

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: November 30, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Thompson, Ellis, King) ^{TK} ^{POE} ^W ^{JK}
Office of the General Counsel (Cuello) ^{SAC} ^{TK}

RE: Docket No. 20170227-EI – Petition for approval of the Waiver and Scheduling Agreement between Gulf Power Company and Morgan Stanley Capital Group, Inc.

AGENDA: 12/12/17– Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: Pursuant to Section C(2) of the Waiver and Scheduling Agreement, either party may terminate the agreement in the event that a final order is not rendered on or before December 30, 2017.

SPECIAL INSTRUCTIONS: None

Case Background

On May 13, 2015, the Florida Public Service Commission (Commission) approved Gulf Power Company's (Gulf or Utility) petition requesting approval for cost recovery of a negotiated Energy Purchase Agreement (Kingfisher I EPA) with Morgan Stanley Capital Group, Inc. (Morgan Stanley).¹ The Kingfisher I EPA obligates Morgan Stanley to deliver a fixed number of megawatt hours (MWh) to Gulf in each hour of each month of each year throughout the 20 year

¹Order No. PSC-15-0197-PAA-EI, issued May 13, 2015, in Docket No. 150049-EI, *In re: Petition for approval of energy purchase agreement between Gulf Power Company and Morgan Stanley Capital Group Incorporated.*

term of the agreement. Morgan Stanley's energy delivery commitment is shaped to match the projected hourly and monthly output of a 178 megawatt (MW) portion of the Kingfisher Wind Farm that was constructed in Oklahoma. Annually, Morgan Stanley's energy delivery commitment totals 674,437 MWh.

Morgan Stanley's energy delivery commitment under the Kingfisher I EPA is separated into two tiers: Tier 1 Hourly Energy and Tier 2 Hourly Energy. Tier 1 Hourly Energy is delivered using a dedicated transmission pathway which originates in the Midcontinent Independent System Operator balancing authority area and terminates at the Southern Company/Entergy Interface. Tier 2 Hourly Energy may be delivered from any resource available to Morgan Stanley and to any delivery point on the Southern Company Transmission System, provided that such resource and/or delivery point meets the defined contractual availability and delivery criteria.

Under the Kingfisher I EPA, Gulf is only required to pay for energy which is received from Morgan Stanley on the Southern Companies Transmission System. Energy delivered under the Kingfisher I EPA to the Southern Companies Transmission System is assigned to Gulf at the prices designated in the agreement.

Following execution of the Kingfisher I EPA, Gulf executed a second Energy Purchase Agreement (Kingfisher II EPA) with Morgan Stanley which was approved by the Commission on November 3, 2016.² The Kingfisher II EPA is similar to the Kingfisher I EPA, with the primary exception that all energy delivered under the Kingfisher II EPA follows the Tier 2 Hourly Energy model. Therefore, there was no obligation to deliver energy using the Tier 1 Hourly Energy model as there was in the Kingfisher I EPA.

Upon further discussion among the parties, a Waiver and Scheduling Agreement (Waiver Agreement) was executed on October 13, 2017. On October 20, 2017, Gulf filed a petition for approval of the Waiver Agreement with Morgan Stanley. Beginning January 1, 2019, the Waiver Agreement will allow Morgan Stanley to relinquish the Tier 1 Hourly Energy commitment included in the Kingfisher I EPA, making it more comparable to the Kingfisher II EPA by exclusively utilizing Tier 2 Hourly Energy.

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

²Order No. PSC-16-0507-PAA-EI, issued November 3, 2016, in Docket No. 160158-EI, *In re: Petition for approval of energy purchase agreement between Gulf Power Company and Morgan Stanley Capital Group Incorporated.*

Discussion of Issues

Issue 1: Should the Commission approve Gulf Power Company's petition for approval of the Waiver and Scheduling Agreement with Morgan Stanley Capital Group, Inc.?

Recommendation: Yes. The Waiver Agreement will result in monthly credits to Gulf from Morgan Stanley, which results in an estimated total net present value (NPV) savings to ratepayers of approximately \$17.2 million from 2019 through 2035. Through the Waiver Agreement, energy deliveries under the Kingfisher I EPA will operate in the same manner as the Kingfisher II EPA, previously approved by the Commission. In addition, the core provisions of the Kingfisher I EPA, including total energy delivery amounts, pricing, reliability, security, and risk allocation remain unchanged. Therefore, staff recommends that the Commission approve Gulf's petition for approval of the Waiver Agreement with Morgan Stanley. (Thompson)

Staff Analysis: Gulf's petition requests approval of modifications to an existing contract. The Utility has provided the information required to be submitted along with a request for a contract modification in accordance with Rule 25-17.0836(1), Florida Administrative Code (F.A.C.). As required by Rule 25-17.0836(6), F.A.C., staff should evaluate modifications and concessions of the Utility and developer against both the existing contract and the current value of the purchasing utility's avoided cost.

Efficiency Determination

Morgan Stanley has informed Gulf that it must make a decision on or before January 1, 2018, to either reserve firm transmission service for Tier I Hourly Energy deliveries for an additional five-year period or to allow the reservation to lapse. Regarding the latter, Morgan Stanley is unsure that the pathway will be available in the future. The modification included in the Waiver Agreement is to waive Morgan Stanley's obligation to deliver Tier 1 Hourly Energy from January 1, 2019, through December 31, 2035, under the Kingfisher I EPA. Morgan Stanley will continue to supply Tier 1 Hourly Energy through December 31, 2018, after which it will begin to exclusively supply Tier 2 Hourly Energy for the duration of the Kingfisher I EPA term.

Morgan Stanley currently exclusively supplies Tier 2 Hourly Energy under the Kingfisher II EPA. Gulf has not experienced any difficulties scheduling or facilitating energy under the Kingfisher II EPA or the Kingfisher I EPA, which currently utilizes Tier 1 Hourly Energy and Tier 2 Hourly Energy, demonstrating that the dedicated transmission pathway utilized to deliver Tier 1 Hourly Energy is not necessary for reliability purposes. Therefore, staff recommends that the transition to exclusively utilizing Tier 2 Hourly Energy under the Kingfisher I EPA will not negatively affect the efficiency of the Kingfisher I EPA.

Cost-Effectiveness

The pricing of the Kingfisher I EPA remains unchanged under the Waiver Agreement. Relinquishing Morgan Stanley's obligation to deliver Tier 1 Hourly Energy from 2019 through 2035 will result in \$2 million in savings annually to Gulf's ratepayers in the form of a monthly credit to Gulf. The estimated total NPV savings to customers under the Waiver Agreement during this timeframe is approximately \$17.2 million. This will ultimately place downward pressure on amounts collected from ratepayers through the Fuel and Purchased Power Cost

Recovery Clause. Seeing as the ratepayers will benefit from approval of the Waiver Agreement, staff recommends that it is cost-effective.

Conclusion

The Waiver Agreement will result in monthly credits to Gulf from Morgan Stanley, which results in an estimated total NPV savings to ratepayers of approximately \$17.2 million from 2019 through 2035. Through the Waiver Agreement, energy deliveries under the Kingfisher I EPA will operate in the same manner as the Kingfisher II EPA, previously approved by the Commission. In addition, the core provisions of the Kingfisher I EPA, including total energy delivery amounts, pricing, reliability, security, and risk allocation remain unchanged. Therefore, staff recommends that the Commission approve Gulf's petition for approval of the Waiver Agreement with Morgan Stanley.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action (PAA) files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued and the docket should be closed. (Cuello)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued and the docket should be closed.