State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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DATE: July 5, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Engineering (Ma, Watts)
Division of Economics (Garl)
Office of the General Counsel (Robinson)

RE: Docket No. 120058-EQ – Petition for approval of a negotiated renewable energy power purchase contract for power purchased with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company.

AGENDA: 07/17/12 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Balbis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ENG\WP\120058.RCM.DOC

Case Background

On March 21, 2012, Florida Public Utilities Company (FPUC) filed a Petition requesting approval of a Negotiated Contract for the purchase of firm capacity and energy between Rayonier Performance Fibers, LLC, (Rayonier) and FPUC. The Negotiated Contract has an execution date of March 14, 2012, and is based on Rayonier constructing, owning, and operating a biomass electric generating facility (the Facility) in Fernandina Beach, Florida, with an expected in-service date no later than September 30, 2012. Rayonier proposes to sell 1.7 Megawatts (MW) of firm capacity and associated energy from the Facility to FPUC for a term of 10 years.

Rayonier currently owns and operates mills in Jesup, Georgia, and Fernandina Beach, Florida, that produce high-purity cellulose products from wood chips. The steam created by this process is utilized by Rayonier's existing steam turbines to partially mitigate their electric demand. Rayonier proposes to replace the Fernandina Beach Facility's No. 3 Steam Turbine Generator with a more efficient 21 MW steam turbine. This would result in full mitigation of the energy demand from Rayonier's mill production, as well as an excess of energy that would be sold to FPUC at the negotiated firm energy price. Rayonier will operate as a Qualifying Facility as defined by the Federal Energy Regulatory Commission rules 18 C. F. R. § 292.101 – 292.207 (1980) and Rule 25-17.080, Florida Administrative Code (F.A.C.).

This recommendation addresses FPUC's petition for approval of the Negotiated Contract with Rayonier. The Commission has jurisdiction over this matter pursuant to Sections 366.051, 366.91, and 366.92, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve the Petition submitted by FPUC that would allow cost recovery of a Negotiated Contract with the qualifying facility, Rayonier Performance Fibers, LLC?

Recommendation: Yes. The Negotiated Contract between FPUC and Rayonier provides FPUC with a viable source of electric capacity and energy that meets all requirements and rules governing renewable energy producers. Payments for energy and capacity are expected to produce overall savings of $1.27 million over the term of the contract. (Ma, Garl)

Staff Analysis: Rayonier proposes to sell 1.7 MW of firm capacity and energy from the Facility to FPUC for a 10-year term from the in-service date of not later than September 30, 2012. Rule 25-17.0832(3), F.A.C., states that in reviewing a negotiated firm capacity and energy contract for the purpose of cost recovery, the Commission shall consider factors relating to the contract that would affect the utility's general body of retail and wholesale customers, including: need for power, cost-effectiveness of the contract, security provisions for early capacity payments, and performance guarantees associated with the generating facility. Each of these factors is evaluated below.

A. Need for Power

FPUC's need for power is driven by the demand of its service territory. Because FPUC does not own or operate any electric generating plants, it must purchase energy from other electric utilities to provide electric service. The Negotiated Contract is proposed to provide firm energy from 2012 through 2022. Purchases from the Negotiated Contract will displace a portion of the need to purchase energy from JEA, and staff's analyses show the overall payments to the Negotiated Contract will result in cost savings discussed below. Additionally, it has been the Commission's policy to approve cost-effective contracts that use renewable resources as the primary fuel. Rule 25-17.001(5)(d), F.A.C., encourages electric utilities to: "Aggressively 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."

Therefore, staff believes the proposed Negotiated Contract will enhance FPUC's system reliability, encourage the use of renewable fuels in Florida, and promote fuel diversity for FPUC's ratepayers.

B. Cost-Effectiveness

FPUC's renewable tariff is based upon avoiding planned purchases from JEA in the Northeast Division or Gulf Power in the Northwest Division. Because Rayonier operates within the Northeast Division of FPUC's Territory, FPUC compared the payments of the Negotiated Contract against the payments under the 2011 Northeast Standard Offer Renewable Tariff. The Negotiated Contract payments were estimated to provide a Net Present Value (NPV) overall savings of $1.27 million. Because the proposed payments to Rayonier depend on the rate at which Rayonier can provide energy and capacity, staff believes that these will savings begin to accumulate from the start of the in-service date and produce savings each year for the life of the Facility.

Traditionally, payments to Qualifying Facilities have been divided into two parts, capacity and energy, and are based on the cost of capacity and energy from the designated avoided payments to the standard renewable tariff. The capacity portion ($/kilowatt-month) is based on a specific rate and payment stream (levelized, normal, early, or early levelized). The energy portion ($/MWh) is based on the current forecasted energy price set by FPUC's Renewable Tariff. FPUC and Rayonier have negotiated firm energy payments that have been shown to be lower than standard offer renewable payments.

Staff would like to make note of some initial questions in the review of the Negotiated Contract. Staff disagrees with FPUC's initial cost effectiveness analysis of the Negotiated Contract in regards to the proposed facility transmission replacements. According to the terms of the Negotiated Contract, the proposed facility would require the relocation and replacement of existing transmission lines in 2014. In FPUC's response to staff's Interrogatory No. 18, FPUC stated that:

> The costs related to the relocation of the transmission line and removal and disposition to the existing transmission line and equipment are not fuel related costs . . . . The Company believes that these are rate base costs and should be recovered through base rates from those customers that receive the benefits of such facilities. As such, these costs were not included in the cost analysis made in Attachment B, nor should they be reflected therein.

Therefore, FPUC's initial cost analysis in Attachment B of the Negotiated Contract did not include the cost of the relocation and replacement of existing transmission lines, and resulted in total NPV savings of $1.9 million. Staff believes that in order to properly measure the true cost effectiveness of the Negotiated Contract, these costs must be included in the overall analysis, regardless of the method of cost recovery. At staff's request, FPUC recalculated the cost effectiveness analysis to include the cost of transmission relocation and replacement, which reduced the overall NPV savings to $1.27 million.

Additionally, staff does not believe that the peak hours specified in the contract determining on-peak or off-peak payments, particularly during the winter season, are appropriate. The Negotiated Contract defined a weekday winter on-peak period from 5:00 AM to 7:00 PM, a weekday summer on-peak period from 11:00 AM to 9:00 PM, a weekday November on-peak period from 8:00 AM to 11:00 PM, and all other hours as off-peak hours. FPUC stated that these peak designations are supported by "visual inspection" of the actual monthly peak periods. At staff's request, the Company provided historical data of FPUC's system demand for analysis. Staff believes that FPUC's designation of peak periods are extended beyond what has been historically recorded as seasonal peak loads. Additionally, several hours specified as winter peak periods by FPUC were actually recorded as the lowest point of seasonal system load. Basing the Negotiated Contract on shorter and more appropriate peak times would generally increase its cost effectiveness when compared to the Standard Offer Renewable Tariff, but would also reduce the performance and reliability requirements on the facility.

Although staff does not believe the peak hours specified are appropriate, ratepayers will continue to receive the $1.27 million in savings when compared to standard renewable energy tariff payments. FPUC's classification of peak period payments to Rayonier would not deter these overall savings.

C. Completion/Performance Security

Section 4 of the Negotiated Contract contains certain condition precedents in order for the contract to be fulfilled. For example, Rayonier must complete all installations necessary for the transportation of the facility's fuel, complete all changes to interconnection facilities necessary to deliver Generation Services to the Delivery Point, obtain all necessary permits, and demonstrate the facility is capable of maintaining performance levels and producing 1.7 MW of committed capacity.

When the proposed Rayonier facility is operational, the expected annual energy produced will be 16,980 MWh. Rayonier will be required to maintain a monthly performance Service Guarantee of an on-peak and off-peak capacity factor (confidential) specified by the Negotiated Contract. Failure to maintain the agreed capacity factor would result in reducing the overall monthly payments. Because no early capacity payments are being made throughout the life of the contract, and monthly pricing is measured in rate of energy delivered, additional performance security for early payments are not necessary.

Staff recommends that the provisions contained in the contract are sufficient to protect FPUC's ratepayers if Rayonier fails to deliver capacity and energy as specified by the Negotiated Contract or in the event Rayonier defaults on its obligations.

Conclusion

The Negotiated Contract between FPUC and Rayonier provides FPUC with a viable source of electric capacity and energy that meets all requirements and rules governing renewable energy producers. The contract is shown to be cost-effective under the 2011 Standard Offer Renewable Tariff avoided planned purchases and beneficial to FPUC ratepayers overall. If the planned renewable generator fails to meet its obligations under the terms of this contract, the performance requirement provisions effectively mitigate any risk to the ratepayers. Additional security measures to mitigate risk to the ratepayer from early capacity payments are not necessary because no early capacity payments are being made. Considering these facts, staff recommends that the contract should be approved.

Issue 2: Should this docket be closed?

Recommendation: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Robinson)

Staff Analysis: This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.