

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of amended negotiated purchase power contract with BG&E of Florida, LLC by Progress Energy Florida.	DOCKET NO. 090537-EQ ORDER NO. PSC-10-0314-PAA-EQ ISSUED: May 17, 2010
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The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman  
LISA POLAK EDGAR  
NATHAN A. SKOP  
DAVID E. KLEMENT  
BEN A. "STEVE" STEVENS III

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING AMENDED POWER PURCHASE 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.

Background

On December 11, 2009, Progress Energy Florida, Inc. (PEF) filed a petition requesting approval of an amendment to a negotiated contract for firm capacity and energy between BG&E of Florida, LLC (BG&E) and PEF dated November 25, 2009. This Commission issued Order No. PSC-07-0911-PAA-EQ on November 9, 2007, approving the original contract in Docket No. 070561-EQ.<sup>1</sup> The original contract is based on BG&E constructing a biomass power production generating facility located in Florida, which will operate as a Qualifying Facility (QF) pursuant to the Federal Energy Regulatory Commission (FERC). The facility will use a gasified biomass product as its primary fuel. During the development stage, BG&E encountered trouble siting the facility and was therefore required to find a new site location. Due to the siting delay and poor economic conditions, BG&E requested amendments to the original contract. The changes include a delay in the contract start date from January 1, 2011, to July 1, 2012, and a decrease in committed capacity from 75 megawatts (MW) to 45 MW.

<sup>1</sup> Docket No. 070561-EQ, In Re: Petition for approval of negotiated power purchase contract for purchase of firm capacity and energy with BG&E of Florida, LLC, by Progress Energy Florida.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

We have jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.051, and 366.80-366.82, Florida Statutes (F.S.).

Amended Negotiated Contract

After the original contract was approved by us in 2007, BG&E encountered difficulty in siting the facility at its original location. BG&E requested to amend the original contract, and rather than terminate the contract altogether, PEF agreed to renegotiate the terms of the contract. In addition to the later start date due to the siting delay, poor economic conditions prompted a request for a lower committed capacity. According to the petition, the lower committed capacity decreases the amount of capital required by BG&E, which in turn reduces its technology risk. The smaller plant size, along with a proven biomass gasification process, should maintain the project's viability.

In addition to the later start date and the lower committed capacity, the energy payment rate was increased and the security amounts were reduced in proportion to the amended committed capacity. Although the negotiated rate per megawatt hour (MWh) is higher in the amended contract, the total payments result in a lower NPV due to the decrease in the total amount of energy expected to be delivered. All other terms and conditions of the original contract, such as performance requirements, interconnection agreement, etc., remain unchanged.

PEF included with its petition an analysis of the payments for firm capacity and energy under the amended contract compared with its avoided cost using an updated fuel forecast and avoided unit. This analysis shows an expected NPV savings to PEF's customers of approximately \$47 million over the 20-year term of the contract. The original contract had an expected NPV savings of \$41 million. For the amended contract, PEF used the long-term natural gas price forecast used for the 2009 Ten-Year Site Plan. This forecast was the latest one available at the time the contract negotiations were carried out. This is the same forecast provided by PIRA Energy Group, which has over 30 years experience in the energy industry.

The majority of PIRA's forecasted prices were higher than the forecasted prices in the U.S. Energy Information Administration's (EIA) December 2009 long-term natural gas price forecast. Due to the fact that fuel prices have decreased since the time the analysis was done, at staff's request PEF provided a stress test of its long-term natural gas price forecast, which encompassed the difference between the PIRA forecast and the EIA forecast. The stress test compared a shift in natural gas prices 20 percent above forecasted prices, and 20 percent below forecasted prices. If natural gas prices were to increase 20 percent above the forecasted price, the projected NPV would be approximately \$94 million. However, if a 20 percent decrease were to occur, the projected NPV savings would essentially be break-even. Current forecasts show that natural gas prices are approximately 15 percent lower than those used for the analysis provided with the petition.

These analyses show that the expected savings is highly dependent on the price of natural gas, which has changed significantly since this petition was filed. However, we believe that the amended negotiated contract between PEF and BG&E provides PEF with a viable source of electric capacity and energy that is projected to be approximately \$74 million less than the

original contract and continues to provide an expected NPV savings to PEF's customers compared to PEF's current avoided cost. Therefore, we hereby approve the amended negotiated contract.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the amended negotiated contract for the purchase of firm capacity and energy between BG&E of Florida, LLC and Progress Energy Florida, Inc. is hereby approved as set forth herein. 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 close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no timely protest is filed within 21 days of the issuance of this Order, this docket should be closed upon the issuance of a consummating order

By ORDER of the Florida Public Service Commission this 17th day of May, 2010.



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ANN COLE  
Commission Clerk

( S E A L )

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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 June 7, 2010.

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.