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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: September 22, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Analysis (Graves)
Office of the General Counsel (Murphy)

RE: Docket No. 110091-EQ – Petition for approval of renewable energy tariff and standard offer contract, by Florida Power & Light Company.

AGENDA: 10/4/11 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\RAD\WP\110091.RCM.10.04.11.DOC

Case Background

Since January 1, 2006, each investor owned electric utility (IOU) has been required to continuously offer to purchase capacity and energy from specific types of renewable resources. Section 366.91(3), Florida Statutes (F.S.), specifies that the contracts for purchase must be based on the utility's full avoided cost as defined in Section 366.051, F.S., and provide a term of at least ten years. Rules 25-17.200 through 25-17.310, Florida Administrative Code (F.A.C.), implement the statutes.

Florida Power & Light Company (FPL) filed its petition for approval of a renewable energy tariff and standard offer contract on April 1, 2011. The contract, as directed by Rule 25-17.250, F.A.C., is based on FPL's 2011 Ten-Year Site Plan (TYSP) which identifies a 1,191 megawatt (MW) natural gas-fired combined cycle Greenfield unit with an in-service date of June

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1, 2016, as FPL's next fossil fueled generating unit. The need for the described unit was based on FPL's then current resource planning assumptions which assumed planned maintenance during all summer months.

On May 25, 2011, FPL filed a letter informing the Commission that the aforementioned planned maintenance may be performed during non-summer months. FPL further indicated that additional analysis, which would be completed within two months (late July), would determine whether FPL's next planned generating unit would be required in 2016 or 2017. As a result, FPL requested that the Commission defer its consideration of FPL's standard offer contract until completion of its analysis. On May 27, 2011, FPL withdrew its requested deferral, however, through discussions with Commission staff FPL indicated that it would complete its additional analysis and provide the results to staff.

On July 18, 2011, FPL filed a petition indicating the Company's intentions to remove four 1960s-era oil natural gas-fueled steam electric generating units and to replace them with a new 1,327 MW combined-cycle power plant with an in service date of June 1, 2016 (Port Everglades Modernization). On July 29, 2011, as a follow up to the previously mentioned May 25 and 27, 2011, letters FPL confirmed to the Commission that the Company's next planned generating unit would be required in 2016.

On September 12, 2011, in response to a staff data request, FPL indicated that the Port Everglades Modernization will be constructed instead of the 2016 combined cycle Greenfield unit contained in the Company's 2011 TYSP and in its April 1, 2011, standard offer contract filing. FPL also provided revised schedules and tariff sheets for its 2011 standard offer contract to reflect payments based on the Port Everglades Modernization.

The Commission has jurisdiction over this matter pursuant to Sections 366.04 through 366.06, 366.91, and 366.92, F.S.

Discussion of Issues

Issue 1: Should the Commission approve the standard offer contract filed by Florida Power & Light Company?

Recommendation: Yes. The revised standard offer contract and related tariffs filed on September 12, 2011, comply with Rules 25-17.200 through 25-17.310, F.A.C. (Graves)

Staff Analysis: Because FPL is an IOU, Rule 25-17.250, F.A.C., requires it to continuously make available a standard offer contract for the purchase of firm capacity and energy from renewable generating facilities and small qualifying facilities with a design capacity of 100 kilowatts or less. Pursuant to Rule 25-17.250(1), F.A.C., the standard offer contract must be based on the next avoidable fossil fueled generating unit identified in the utility's TYSP.

FPL's 2010 TYSP projected a reliability need starting in 2018. At that time FPL anticipated returning inactive reserve units[1] in order to satisfy its projected reliability needs. As such, FPL's 2010 TYSP had no fossil-fueled generating units that could qualify as an avoided unit during the 2010-2019 period. FPL's 2010 TYSP did include a notation that a fossil-fueled generation unit capable of serving as the avoided unit would next be required in 2025. The unit was a 1,212 MW natural gas-fired combined cycle plant with a projected in-service date of June 1, 2025.

An increase in FPL's forecasted firm peak load has shifted FPL's projected reliability need two years. In addition to the shift in FPL's projected reliability need, FPL indicates that preliminary projections show the construction of new generating capacity may be more economical than bringing inactive reserve units back on-line. These changes have accelerated FPL's need for new generation nine years (from 2025 to 2016). As such, FPL's 2011 TYSP identified a 1,191 MW natural gas-fired combined cycle Greenfield unit with an in-service date of June 1, 2016, as its next fossil fueled generating unit.

Subsequent to FPL's 2011 TYSP, the Company indicated that the 1,327 MW Port Everglades Modernization with an in-service date of 2016 will be constructed instead of the 2016 combined cycle Greenfield unit identified in the Company's 2011 TYSP. Staff believes FPL's 2011 standard offer contract and related tariffs should be based on the Port Everglades Modernization which reflects the Company's most recent estimate of avoided costs.

Consistent with Rule 25-17.250, F.A.C., if a renewable generator commits to certain performance requirements, including being on-line and delivering capacity by the in-service date, it can receive a capacity payment. To promote renewable generation, the Commission requires multiple options for capacity payments. If a renewable generator elects to receive Normal or Levelized capacity payments, it would receive those payments starting on the in-service date of the avoided unit (2016). As previously discussed, the avoided unit contained FPL's 2010 standard offer contract had an in-service date of 2025, therefore, the shift in the in-

[1] In 2009 FPL began temporarily removing generating capacity from active service (inactive reserve). In total, more than 1,900 MW of generating capacity have been placed on inactive reserve.

service date of the avoided unit can be beneficial to renewable providers in the near term as capacity payments can be received at an earlier date.

If Early or Early Levelized capacity payments are selected, those payments would begin at an earlier date but tend to be less in the outer years as the net present value of payments must remain the same. In addition, capacity payments greater than those made under the Normal option require additional performance security from the renewable generator. Table 1 estimates the annual payments that would be made to a renewable facility of 50 MW running at a 94 percent capacity factor, with an in-service date of 2012.

Table 1 - Estimated Annual Payments to a 50 MW Renewable Facility (94% Capacity Factor)

Year	Energy Payment $000	Capacity Payment (By Type)			
		Normal $000	Levelized $000	Early $000	Early Levelized $000
2012	19,975	-	-	3,131	3,790
2013	19,110	-	-	3,223	3,804
2014	18,987	-	-	3,318	3,819
2015	20,222	-	-	3,416	3,835
2016	19,129	4,815	5,633	3,516	3,851
2017	18,721	4,958	5,657	3,619	3,867
2018	20,178	5,105	5,682	3,726	3,884
2019	21,357	5,257	5,707	3,835	3,901
2020	22,597	5,414	5,734	3,948	3,918
2021	23,864	5,575	5,760	4,064	3,936
2022	25,554	5,741	5,788	4,184	3,955
2023	27,344	5,912	5,816	4,307	3,974
2024	29,164	6,088	5,846	4,433	3,994
2025	30,990	6,269	5,876	4,564	4,014
2026	31,692	6,456	5,907	4,698	4,034
2027	32,277	6,644	5,935	4,836	4,055
2028	32,882	6,837	5,963	4,978	4,077
2029	33,500	7,037	5,992	5,125	4,099
2030	34,150	7,242	6,022	5,275	4,122
2031	34,845	7,453	6,053	5,431	4,146
Total (2011 NPV)	**244,986**	**40,517**	**40,515**	**40,514**	**40,516**

Conclusion

FPL submitted a total of 12 revised tariff sheets, including 5 revised sheets of FPL's renewable standard offer contract and 7 revised sheets corresponding to FPL's QS-2 rate schedule. All of the revised sheets reflect changes associated with the Port Everglades Modernization, with a majority of revisions related to the new economic parameters. Beyond these revisions, all other terms, such as provisions for performance, payment, and security are retained from the 2010 standard offer contract and related tariffs.

The provisions of the 2011 standard offer contract and related tariffs conform to all requirements of Rules 25-17.200 through 25-17.310, F.A.C. The standard offer contract provides flexibility in the arrangements for payments so that a developer of renewable generation may select the payment stream best suited to its financial needs. As such, staff believes the revised standard offer contract and related tariffs filed on September 12, 2011, by FPL should be approved.

Issue 2: Should this docket be closed?

Recommendation: Yes. If the Commission approves staff's recommendation to approve the proposed standard offer contract and tariffs filed by FPL, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 110091-EQ should be closed, and the standard offer contracts and tariffs filed by FPL should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's Order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that FPL's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised. (Murphy)

Staff Analysis: If the Commission approves staff's recommendation to approve the proposed standard offer contract and tariffs filed by FPL, and no person whose substantial interests are affected requests a hearing to address this matter, then Docket No. 110091-EQ should be closed, and the standard offer contracts and tariffs filed by FPL should be effective as of the date of the Commission's vote. If a protest is filed within 21 days of the issuance of the Commission's Order, the tariffs should remain in effect pending resolution of the protest. Potential signatories to the standard offer contract should be aware that FPL's tariffs and standard offer contracts may be subject to a request for hearing, and if a hearing is held, may subsequently be revised.