

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: October 26, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Thompson, Ellis) *TT POE*
Division of Economics (Higgins) *DU WBM*
Office of the General Counsel (DuVal) *MD TJ*

RE: Docket No. 20170169-EI – Petition of Gulf Power Company for approval of negotiated renewable energy power purchase agreement with Bay County, Florida.

AGENDA: 11/07/17 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: May 28, 2018 – Pursuant to the Contract, either party may terminate the agreement if the Commission has not approved it within 300 days of the petition’s filing date.

SPECIAL INSTRUCTIONS: None

Case Background

On August 1, 2017, Gulf Power Company (Gulf) filed a petition requesting approval of a negotiated renewable energy contract (Contract) with Bay County, Florida, for the purchase of energy. The Contract was executed on July 21, 2017, and provides for Gulf to purchase the entire net electrical output, 13.65 megawatts (MW), from the Bay County Resource Recovery Facility at a fixed price for six years beginning on July 23, 2017. This Contract is a continuation of two previous contracts executed between Gulf and Bay County, in 2008¹ and 2014² respectively,

¹Order No. PSC-09-0012-PAA-EI, issued January 5, 2009, in Docket No. 080612-EI, *In re: Petition of Gulf Power Company for approval of negotiated renewable energy power purchase agreement with Bay County, Florida.*

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which were approved by the Commission. In addition to the purchase of energy, the Contract specifies that Gulf will receive all “Renewable Attributes,” such as Renewable Energy Credits (RECs), green tags, carbon credits or allowances, or other tradable environmental interests associated with the generation of electricity from the facility.

This recommendation addresses Gulf’s petition for approval of the Contract with Bay County. The Commission has jurisdiction over this matter pursuant to Sections 366.051 and 366.81, Florida Statutes (F.S.).

²Order No. PSC-14-0701-FOF-EI, issued December 19, 2014, in Docket No. 140001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.*

Discussion of Issues

Issue 1: Should the Commission approve Gulf Power Company's petition for approval of a negotiated renewable energy power purchase agreement (PPA) with Bay County, Florida?

Recommendation: Yes. Payments for energy are expected to produce net present value (NPV) savings of approximately \$250,000 over the term of the Contract. Also, the Contract is substantially similar to the contracts between Gulf and Bay County previously approved by the Commission. Therefore, staff recommends that the Commission approve Gulf's petition for approval of a negotiated renewable energy PPA with Bay County, Florida. Staff further recommends that Gulf should be permitted to petition for recovery of costs associated with the Contract through the Fuel and Purchased Power Recovery Clause. As part of the Contract, Gulf will receive any renewable attributes or RECs resulting from electrical energy generated at the Bay County facility during the Contract term, but any proceeds received from these items should be returned to the ratepayers. (Thompson)

Staff Analysis: The Bay County Resource Recovery Facility uses municipal solid waste (MSW) as its primary fuel. MSW is considered a renewable fuel and the facility is a renewable generating facility as defined by Rule 25-17.210, Florida Administrative Code (F.A.C.). Gulf has contracted to buy all of the energy from the facility at fixed prices for six years beginning on July 23, 2017. An interconnection agreement between Gulf and Bay County has been in place since 1987. Gulf maintains the interconnection between Gulf's system and the facility. Bay County pays Gulf for the cost of maintenance of the interconnection site. These costs, therefore, do not impact this analysis.

The Contract is substantially similar to two prior contracts between Gulf and Bay County, which were previously approved by the Commission. Changes since the last approved contract include a revision of the commencement date of the Contract, adding clarifying terminology, and deleting redundant language. For example, section two of the Contract clarifies the meaning of the terms "Approve" and "Approval" to reflect a Final Order from this Commission and deletes redundant language with the same meaning.

As required by Rule 25-17.0832(3), F.A.C., review of a negotiated contract requires staff to consider the following: the need for power, the cost-effectiveness of the contract, security provisions for payments, and performance guarantees. Each of these factors is evaluated below.

Need for Power

After serving internal loads, the facility will provide net generation of approximately 13.65 MW to Gulf. It should be noted that this capacity will not contribute to Gulf's reserve margin as it is a non-firm contract. However, Section 366.91, F.S., states that it is in the public interest to promote the development of renewable energy resources. Doing so helps diversify fuel types in order to reduce Florida's growing dependency on natural gas for electric production. Rule 25-17.001(5)(d), F.A.C., encourages electric utilities to:

. . . [a]ggressively integrate nontraditional sources of power generation including cogenerators with high thermal efficiency and small power producers using renewable fuels into the various utility service areas near utility load centers to the extent cost effective and reliable.

Staff recommends the characteristics of the energy associated with this Contract are desirable and encourage the use of renewable fuels in Florida.

Cost-Effectiveness

Gulf and Bay County have agreed upon an energy rate fixed at \$30.59 per megawatt hour (MWh) for the entire six year term of the Contract. No capacity payments are involved with the Contract, so the price paid is only for the actual energy provided by the facility. Staff compared the Contract’s rate with the cost of generating or purchasing the same amount of energy from an existing source, known as the as-available energy cost, provided by Gulf. As Table 1 below shows, the Contract rate makes purchasing energy from the facility more cost-effective overall than Gulf generating the same amount from existing resources. Although Gulf estimates a negative difference in 2017 and 2018, the total savings over the six year period of the Contract are predicted to result in a NPV sum of \$246,234.

**Table 1
 Avoided Cost vs PPA Cost**

| (A) | (B) Avoided Cost (\$/MWh) | (C) MWh | (D) Total Avoided Cost (B x C) | (E) PPA Revenue (C x \$30.59) | (F) Margin (D - E) |
|------|------------------------------------|------------|--|--|--------------------------|
| 2017 | \$28.73 | 35,000 | \$1,005,518 | \$1,070,650 | (\$65,132) |
| 2018 | \$28.27 | 60,000 | \$1,696,373 | \$1,835,400 | (\$139,027) |
| 2019 | \$30.75 | 60,000 | \$1,844,899 | \$1,835,400 | \$9,499 |
| 2020 | \$32.03 | 60,000 | \$1,921,820 | \$1,835,400 | \$86,420 |
| 2021 | \$33.35 | 60,000 | \$2,000,892 | \$1,835,400 | \$165,492 |
| 2022 | \$34.24 | 60,000 | \$2,054,527 | \$1,835,400 | \$219,127 |
| 2023 | \$36.26 | 25,000 | \$906,578 | \$764,750 | \$141,828 |
| | Total | 360,000 | \$11,430,606 | \$11,012,400 | \$418,206 |
| | NPV | 279,453 | \$8,794,691 | \$8,548,457 | \$246,234 |

Source: Gulf’s Response to Staff’s First Data Request³

The Contract requires that Bay County maximize its generation and that Gulf is the exclusive purchaser for all of the facility’s net generation. In addition to the energy provided by the facility, the Contract states that RECs associated with the electric energy produced from the facility will belong to Gulf, consistent with the prior contract. In response to Staff’s First Data Request, number 2, Gulf stated that it did not assign any monetary value to the RECs in its

³Document No. 07948-2017, filed September 28, 2017, in Docket No. 20170169-EI, p. 27.

economic evaluation of the PPA.⁴ Staff would note that, as part of the Contract, Gulf will receive any renewable attributes or RECs resulting from electrical energy generated at the Bay County facility during the Contract term and recommends that any proceeds received as a result of selling RECs should go to the benefit of the ratepayers.

Security for Payments

No capacity payments are associated with this Contract; provisions are only for Bay County's delivery of energy to Gulf. The security of this energy-only Contract is that payments from Gulf are directly proportional to the amount of energy provided. If no energy is provided, no payment is due.

Performance Guarantees

As noted above, the Contract states that Bay County must maximize its generation. Consistent with the prior contract, the Contract lists conditions which must be met to avoid default or termination, such as using good engineering and utility practices. Bay County is also obligated to maintain a specified reactive power flow, annually provide Gulf with a schedule of planned generation outages or reductions, and promptly notify Gulf of any forced or unplanned outages for longer than three days. If these obligations are not met, Gulf would notify Bay County of the default condition, which Bay County would be allowed 60 days to remedy. If not remedied after 60 days, Gulf may terminate the Contract without further liability to either party. Staff recommends the terms of the Contract are sufficient to protect Gulf's ratepayers if Bay County fails to deliver the net generation of energy from its facility.

Conclusion

Payments for energy are expected to produce NPV savings of approximately \$250,000 over the term of the Contract. Also, the Contract is substantially similar to the contracts between Gulf and Bay County previously approved by the Commission. Therefore, staff recommends that the Commission approve Gulf's petition for approval of a negotiated renewable energy PPA with Bay County, Florida. Staff further recommends that Gulf should be permitted to petition for recovery of costs associated with the Contract through the Fuel and Purchased Power Recovery Clause. As part of the Contract, Gulf will receive any renewable attributes or RECs resulting from electrical energy generated at the Bay County facility during the Contract term, but any proceeds received from these items should be returned to the ratepayers.

⁴Document No. 07948-2017, filed September 28, 2017, in Docket No. 20170169-EI, p. 4.

Issue 2: Should this docket be closed?

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

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 Order, a Consummating Order should be issued and the docket should be closed administratively.