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GULF POWER
A SOUTHERN COMPANY

April 3, 2009

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COMMISSION
CLERK

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

Dear Ms. Cole:

RE: Undocketed

Enclosed are an original and fifteen copies of Gulf Power Company's Petition for Approval of Purchased Power Contract.

Sincerely,

Susan D Ritenour (lw)

mv

Enclosures

Cc: Beggs & Lane
Jeffrey A. Stone

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OPC 1
RCP 1
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SGA 1
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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Purchased Power Agreement between Gulf Power Company and Shell Energy North America (US), L.P., dated March 16, 2009 /	**Docket No.** **Filed: April 3, 2009**

PETITION FOR APPROVAL OF PURCHASED POWER CONTRACT

Pursuant to Sections 366.04, 366.041 and 366.076, Florida Statutes, and Rules 25-22.028, 25-22.029, 28-106.301 and 28-106.201, Florida Administrative Code (hereinafter "F.A.C."), Gulf Power Company ("Gulf") respectfully petitions the Florida Public Service Commission ("Commission") for approval through the Commission's Proposed Agency Action ("PAA") process of (a) the Power Purchase Agreement Between Gulf Power Company and Shell Energy North America (US), L.P. (Shell), dated March 16, 2009 (the "Agreement"), and (b) the recovery of costs to be incurred under the Agreement and associated transmission delivery costs through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses. In support of this Petition, Gulf states:

I
PRELIMINARY INFORMATION

1. The affected agency is the Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

2. The Petitioner's name, address and telephone number are:

Gulf Power Company
One Energy Place
Pensacola, Florida 32520-0780
(850) 444-6231

3. The names, addresses and telephone numbers of Gulf's representatives to receive

communications regarding this proceeding are:

Susan D. Ritenour Secretary and Treasurer and Regulatory Manager Gulf Power Company One Energy Place Pensacola, Florida 32520-0780 (850) 444-6231 (850) 444-6026(facsimile)	Jeffery A. Stone, Esq. Russell A. Badders, Esq. Steven R. Griffin, Esq. Beggs & Lane P.O. Box 12950 Pensacola, Florida 32591-2950 (850) 432-2451 (850) 469-3331(facsimile)

4. This petition is not a petition addressing an agency decision which has already been made. Therefore, Gulf cannot state how it received notice of an agency action, facts that warrant reversal of an agency proposed action, or rules or statutes that require reversal or modification of an agency's proposed action. This is a petition seeking a proposed agency action, and the facts, rules and statutes that warrant such proposed action are set forth herein.

5. Gulf knows of no material facts in dispute regarding the relief requested herein. Gulf has contacted both Staff of the Commission ("Staff") and the Office of Public Counsel ("OPC") and, to date, no disputed issues of material fact have been identified, although both Staff and OPC have reserved the right to raise such issues.

II
GULF'S SUBSTANTIAL INTERESTS

6. Gulf is a public utility providing retail electric service to approximately 428,000 customers in eight counties in the panhandle of the State of Florida. As a public utility within the meaning of Chapter 366.02, Florida Statutes, Gulf is subject to extensive regulation by the Commission.

7. As a public utility under Chapter 366, Florida Statutes, Gulf has a duty to serve its retail customers. That duty to serve includes the obligation to provide reliable retail electric service at just and reasonable rates.

8. The Commission has been given statutory authority to oversee Gulf's provision of retail electric service. That authority includes oversight of both service reliability and the rates charged for service.

9. In this proceeding Gulf seeks approval of a purchased power agreement for 885 MW of capacity and associated energy. The agreement is for the period beginning June 1, 2009[1] and continuing until May 24, 2023. Gulf asks the Commission to approve the Agreement and to authorize recovery of the costs pursuant to said agreement and associated transmission delivery costs through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses.

10. Gulf has a substantial interest in having sufficient resources to meet its reliability criterion and provide reliable electric service to its retail customers. Approval of the Agreement will allow Gulf to utilize the resource made available through the agreement to meet its reliability criterion in 2014[2] and to continue to provide reliable retail electric service from 2014 through May 24, 2023. Gulf has a substantial interest in these resources being available to assist Gulf in meeting its reliability criterion in 2014 through May 24, 2023 and in providing Gulf with flexibility to meet its growing capacity needs beyond May 24, 2023 with the best technologies and options then available. Gulf also has a substantial interest in recovering the costs of providing reliable, cost-effective service to its customers, including the costs to be incurred in connection with this contract. Gulf's economic evaluation, summarized in Attachment A to this petition, shows this contract to be cost-effective to Gulf's customers. Consideration of the

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[1] The Agreement requires approval by the Commission before it becomes effective; thus, the actual beginning date is dependent on when a final order is obtained from the FPSC.

[2] For the years 2009 through 2013, Gulf will meet its capacity resource needs utilizing temporary surpluses of capacity available on the Southern Electric System. Paragraph 13 provides further discussion about Gulf's capacity resource needs.

contract years[3] 2014 through 2022 indicates a savings to Gulf's customers of approximately $587 million NPV (2014). Gulf's payment obligations pursuant to the agreement are structured such that the cost impact in contract years 2009 through 2013 is minimized with a very low capacity payment that will likely be mitigated entirely through energy savings over the same time frame. As shown in Attachment B to this petition, Gulf estimates that the net benefits of the PPA during the period 2010 through May 31, 2014, will be approximately $40 million NPV (2010).[4] Accordingly, approval of this contract, which is necessary to provide reliable electric service, and of the costs to be incurred in connection therewith would be a determination of Gulf's substantial interests.

III
RELIEF REQUESTED

11. Gulf seeks Commission findings approving the Agreement and the costs to be incurred under the Agreement along with the associated transmission delivery costs for recovery through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses.

12. The Agreement has a provision, Article 20, requiring approval by the Commission subsequent to the execution of the Agreement as a condition to its becoming effective. Thus, for the contract to become effective, the Commission must issue an order approving the contract and approving the recovery through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses of costs to be incurred by Gulf under the contract along with the associated transmission delivery costs. Gulf recognizes the

[3] Contract years begin June 1 of each year and run through May 31 of the following year. For example, contract year 2010 begins June 1, 2010 and ends May 31, 2011.

[4] The portion of contract year 2009 beginning in 2009 and continuing through January 1, 2010 has been conservatively excluded from Gulf's analysis because of the uncertainty associated with the exact beginning date of contract year 2009. Additional energy benefits would be realized in June 2009 through August 2009 over and above the costs for the 2009 contract year depending on the timing of approval of the agreement.

Commission's continuing jurisdiction to review cost recovery under this contract and is not asking the Commission to approve without further review the prudence and reasonableness of all costs to be incurred under this contract. Gulf is merely asking that the Commission find that the reasonable and prudent costs to be incurred under this agreement along with the associated transmission delivery costs would be appropriately recovered through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses.

IV
GULF'S NEED FOR ADDITIONAL RESOURCES

13. The resource planning process utilized by Gulf to determine its future capacity needs is coordinated within the Southern electric system ("SES") Integrated Resource Planning ("IRP") process. Gulf participates in this coordinated IRP process along with other Southern electric system retail regulated operating companies, and receives a number of benefits from being part of a larger system plan. First and foremost, the operating companies recognize that, in any given year, one or more of them may have a temporary surplus or deficit of capacity as a result of coordinated planning or by virtue of load uncertainty, unit availability, and other such circumstances. Since Gulf comprises only about 6.7% of the total SES summer peak demand, its generation capacity needs are relatively small compared to the aggregate system. Gulf has therefore been able to defer incremental capacity additions otherwise needed to meet its demand and reserve requirements in recognition of temporary surpluses of capacity available on the SES. The ability to coordinate incremental capacity additions has also enabled Gulf to give consideration to (a) larger blocks of need that might justify less costly alternatives, (b) emerging technologies that might not have been available earlier, and (c) emerging environmental requirements that might affect unit addition choices. Another important benefit to Gulf is that it

shares in the knowledge and experience gained from planning a large system such as the SES, but without the attendant cost of maintaining a large planning staff of its own.

14. The capacity resource needs identified in the SES IRP are driven by the demand forecast that includes projected demand-side measures offered by the retail regulated operating companies. The 2008 SES IRP process reported in Gulf's 2009 Ten Year Site Plan ("TYSP") employed a 15.0% system reserve margin target for the year 2014 and beyond.[5] After considering the favorable effects of system load diversity, each of the retail operating companies then determined the resources that would best meet its capacity and reliability needs.

15. Gulf's most recent IRP indicates Gulf will need to add generation resources of approximately 976 MW by 2014. For the 2009 TYSP cycle, Gulf's resource needs from the SES IRP were as follows:

YEAR	MW
2009	51
2010	(51)
2011	(147)
2012	(339)
2013	(410)
2014	(976)

The primary drivers of Gulf's need to add generation resources in 2014 are the expiration of two purchase power agreements totaling 488 MW, along with projected load growth. Gulf's 2009 TYSP indicates that Gulf's 2014 generation resource need will be 976 MW, which is a 47 MW increase over the resource need incorporated in Gulf's 2008 TYSP cycle for 2014.

V

[5] This reserve margin target is the optimum economic point where the system can meet its energy and demand requirements after accounting for load forecast error, abnormal weather conditions, and unit-forced outage conditions. It also balances the cost of adding additional generation with the cost of reliability and emergency purchases and the societal cost of not serving all the energy requirements of the customer.

GULF'S DECISION TO PURSUE NEGOTIATED CONTRACT

16. In early 2008, confronted with a need for additional generation resources beginning in 2014, Gulf undertook the preparation of a Request for Proposals ("RFP") to determine the most cost-effective resource(s) to meet its projected need beginning in 2014. These preparations included the development of the Gulf self-build option using a combined-cycle unit at Gulf's Plant Crist as the avoided unit, the drafting of a pro-forma contract, and the retention of an independent monitor. In September 2008, just prior to issuing the RFP, Gulf Power became aware of Shell's desire to negotiate a purchase power agreement with Gulf Power for the output of a generation resource located in central Alabama. Initial review by Gulf indicated that a purchase power agreement for the Shell resource might be an extraordinary opportunity for Gulf's customers. In order to pursue this option for its customers, Gulf postponed the issuance of its RFP and began exploring the possibility of a purchase power agreement with Shell.[6] Negotiations between Gulf and Shell continued for nearly six months and culminated in the signing of the Agreement on March 16, 2009.

17. The Agreement represents a unique opportunity for Gulf's customers that would not likely be available through an RFP solicitation. Shell's desire to maintain, to the extent possible, the same contractual terms as they had in the existing Shell-Tenaska contract coupled with desire to have the Agreement begin in 2009 in order to match the entire remaining term of the Shell-Tenaska contract would not have matched Gulf's proposed RFP term and may have resulted in Shell bidding a higher price for their capacity for 2014 and beyond or not participating in Gulf's RFP solicitation at all. Further, Gulf would not have accepted as a

[6] The Commission's solicitation rule is not applicable to mid-term purchases such as the Agreement, where the utility is not contemplating a facility that would require a determination of need. Further, investor-owned public utilities have routinely entered into short and mid-term purchased power arrangements without conducting RFPs under the capacity solicitation rule.

response to its RFP a generation resource proposal that required capacity payments prior to 2014 unless that proposal had favorable pricing or other offsetting benefits for its customers. In this negotiated PPA, Shell's willingness to accept a tiered capacity payment allowed Gulf to maximize the benefits of the agreement to its customers throughout the term of the Agreement. The agreed-to capacity payment stream minimizes the impact to Gulf's customers of having capacity payments beginning in 2009 instead of in 2014, and likely will result in net benefits to Gulf's customers over contract years 2009-2013.

18. Gulf's evaluation indicates that the Agreement represents a substantial value for Gulf's customers when compared to a Gulf self-build resource. A summary of the economic evaluation of the Agreement is shown on Attachment A. This analysis shows a net present value (NPV) cost-benefit analysis for the Agreement versus the self-build resource in 2014 dollars. Attachment A shows that the Agreement would result in $587 million NPV cost savings to customers over contract years 2014 to 2022, or an equivalent levelized annual savings of $93 million per year. Also, Attachment A shows that—assuming the Gulf self-build resource is deferred and placed in service at an escalated cost in 2023—the life cycle benefit to customers is $250 million. The life cycle benefit is calculated by assuming that the Shell PPA will allow the self-build resource to be delayed and placed in service when the Shell PPA terminates in 2023. Customer savings that were realized during the nine year contract term will be partially offset by the increased cost of the self-build resource due to escalation of material and labor costs during the nine year deferral period.

VI
THE GULF/SHELL CONTRACT

19. On March 16, 2009, Gulf Power and Shell signed the purchase power agreement referred to herein as the Agreement. As noted previously, the Agreement was negotiated over

the period of September 2008 through March 2009. Along with this Petition, Gulf has filed the Agreement separately but contemporaneously with a request for confidential classification so that the confidential portion of the Agreement will be protected from public disclosure. The Agreement outlines the terms of Gulf's purchase of capacity, energy and Ancillary Services from an 885 MW Combined Cycle unit (CC) that comprises the electric generating plant known as Tenaska Central Alabama. The generating facility is owned by Tenaska Alabama Partners II, L.P. ("Tenaska").[7] Tenaska Central Alabama is located near Montgomery, Alabama about 200 miles northeast of Pensacola. The delivery of power to Gulf under the Agreement is for fourteen years, from June 1, 2009[8] through May 24, 2023.

20. Pursuant to the terms of the Agreement, Gulf will purchase the capacity and energy output of the Tenaska Central Alabama plant. The Agreement has tiered capacity payments beginning in 2009 with an increase to that capacity payment taking place in 2014. The level of capacity payment was structured to be lower in the early years when the capacity was not needed by Gulf to meet its minimum reserve margin target and to be higher in contract years 2014 to 2022 when capacity is needed by Gulf's customers, while still providing a substantial cost savings for Gulf's customers. The capacity payment stream was developed to more closely align the pattern of capacity costs to the pattern of benefits expected to be received by customers over the contract term. The potential economic benefit from receiving energy in the contract years 2009 to 2013 is projected to cover or possibly exceed the capacity payments and other charges under the Agreement for that same period.

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[7] Shell has the rights to the capacity and energy output from the Tenaska Central Alabama plant through a 20-year contract with Tenaska which was signed in 2000. Shell's rights to the output began when the plant went into commercial operation in 2003 and expire in 2023.

[8] The Agreement requires approval by the Commission before it becomes effective; thus, the actual beginning date is dependent on when a final order is obtained from the FPSC.

21. Gulf's economic evaluation concluded that the Agreement was the most cost-effective means of meeting Gulf's forecasted capacity need in 2014. As is shown on Attachment A, this PPA is the lowest cost option as compared to Gulf's self-build CC alternative. Gulf has calculated the monthly 1,000 kWh Residential customer bill impact resulting from the Agreement for both 2010 and 2014 to account for the tiered capacity payments under the Agreement. In 2010, the estimated impact of the capacity-related costs would be an increase of $1.65. Based on Gulf's fuel forecast, this increase is projected to be offset by fuel cost savings. The estimated annual impact of the Shell PPA for contract year 2014 would be an increase of $7.76 per month. This compares to the estimated bill increase of $17.16 per month attributable to Gulf's self build resource. The difference of $9.40 represents the monthly savings that the Agreement provides over the Gulf self build resource.

22. Gulf's economic evaluation, which is summarized on Attachment A, showed this contract to be more cost-effective than a comparable Gulf self-build CC alternative. The projected cost savings to Gulf's customers during the term of the Agreement is at least $587 million NPV (2014). This cost savings is calculated using projected annual costs of capacity, operations and maintenance expenses, fuel costs, and transmission costs. Also, Attachment A shows that—assuming the Gulf self-build resource is deferred and placed in service at an escalated cost in 2023—the life cycle benefit to customers is $250 million NPV (2014).

23. The Agreement is structured to serve Gulf's customer interests by not only securing a low cost resource, but also including terms that protect Gulf customers. A condition of Shell entering into bilateral negotiations with Gulf was that in return for favorable price terms, Gulf would accept to the extent possible, the non-price terms and conditions of the existing energy conversion agreement between Shell and Tenaska. Gulf was able to accept many of those

terms and conditions, but Gulf also negotiated additional protections for Gulf's customers. To that end, the PPA includes protections that among other provisions, require payments from the seller for failing to achieve certain performance requirements, require the posting of certain performance security, require annual performance testing to assure contracted performance, provide Gulf the right to terminate under certain conditions, provide for a favorable change in law provision and provides for buyer's right to seek damages.

24. The resource secured through this Agreement provides fuel-related benefits to Gulf's customers. This resource provides diversity in Gulf's generation fuel mix. Without the inclusion of the resource covered by the Agreement, Gulf's fuel mix would be 64% coal and 35% natural gas. The inclusion of this PPA capacity will result in a 50% coal and 49% natural gas fuel mix. Another fuel-related benefit of this agreement is that the Tenaska Central Alabama plant can burn fuel oil in addition to natural gas. This alternate fuel capability provides additional reliability should there be an interruption or curtailment on the natural gas pipeline as a result of a natural disaster or mechanical failure. Finally, the Tenaska Central Alabama plant is served by two separate pipelines which provide a backup fuel source as well as potential competition that could result in lower fuel costs for Gulf's customers.

25. The Agreement is the result of an arm's length, good faith contract negotiation. Gulf respectfully submits that the Agreement should be approved. In addition, Gulf's recovery of costs to be incurred pursuant to the Agreement and the associated transmission costs necessary to deliver the power to Gulf should be approved for recovery through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses.

VII
ASSOCIATED TRANSMISSION COSTS

26. The Tenaska Central Alabama plant is located in the State of Alabama and is connected to the Southern Company Transmission System through transmission facilities owned by Alabama Power Company.

27. Gulf will need firm transmission service for the Tenaska Central Alabama plant no later than June 1, 2014[9]. A transmission planning study has identified the transmission improvements expected to be necessary to ensure firm transmission service for the deliveries under the Agreement throughout its term. Those improvements include 115kV and 230kV line construction, upgrades and reconductors, as well as new 500kV/230kV autotransformers in APC transmission substation facilities.

28. Alabama Power Company, Gulf, Georgia Power Company and Mississippi Power Company (the retail regulated operating companies) utilize a Federal Energy Regulatory Commission approved Transmission Facility Cost-Allocation Tariff[10] that provides for payments between the operating companies for incremental transmission costs associated with one operating company locating or purchasing resources within the service area of another operating company. Through these payments, a retail operating company appropriately bears incremental transmission costs attributable to such a resource procurement decision made on behalf of its customers

29. For purposes of the final economic evaluation of the Agreement, Gulf assumed that (1) all of the identified transmission upgrades will take place and (2) that the NPV of the sum of Gulf's annual revenue requirement obligations for the identified transmission upgrades is

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[9] Obtaining firm transmission prior to June 1, 2014 would allow Gulf to operate the generation resource in a manner that would achieve greater energy benefits for Gulf's customers.
[10] See Southern Company Services, Inc., 122 FERC ¶ 61,204 (May 27, 2008) (order approving Southern Companies' Transmission Facilities Cost Allocation Tariff, FERC Electric Tariff, Original Volume No. 13).

estimated to be approximately $69 million NPV (2014). This estimated cost is based on the best available information at the time the transmission planning study was completed. Gulf's payment obligation will be based on the actual installed cost of the identified transmission facilities. Gulf would have incurred even higher transmission costs for the self-build resource, and these avoided costs are included in the economic evaluation summarized in Attachment A.

VIII
STATEMENT OF ULTIMATE FACTS

30. The Agreement is needed by Gulf both for reliability and to achieve a reasonable cost of providing electric service. Gulf needs generating capacity from June 2014 through May 2023 to meet its reserve margin criterion responsibility, and the Agreement is Gulf's lowest cost alternative to meet that need. To become effective, the Agreement requires Commission approval. Therefore, the Commission should (a) approve the Agreement, and (b) authorize recovery through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses of the costs to be incurred under the Agreement as well as the transmission delivery costs to be incurred by Gulf.

IX
PRAYER FOR RELIEF

WHEREFORE, based upon the foregoing as well as the Attachments to this Petition and the contemporaneously filed copy of the Shell Purchase Power Agreement, Gulf respectfully requests that the Commission approve through its PAA process: (a) the Agreement, (b) the recovery of the costs incurred under the Agreement and the associated transmission delivery costs through Gulf's Purchased Power Capacity and Fuel and Purchased Power Cost Recovery Clauses.

Respectfully Submitted,

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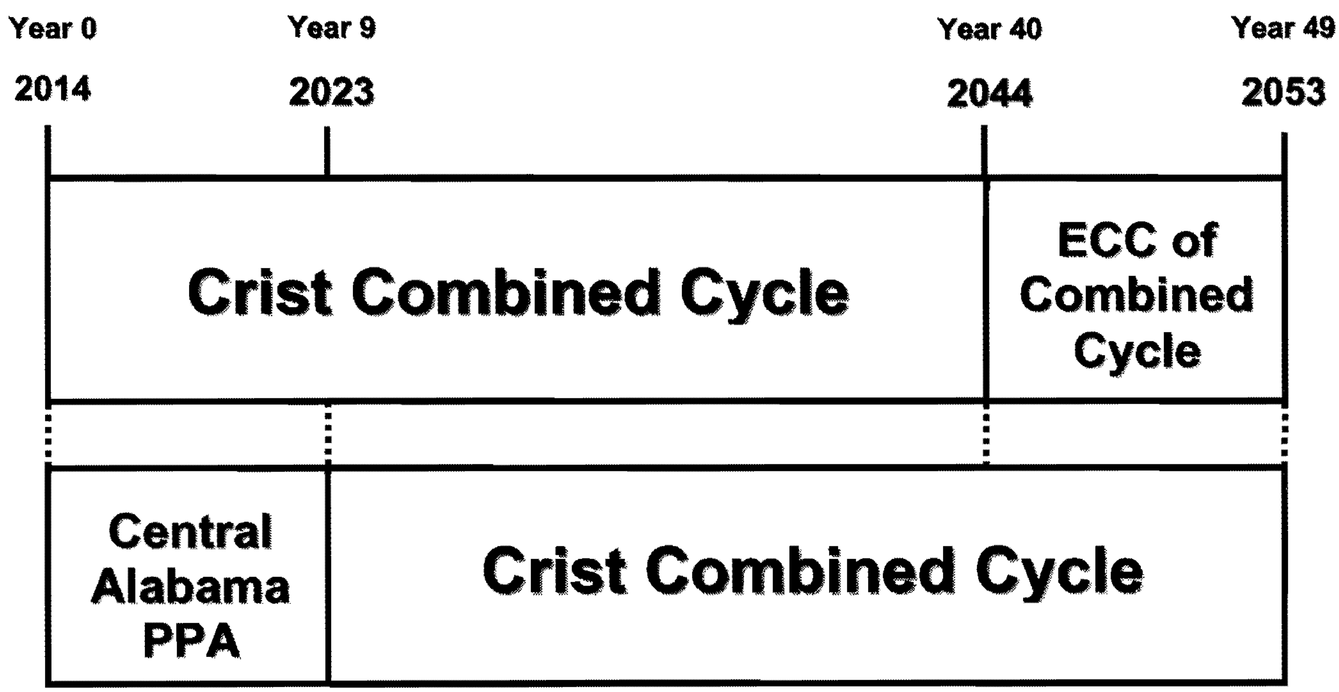
Attorneys for Gulf Power Company

By: ______________________
Russell A. Badders
Fla. Bar No. 0007455

ATTACHMENT A

Central Alabama PPA Savings vs. Crist Combined Cycle

A. Economic Analysis Study Methodology



Notes:

- Assumes 9 Year Deferral of Crist Combined Cycle.
- Economic Carrying Cost (ECC) of replacement Combined Cycle to equalize study periods.
- Crist Combined Cycle scaled to 885 MW to equalize capacity.

ATTACHMENT A

Central Alabama PPA Savings vs. Crist Combined Cycle

B. Central Alabama Benefits During Contract Term (mid 2014-2022)
(Net Present Value, Millions of 2014 Dollars)

	Total Generation Cost *	Firm Gas	Energy Savings	Transmission	Equity Cost	Net Cost
Crist Combined Cycle	1,118	190	(533)	137	--	912
Central Alabama/ Crist Combined Cycle	554	117	(450)	69	35	325
					Central Alabama PPA Savings	587

* Total Generation Cost includes capacity, O&M, and associated miscellaneous expenses

C. Central Alabama Benefits: Life Cycle Analysis (mid 2014-2053)
(Net Present Value, Millions of 2014 Dollars)

	Total Generation Cost *	Firm Gas	Energy Savings	Transmission	Equity Cost	Net Cost
Crist Combined Cycle	1,966	391	(1,086)	218	--	1,489
Central Alabama/ Crist Combined Cycle	1,692	315	(1,002)	199	35	1,239
					Central Alabama PPA Savings	250

* Total Generation Cost includes capacity, O&M, and associated miscellaneous expenses

ATTACHMENT B

Central Alabama PPA Short Term Savings

Central Alabama Benefits During Contract Term (2010-mid 2014)
(Net Present Value, Millions of 2010 Dollars)

	Total Generation Cost*	Firm Gas	Energy Savings	Transmission	Equity Cost	Net Cost
Central Alabama	64	4	(110)	--	2	(40)
					Central Alabama Short Term Savings	40

2013 – Summer Firm Gas Transportation Only
* Total Generation Cost includes capacity, O&M, and associated miscellaneous expenses