no energy is provided, no payment is due.

#### Performance Guarantees

As noted above, the Contract states that Bay County must maximize its generation. Consistent with the prior contract, the Contract lists conditions which must be met to avoid default or termination, such as using good engineering and utility practices. Bay County is also obligated to maintain a specified reactive power flow, annually provide Gulf with a schedule of planned generation outages or reductions, and promptly notify Gulf of any forced or unplanned outages for longer than three days. If these obligations are not met, Gulf would notify Bay County of the default condition, which Bay County would be allowed 60 days to remedy. If not remedied after 60 days, Gulf may terminate the Contract without further liability to either party. We find that the terms of the Contract are sufficient to protect Gulf's ratepayers if Bay County fails to deliver the net generation of energy from its facility.

#### Conclusion

Payments for energy are expected to produce NPV savings of approximately \$250,000 over the term of the Contract. Also, the Contract is substantially similar to the contracts between Gulf and Bay County previously approved by this Commission. Therefore, we hereby approve Gulf's petition for approval of a negotiated renewable energy PPA with Bay County, Florida. We find that Gulf shall be permitted to petition for recovery of costs associated with the Contract through the Fuel and Purchased Power Recovery Clause. As part of the Contract, Gulf will receive any renewable attributes or RECs resulting from electrical energy generated at the Bay County facility during the Contract term, but any proceeds received from these items shall be returned to the ratepayers.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the negotiated renewable energy contract between Gulf Power Company and Bay County, Florida for the purchase of energy is hereby approved. It is further

ORDERED that Gulf Power Company shall be permitted to petition for recovery of costs associated with the negotiated renewable energy contract through the Fuel and Purchased Power Recovery Clause. It is further

ORDERED that any proceeds received as a result of selling Renewable Energy Credits shall go to the benefit of the ratepayers. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the

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close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 20th day of November, 2017.

  
CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 11, 2017.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.