State of Florida

Public Service Commission

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

DATE: April 22, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Analysis (Matthews, Gilbert)
Division of Economic Regulation (Franklin)
Office of the General Counsel (Fleming)

RE: Docket No. 090537-EQ – Petition for approval of amended negotiated purchase power contract with BG&E of Florida, LLC by Progress Energy Florida.

AGENDA: 05/04/10 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\RAD\WP\090537.RCM.DOC

Case Background

On December 11, 2009, Progress Energy Florida, Inc. (PEF) filed a petition requesting approval of an amendment to a negotiated contract for firm capacity and energy between BG&E of Florida, LLC (BG&E) and PEF dated November 25, 2009. The Commission issued Order No. PSC-07-0911-PAA-EQ on November 9, 2007, approving the original contract in Docket No. 070561-EQ.[1] The original contract is based on BG&E constructing a biomass power production generating facility located in Florida, which will operate as a Qualifying Facility (QF) pursuant

[1] DN 070561-EQ, In Re: Petition for approval of negotiated power purchase contract for purchase of firm capacity and energy with BG&E of Florida, LLC, by Progress Energy Florida.

to the Federal Energy Regulatory Commission (FERC). The facility will use a gasified biomass product as its primary fuel. During the development stage, BG&E encountered trouble siting the facility and was therefore required to find a new site location. Due to the siting delay and poor economic conditions, BG&E requested amendments to the original contract. The changes include a delay in the contract start date from January 1, 2011, to July 1, 2012, and a decrease in committed capacity from 75 megawatts (MW) to 45 MW. PEF has requested confidential classification for certain information contained in the contract and also for some of its responses to staff's two data requests.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.051, and 366.80-366.82, Florida Statutes.

Discussion of Issues

Issue 1: Should the petition submitted by Progress Energy Florida, Inc. requesting approval of the amended contract with BG&E of Florida, LLC, be approved?

Recommendation: Yes. As in the original contract, the rates, terms, and conditions of the amended agreement can reasonably be expected to contribute toward the deferral or avoidance of additional capacity construction by PEF. The net present value (NPV) of the total contract payments represent an expected savings of $47 million as compared to the cost of as-available energy using the current avoided unit and the most current fuel forecast at the time the contract was negotiated. Also, due to the reduced committed capacity, the NPV of the total payments is approximately $74 million less than those under the original contract. (Matthews)

Staff Analysis: After the original contract was approved by the Commission in 2007, BG&E encountered difficulty in siting the facility at its original location. BG&E requested to amend the original contract, and rather than terminate the contract altogether, PEF agreed to renegotiate the terms of the contract. In addition to the later start date due to the siting delay, poor economic conditions prompted a request for a lower committed capacity. According to the petition, the lower committed capacity decreases the amount of capital required by BG&E, which in turn reduces its technology risk. The smaller plant size, along with a proven biomass gasification process, should maintain the project's viability.

In addition to the later start date and the lower committed capacity, the energy payment rate (confidential) was increased and the security amounts (confidential) were reduced in proportion to the amended committed capacity. Although the negotitated rate per megawatt hour (MWh) is higher in the amended contract, the total payments result in a lower NPV due to the decrease in the total amount of energy expected to be delivered. All other terms and conditions of the original contract, such as performance requirements, interconnection agreement, etc., remain unchanged.

PEF included with its petition an analysis of the payments for firm capacity and energy under the amended contract compared with its avoided cost using an updated fuel forecast and avoided unit. This analysis shows an expected NPV savings to PEF's customers of approximately $47 million over the 20-year term of the contract. The original contract had an expected NPV savings of $41 million. For the amended contract, PEF used the long-term natural gas price forecast used for the 2009 Ten-Year Site Plan. This forecast was the latest one available at the time the contract negotiations were carried out. This is the same forecast provided by PIRA Energy Group, which has over 30 years experience in the energy industry.

The majority of PIRA's forecasted prices were higher than the forecasted prices in the U.S. Energy Information Administration's (EIA) December 2009 long-term natural gas price forecast. Due to the fact that fuel prices have decreased since the time the analysis was done, at staff's request PEF provided a stress test of its long-term natural gas price forecast, which encompassed the difference between the PIRA forecast and the EIA forecast. The stress test compared a shift in natural gas prices 20 percent above forecasted prices, and 20 percent below forecasted prices. If natural gas prices were to increase 20 percent above the forecasted price, the projected NPV would be approximately $94 million. However, if a 20 percent decrease were to occur, the projected NPV savings would essentially be break-even. Current forecasts show that natural gas prices are approximately 15 percent lower than those used for the analysis provided with the petition.

These analyses show that the expected savings is highly dependent on the price of natural gas, which has changed significantly since this petition was filed. However, staff believes that the amended negotiated contract between PEF and BG&E provides PEF with a viable source of electric capacity and energy that is projected to be approximately $74 million less than the original contract and continues to provide an expected NPV savings to PEF's customers compared to PEF's current avoided cost. Therefore, staff recommends that the Commission approve the amended negotiated contract.

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 pretest within 21 days of the issuance of the proposed agency action. (Fleming)

Staff Analysis: If no timely protest to the proposed agency action is filed within 21 days, this docket should be closed upon the issuance of the Consummating Order.