

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of energy purchase agreement between Gulf Power Company and Morgan Stanley Capital Group Incorporated.

DOCKET NO. 160158-EI
ORDER NO. PSC-16-0507-PAA-EI
ISSUED: November 3, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING
THE ENERGY PURCHASE AGREEMENT BETWEEN GULF POWER COMPANY
AND MORGAN STANLEY CAPITAL GROUP INCORPORATED

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 January 21, 2015, Morgan Stanley entered into an agreement with the owner of the Kingfisher Wind Farm for Morgan Stanley to financially hedge the energy output of the Kingfisher Wind Farm. On June 27, 2016, Gulf Power Company (Gulf or Company) filed a petition requesting approval for cost recovery of a negotiated Energy Purchase Agreement (Agreement) with Morgan Stanley Capital Group, Inc. (Morgan Stanley).¹ The Agreement obligates Morgan Stanley to deliver to Gulf a fixed number of megawatt-hours (MWh) in each hour, of each month, of each year, throughout the 20 year term of the Agreement. Gulf's petition is similar to its previous Kingfisher Wind Farm Agreement ("Kingfisher I") that we approved in 2015.²

¹ Morgan Stanley Capital Group Inc. is a wholly-owned subsidiary of Morgan Stanley.

² Order 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 Corporation [Company] and Morgan Stanley Capital Group Incorporated.

The Agreement contains a termination provision for failure to obtain Commission approval of the Agreement through a final non-appealable order within 240 days of filing. Based on the termination provision contained in the Agreement, we must render a decision by February 22, 2017.

We have jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.).

DECISION

In its petition, Gulf requests approval for the recovery of costs associated with the Agreement between the Company and Morgan Stanley through the Fuel and Purchased Power Cost Recovery Clause (Fuel Clause). Morgan Stanley's energy delivery commitment is shaped to match the projected hourly and monthly output of a 94 megawatt portion of a wind electric generation facility known as the Kingfisher Wind Farm in Oklahoma.³ Beginning in 2016, Morgan Stanley's energy delivery commitment totals 356,843 MWh on an annual basis.

Rule 25-17.0825(6), F.A.C., provides a rational evaluation tool for the Agreement between Gulf and Morgan Stanley. Rule 25-17.0825(6), F.A.C., requires consideration of cost-effectiveness and any adverse impacts to electric service that may be caused by a purchased power agreement.

Economic Evaluation of Payments

We reviewed Gulf's fuel price forecasts, developed in 2015, as well as the process and methodology by which the forecasts were developed. In response to our staff's data request, Gulf described the methodology it employed in developing its natural gas and coal price forecasts used in this docket, which is consistent with the methodology used by Gulf to develop its 2016 Ten-Year Site Plan. Gulf's natural gas and coal price forecasts were lower in the budgets used to prepare the analysis in the instant proceeding than those used to prepare the 2015 Ten Year Site Plan. We reviewed Gulf's natural gas and coal price forecasts and find that they are reasonable to evaluate the Agreement.

After evaluating the Agreement and the information provided by Gulf, we find that the economic evaluation completed by Gulf reasonably demonstrates the Agreement to be cost-effective. Under the base fuel forecast, customers are anticipated to receive savings of \$21 million in net present value (NPV) and an average customer should realize savings within the first year of the Agreement.

By fixing energy payment rates, the rates are not allowed to float with changes to the avoided unit's fuel costs, which shifts all the risk of fuel price fluctuations to Gulf's ratepayers. Based on the fuel forecasts provided, the low fuel price scenario results in a potential NPV loss of approximately \$6 million. In contrast, the high fuel price scenario resulted in a savings of around \$50 million. Regardless, Gulf would remain obligated to pay the contracted rate and may

³ The Kingfisher Wind Farm is expected to have a full nameplate capacity of approximately 298 MW.

seek to recover the costs from the ratepayers through the Fuel Clause. Because of the fixed price nature of the Agreement, there are potential risks associated with fuel price variability. We find, however, that the potential benefits from the renewable attributes increase the benefit to the ratepayers that the Agreement will provide.

Under the Agreement, Gulf is only required to pay for energy which is received from Morgan Stanley on the Southern Companies Transmission System. Energy delivered under the Agreement to the Southern Companies Transmission System will be assigned to Gulf at the prices designated in the Agreement. Although the energy received on the Southern Companies Transmission System may not come from renewable generation, Gulf will be entitled to receive and retain all environmental attributes, including renewable energy credits, associated with the corresponding output of the Kingfisher Wind Farm. In this manner, this Agreement is similar to the prior agreement we approved in 2015 that was linked to 178 MW of the Kingfisher facilities wind generation. The addition of this Agreement will secure the renewable attributes associated with the majority of the wind generating capability of the Kingfisher facility.

Based on the information reviewed, we find that Gulf's economic evaluations reasonably demonstrate that the Agreement is cost-effective. While there is risk associated with the Agreement and potential fuel price fluctuations, we find potential benefits from renewable attributes increases the likelihood that the Agreement will result in savings to Gulf's ratepayers over the term of the Agreement.

Renewable Energy Credits (RECs)

Gulf anticipates receiving approximately 360,000 RECs annually from the Agreement over its lifetime. Gulf asserts that RECs are currently selling for \$0.33 per credit on the voluntary market. In its petition, Gulf claimed that proceeds from the sale of RECs would be returned to Gulf's ratepayers in the form of credits to the Fuel Clause. We find that, should Gulf decide to sell its RECs, Gulf's proposed treatment of RECs associated with the Agreement to be appropriate because the proceeds from such sale will benefit Gulf's ratepayers. In addition, we find that the RECs also have the potential to assist Gulf in complying with Renewable Portfolio Standards or other similar compliance obligations should they arise in Florida in the future.

Electric Service Adequacy & Reliability

The Agreement includes several provisions to protect Gulf's ratepayers and ensure the adequacy and reliability of electric service. The Agreement provisions include protections for covering damages to Gulf if Morgan Stanley fails to deliver energy, the ability for Gulf to curtail or cease energy deliveries for emergency situations, and requires Morgan Stanley to utilize firm transmission for all deliveries with limited exceptions. We find that these provisions adequately ensure that the reliability of the Southern Companies Transmission System as well as Gulf's electric service will not be adversely impacted by the energy delivered under the Agreement

Additional Considerations

The Agreement also provides that a failure to deliver hourly energy, in amounts specified in the Agreement, will result in Morgan Stanley paying cover costs to Gulf. Per the Agreement, if Morgan Stanley fails to pay such cover costs, or the failure to deliver energy exceeds certain limits, Gulf has the right to declare the contract in default and Morgan Stanley must pay a termination payment. We find this requirement, as well as the commercial operation requirement discussed above, to be favorable to both Gulf and its ratepayers.

Conclusion

We find Gulf has reasonably demonstrated that the Agreement will likely produce savings of \$21 million and will encourage the development of renewable energy. Therefore, we hereby approve Gulf's petition.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's petition for cost recovery of the negotiated Energy Purchase Agreement with Morgan Stanley Capital Group, Inc., is hereby granted as set forth in the body of this Order. It is further

ORDERED that Gulf Power Company's negotiated Energy Purchase Agreement with Morgan Stanley Capital Group, Inc. is cost-effective and encourages the development of renewable energy generation. It is further

ORDERED that Gulf Power Company's proposed treatment of Renewable Energy Credits associated with the negotiated Energy Purchase Agreement with Morgan Stanley Capital Group, Inc. to be appropriate because the proceeds from any sale of the Renewable Energy Credits will benefit Gulf's ratepayers in the form of credits to the Fuel and Purchased Power Cost Recovery Clause. 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 in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 3rd day of November, 2016.

Carlotta S Stauffer

CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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 November 28, 2016.

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.