

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Request for approval of contract with a  
qualifying facility for purchase of firm capacity  
and energy by Progress Energy Florida, Inc. || DOCKET NO. 050847-EQ  
ORDER NO. PSC-06-0105-PAA-EQ  
ISSUED: February 13, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
J. TERRY DEASON  
ISILIO ARRIAGA  
MATTHEW M. CARTER II  
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING CONTRACT FOR PURCHASE OF FIRM CAPACITY  
AND ENERGY FROM A QUALIFYING FACILITY

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.

On October 19, 2005, Progress Energy Florida, Inc. (PEF) notified the Commission by letter that a negotiated contract had been executed between PEF and G2 Energy FL, LLC (G2) for purchase of 12.8 megawatts (MW) of firm capacity and energy. The contract includes a provision for generation up to 110% of this amount, or 14 MW. The contract is based on planned construction by G2 of one or more small power generators, which will together operate as a Qualifying Facility (QF) pursuant to regulations of the Federal Energy Regulatory Commission. The QF will use landfill gas as its primary fuel and have a maximum generating capability of approximately 14 MW. The capacity payments under the contract are based on an avoided unit comparable to PEF's Hines Unit 5, a nominal 528 MW combined cycle unit with an estimated in-service date of December 2009.

On October 25, 2005, in compliance with the requirements of Rule 25-17.0832(1)(b), Florida Administrative Code, PEF filed a copy of the G2 contract, along with a summary of the terms and conditions which are associated with the contract. On November 4, 2005, PEF filed a petition requesting approval of the contract for cost recovery purposes. As set forth below, we hereby grant PEF's petition and approve the contract for cost recovery purposes.

DOCUMENT NUMBER-DATE

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The contract results from joint efforts by PEF and G2 to utilize available landfill gas for electric generation. An initial installation of a 3.2 MW generator is planned for the Bee Ridge Landfill in Sarasota County. Similar installations up to an additional 11 MW, at sites acceptable to PEF, are included under the contract terms. G2 is negotiating with owner/operators at multiple landfill sites for rights to install the generators under the terms of the contract. The contract is limited to generators that are operational and meet commercial in-service requirements by a deadline set at January 1, 2008. Under the contract, G2 has the right to extend that deadline on a day-for-day basis if final Commission approval of the contract does not occur within 120 days of the date PEF's petition was filed.

The contract necessarily provides flexibility as to the number and location of the generation sites, since the negotiations between G2 and individual landfill owner/operators are ongoing. Additional flexibility is provided to allow for the predictable decline in the quality or flow of landfill gas; that is, the committed capacity will be adjusted over the contract period if sufficient gas flow is not available to support full scale operations. As described in the filing, anticipated annual energy production may exceed 98,000 megawatt-hours (MWh) from the combined facilities beginning January 1, 2008, and continuing through December 2022, subject to the limitations of fuel availability.

The committed capacity will be determined by demonstrating that the facilities have achieved commercial in-service status and will be based on actual performance of the generators operating under the terms of the contract. G2 has committed to start-up testing by October 31, 2007, and all testing must be complete by the deadline set at January 1, 2008. In contrast, the traditional purchase of capacity and energy from a qualifying facility is based on a known generating capacity, and the traditional payment for avoided capacity sets a monthly payment amount per kW. The terms of this contract include an innovative method for calculating payments for avoided capacity, based on the committed capacity which can be demonstrated.

In this contract, the capacity payment depends on the QF's performance in each individual month. The calculation of the payment for avoided capacity uses a rate set in terms of the amount paid per MWh produced. PEF has derived the annual capacity payment rate, based on its Hines Unit 5, to achieve a breakeven point with the traditional capacity payment at approximately 90% of committed capacity. If the capacity factor drops below 50%, there is no capacity payment. The payments for monthly performance between a 50% and 90% capacity factor are prorated. Above a 90% capacity factor, capacity payments to G2 are increased.

The energy rate payable to G2 has been fixed at \$37.75/MWh for the term of the contract. The current forecasted energy price for Hines Unit 5 is \$56.70/MWh for year 2008, which equates to a \$7.76/mmBtu cost for natural gas. The cost for gas delivered to the existing Hines units in November 2005 was reported to be \$8.946/mmBtu. If today's price of gas were to continue into the future, the savings to PEF's ratepayers would be greater than the savings projected by PEF, as set forth below. Thus, it appears that the contract energy rate will produce savings when compared to fossil energy.

Based on expected annual energy production by the QF of 98,112 MWh, with 44,968 MWh on-peak and 53,144 MWh off-peak, PEF projects savings of \$13,370,000 present worth,

compared to the cost of capacity and energy from the avoided unit. A lesser amount of energy production under the contract would produce savings corresponding in scale. For each MWh of electric energy produced, PEF's ratepayers will benefit from both lower cost electricity and the use of a renewable energy source.

Based on the foregoing, we approve PEF's contract with G2 for the purchase of firm capacity and energy, with the contract to become effective on the date this Order becomes final. We find that the contract is consistent with the provisions and intent of the Florida Energy Efficiency and Conservation Act and Rule 25-17.001(2), Florida Administrative Code, to conserve expensive energy resources. To whatever degree the endeavor is successful and generates electric energy, there will be conservation of the limited supply of expensive fossil fuel as well as integration of a renewable energy resource. Because there is no financial risk to PEF's ratepayers if a portion of the current planned renewable generation cannot be implemented within the terms of this contract, there will not be a negative impact to those ratepayers.

In accordance with Rule 25-17.0832(8), Florida Administrative Code, the costs to PEF that result from payments made to G2 under the terms of this contract are appropriate for recovery through the Commission's ongoing proceedings to review purchased power costs.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Progress Energy Florida's petition for approval of a negotiated contract for the purchase of firm capacity and energy from G2 Energy FL, LLC, a qualifying facility, is granted, and the contract shall become effective on the date this Order becomes final. It is further

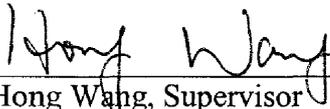
ORDERED that the costs to Progress Energy Florida that result from payments made to G2 Energy FL, LLC, under the terms of the contract approved herein are appropriate for recovery through this Commission's ongoing proceedings to review purchased power costs. It is further

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 Director, Division of the Commission Clerk and Administrative Services, 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 13th day of February, 2006.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By:   
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Hong Wang, Supervisor  
Case Management Review Section

( 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 Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 6, 2006.

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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.