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, Clemence, Lewis)
Office of Economic Regulation (Kummer)
Office of the General Counsel (Hartman)

RE: Docket No. 080194-EQ – Petition for approval of new standard offer for purchase of firm capacity and energy from renewable energy facilities or small qualifying facilities and approval of tariff schedule REF-1, by Gulf Power Company.

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

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 12/02/08 (8-Month-Effective-Date)

SPECIAL INSTRUCTIONS: Place next to items on the Agenda for Docket Nos. 080184-EQ, 080187-EQ, 080193-EQ, and 080283-EQ

FILE NAME AND LOCATION: S:\PSC\SGA\WP\080194.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, Gulf Power Company (Gulf or Company) submitted its petition dated March 31, 2008, requesting approval of a standard offer contract and associated tariffs based on Gulf's Ten-Year Site Plan for 2008-2017. The Ten-Year Site Plan includes a single additional unit, planned to be in service in 2014.

This recommendation will address the standard offer contract and associated tariff filed by Gulf with an official filing date of April 2, 2008. 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 Gulf Power Company in compliance with Rules 25-17.200 through 25-17.310, F.A.C.?

Recommendation: Yes. The Standard Offer Contract, with related tariff, proposed by Gulf 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 Gulf 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, Gulf must file a standard offer based on the next avoidable fossil fueled generating unit, for each technology type listed in Gulf's Ten-Year Site Plan. The 2008 Ten-Year Site Plan for Gulf includes a single unit to be added, and that is to be an 840 MW combined cycle plant with projected in-service date of June 2014.

Much of the contract and tariff filed by Gulf in this current docket is a replication of the arrangements that comprised the Company's 2007 standard offer and related tariffs. After the Commission approved Gulf's 2007 standard offer, a protest was filed, but it was dismissed.[1] Tariff Sheet Nos. 9.81-9.87 were part of the tariff filed in 2007 and only Sheet Nos. 9.82 and 9.85 are to be revised. A single revision is made on the Sheet No. 9.82, to designate an 840 MW combined cycle plant, with anticipated in-service date of June 2014, as the avoided unit. This change brings the 2008 standard offer in line with the concurrent Ten-Year Site Plan.

In review of the new contract, staff finds minimal revisions; provisions for performance, payment, and security are retained and comply with applicable rules. Sheet No. 9.81 of Gulf's contract is not revised, and continues to meet requirements of Rule 25-17.250(1), F.A.C. The portfolio approach, required by Rule 25-17.250(2), F.A.C., reduces to a single avoided unit upon which the 2008 standard offer contract is based.

Rule 25-17.250(3), F.A.C., provides that the developer of a renewable generation facility may select the term of the contract, from a minimum of ten years to the life of the avoided unit. Sheet No. 9.82 of the Gulf tariff REF-1 mentions this provision, and the 2008 standard offer continues the contract term that has been approved and in effect.

Rule 25-17.270, F.A.C., requires that standard offer contracts must allow either party to reopen a contract

if new environmental or other regulatory requirements are enacted and cause a change in the costs associated with the avoided unit. Rule 25-17.280, F.A.C., requires that Tradable Renewable Energy Credits (TRECS) shall remain the exclusive property of the renewable

[1] See Order Nos. PSC-07-0941-TRF-EQ, PSC-07-0724-PCO-EQ, and PSC-07-0924-CO-EQ in Docket No. 070232-EQ, In re: Petition for approval of new standard offer for purchase of firm capacity and energy from renewable energy facilities or small qualifying facilities and approval of schedule REF-1, by Gulf Power Company.

generator. Both of these requirements were met by Sheet No. 9.96 of Gulf's REF-1 tariff, and the Company proposes no revision to that part of the contract.

Except for cases where the Commission approves a specific adjustment, an IOU is prohibited from reducing avoided cost payments to a renewable generator through the mechanism of an imputed debt equivalent adjustment. In its petition, Gulf agrees that if such an adjustment is determined to be necessary, the Company will return to the Commission for approval pursuant to Rule 25-17.290, F.A.C.

The utility's payments to the renewable generator consist of capacity and energy components. Rule 25-17.0832(4), F.A.C., requires that the capacity component will be based upon the capital costs and fixed operation and maintenance expense associated with the avoided unit. This value of deferral (VOD) methodology allows for flexibility, so that a renewable generator may select early capacity payments to begin any time after the renewable generating facility goes into service. Rule 25-17.250(4), F.A.C., allows the renewable generator to select a capacity payment stream based on the financing needs of the facility, with the caveat that the cumulative present value of payments may not exceed the cumulative present value for capacity costs that would be associated with the avoided unit over the contract period. Rule 25-17.0832(3), F.A.C., requires that the standard offer contract must include provisions to ensure repayment of amounts paid in any year to the renewable generator that exceed that year's annual value of deferring the avoided unit. The arrangements offered on Sheet Nos. 9.83 through 9.86 of Gulf's 2007 contract met these requirements. In the 2008 contract, Sheet No. 9.85 provides numerical revisions reflecting updated avoided cost information. No other revisions to Sheet Nos. 9.83 through 9.86 have been filed.

Rule 25-17.250(6), F.A.C., allows fixed energy payments by the Company, in order to facilitate financing and promote fuel price stability. The renewable generator may select either of two options provided. Rule 25-17.250(6)(a), F.A.C., provides the first option: prior to the in-service date of the avoided unit, as-available energy prices may be fixed on an annual basis based on the utility's projection of system incremental fuel costs based on normal conditions. A risk premium would be added to account for anticipated fuel price volatility above normal conditions. Rule 25-17.250(6)(b), F.A.C., allows a renewable generator to fix a portion of the base energy costs associated with the avoided unit to be amortized on a present value basis over the term of the contract, beginning as early as the in-service date of the renewable generating facility. The renewable generator and the purchasing utility must agree on the portion of energy costs to be amortized in this manner. Provisions on Sheet Nos. 9.86 and 9.87 of Gulf's 2007 contract were in compliance with these requirements and remain unchanged.

The provisions of the 2008 Renewable Standard Offer Contract submitted by Gulf conform to all requirements of Rules 25-17.200 through 25-17.310, 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 the utility's ratepayers.

In conclusion, staff believes that Gulf'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 Gulf, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 080194-EQ should be closed, and the Standard Offer Contracts and tariffs filed by Gulf 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 Gulf'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 Gulf, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 080194-EQ should be closed, and the Standard Offer Contracts and tariffs filed by Gulf 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 Gulf's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised.