

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: July 17, 2008

TO: Office of Commission Clerk (Cole)

FROM: Office of Strategic Analysis & Governmental Affairs (Sickel, Lewis, Webb)
Division of Economic Regulation (Kummer)
Office of the General Counsel (Hartman)

RE: Docket No. 080187-EQ – Petition for approval of amended standard offer contract and COG-2 rate schedule, by Progress Energy Florida.

AGENDA: 07/29/08 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 12/01/08 (8-Month-Effective-Date)

SPECIAL INSTRUCTIONS: Place next to items on the Agenda for Docket Nos. 080184-EQ, 080193-EQ, 080194-EQ, 080283-EQ

FILE NAME AND LOCATION: S:\PSC\SGA\WP\080187.RCM.DOC

Case Background

Since January 1, 2006, each investor-owned electric utility (IOU), as well as each municipal electric utility subject to the Florida Energy Efficiency and Conservation Act (FEECA), has been required to continuously offer to purchase capacity and energy from specific types of renewable sources. Section 366.91(3), Florida Statutes (F.S.), specifies that the contracts for purchase must be based on the utility's full avoided cost as defined in Section 366.051, F.S., and provide a term of at least ten years. Rules 25-17.200 through 25-17.310, Florida Administrative Code (F.A.C.), implement the statutes.

In accord with applicable statutes and rules, on April 1, 2008, Progress Energy Florida, Inc. (PEF or Company) filed its petition requesting approval of a standard offer contract and associated tariffs based on the Ten-Year Site Plan for 2008-2017. Within the Company's expansion planning in that document, a single fossil based unit is available to serve as an avoided unit; that is, a combined cycle unit expected to come on-line in June 2013. There is already a repowering project underway at the Bartow Plant in Pinellas County, so there is no opportunity for avoiding that unit. Two nuclear units are planned as well; however, nuclear plants are not subject to the requirements of a standard offer, and the Company has already filed in the need determination for those generating units. Therefore, the single 2013 unit is appropriate as the subject of a standard offer filing.

The Commission has jurisdiction over this matter pursuant to Sections 366.04 through 366.06 and 366.91 and 366.92, F.S.

Discussion of Issues

Issue 1: Is the standard offer contract filed by Progress Energy Florida, Inc. in compliance with Rules 25-17.200 through 25-17.310, F.A.C.?

Recommendation: Yes. The Standard offer Contract proposed by PEF is in compliance with Rules 25-17.200 through 25-17.310, F.A.C., and therefore should be approved. (Kummer, Lewis, Sickel, Webb)

Staff Analysis: Because the Company is an IOU, Rule 25-17.250(1), F.A.C., requires PEF to continuously make available a standard offer contract for purchase of firm capacity and energy from renewable generating facilities and small qualifying facilities with a design capacity of 100 kW or less. By April 1 each year, PEF must file a standard offer contract based on the next avoidable fossil fueled generating unit for each technology type associated with planned units listed in the PEF's Ten-Year Site Plan.¹ The Company's 2008 Ten-Year Site Plan includes only one fossil based unit that can serve as the avoided unit. The Suwannee River Unit 4 is planned to begin commercial operation in June 2013. An earlier plant is already in construction, and there are two nuclear plants expected to come into service in 2016 and 2017. By providing the standard offer based on the Suwannee unit, PEF is in compliance with Rule 25-17.250(2), F.A.C.

Tariff Sheet No. 9.415 provides for a contract term extending through May, 2023. As required by Rule 25-17.250(3), F.A.C., this term includes ten years of operation by the avoided unit.

The contract offers capacity payments that are in compliance with requirements of Rule 25-17.250(4), F.A.C. Table 3 on Sheet No. 9.455 shows options that are available to the renewable generator. The choices include payment streams that begin when the renewable capacity is available, or when the avoided unit goes into service.

If energy payments begin prior to the avoided unit in-service date, the rates may be based on PEF's actual hourly avoided energy costs, or the rates may be based on PEF's annual projection of system incremental costs, excluding economy sales. Energy payments made after the in-service date of the avoided unit are calculated using each hour's firm energy rate. These options are described on sheet No. 9.456, and meet the requirements of Rule 25-17.250(6), F.A.C.

Sheet Nos. 9.439 and 9.440 provide for either party to reopen the contract under specific conditions. If revisions to environmental laws or other regulations will result in a change in the cost of the avoided unit beyond a threshold amount, then the impacted party may request the recalculation of avoided cost. The threshold of the incremental change in cost is to be mutually agreed and included as part of the contractual arrangements. This provision satisfies the requirements of Rule 25-17.270, F.A.C.

¹ The standard offer contract filed by PEF in 2007 was protested, and this matter will be resolved in Docket No. 070235-EQ.

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Ownership of the environmental attributes associated with electric generation under the contract remains with the renewable generator. Sheet No. 9.417 gives PEF first right of refusal, and sets a threshold for the selling price to any other buyer. The arrangements are in accord with Rule 25-17.280, F.A.C.

The provisions of the 2008 Renewable Standard Offer Contract submitted by Progress Energy Florida conform to all requirements of Rules 25-17.200 through 25-17.310, and 25-17.0832(4), F.A.C. The contract provides flexibility in the arrangements for payment so that a developer of renewable generation may select the payment stream best suited to his financial needs. At the same time, security provisions of the contract provide protection for PEF's ratepayers.

In conclusion, staff believes that PEF's proposed standard offer contract is in compliance with Rules 25-17.200 through 25-17.310, F.A.C., and should therefore be approved.

Issue 2: Should this docket be closed?

Recommendation: If the Commission approves staff's recommendation to approve the proposed Standard Offer Contract and tariffs filed by PEF, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 080187-EQ should be closed, and the Standard Offer Contracts and tariffs filed by PEF should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that PEF's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised. (Hartman)

Staff Analysis: If the Commission approves staff's recommendation to approve the proposed Standard Offer Contract and tariffs filed by PEF, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 080187-EQ should be closed, and the Standard Offer Contracts and tariffs filed by PEF should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that PEF's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised.