.BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of negotiated purchase power contract with Trans World Energy LLC by Progress Energy Florida, Inc.	DOCKET NO. 110047-EQ ORDER NO. PSC-11-0255-PAA-EQ ISSUED: June 13, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING NEGOTIATED PURCHASED POWER AGREEMENT

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.

BACKGROUND

On February 3, 2011, Progress Energy Florida, Inc. (PEF) filed a Petition requesting approval of a negotiated contract for the purchase of firm capacity and energy between Trans World Energy LLC (Trans World) and PEF. The negotiated purchased power contract in based on Trans World constructing, owning, and operating a biomass electric generating facility (Trans World Facility or Facility) in Citrus County, Florida, with an in-service date of July 1, 2013. Trans World proposes to sell 40 Megawatts (MW) of firm capacity and associated energy from the Trans World Facility to PEF for a term of 20 years.

The Trans World Facility will use a gasified biomass product as its primary fuel and it is planned to run at a capacity factor of 94 percent for an expected annual energy production of 329,373 Megawatt-hours (MWh). Trans World has obtained a letter of intent for fuel supply, but a fuel contract has not yet been signed. Trans World plans to outsource some of its contract obligations such as the engineering, construction, and general contractor management to other companies. Trans World estimates that 100 jobs will be created in Florida during the construction phase and 45 jobs during the operation stage of the facility. Trans World has obtained financing for the proposed project. The proposed facility will operate as a Qualifying

Facility as defined by Federal Energy Regulatory Commission rules 18 C.F.R. § 292.101 – 292.207 (1980) and Rule 25-17.080, Florida Administration Code (F.A.C.).

As explained in detail below, we approve the negotiated power purchase agreement between PEF and Trans World. We have jurisdiction over this matter pursuant to Sections 366.051, 366.91, and 366.92, Florida Statutes (F.S.).

DECISION

As mentioned above, Trans World proposes to sell 40 MW of firm capacity and energy from the Facility to PEF for a 20-year term from the in-service date of July 1, 2013. Rule 25-17.0832(3), F.A.C., provides that in reviewing a negotiated firm capacity and energy contract for the purpose of cost recovery, we shall consider factors relating to the contract that would affect the utility's general body of retail and wholesale customers, including; the need for power, the cost-effectiveness of the contract, the security provisions for early capacity payments, and the performance guarantees associated with the generating facility. We consider each of these factors below.

Need for Power

PEF's 2011 Ten-Year Site Plan shows its next planned capacity addition in 2020, but it is important to note that the business requirements for renewable generators do not always match the reliability needs of a utility. The negotiated contract is proposed to provide capacity from 2013 through 2033, and as we will explain, the overall payments under the contract are cost effective. Although the proposed facility alone provides a relatively small reliability benefit, the aggregation of several purchased power contracts from renewable facilities may help to defer the construction of a future utility generation unit. It has been our 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, we find that the proposed negotiated contract will enhance PEF's system reliability, encourage the use of renewable fuels in Florida, and promote fuel diversity for PEF's ratepayers.

Cost-Effectiveness

PEF provided an analysis in its petition that compared the negotiated contract payments to the payments pursuant to its 2010 Standard Offer Contract, a 178 MW natural gas-fired combustion turbine that would come into service on June 1, 2018, with a 94 percent capacity factor. The negotiated contract payments were estimated to provide a Net Present Value (NPV) savings of $61.6 million compared to the 2010 Standard Offer Contract. On April 1, 2010, PEF filed a Petition for approval of its 2011 Standard Offer Contract that included a new avoided unit, a 178 MW natural gas-fired combustion turbine that would come into service on June 1, 2020.[1] PEF provided an additional analysis that compared the negotiated contract payments to the 2011 Standard Offer Contract. Given the later in-service date of the new avoided unit, the negotiated contract payments were estimated to produce NPV savings of $28.5 million. These values are summarized in the table below:

Comparison of Projected NPV Savings from Negotiated Contract		
	Estimated Savings When Compared to:	
	2010 Standard Offer	2011 Standard Offer
NPV Total	$61,597,000	$28,453,000

These 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 unit. 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 of the avoided unit and is adjusted as actual fuel costs become known. PEF and Trans World, however, have agreed upon a fixed increasing rate payment ($/MWh) method that combines both energy and capacity costs, so that the general contract payment rate includes both capacity and energy payments. This method of payment provides Trans World a predictable revenue stream that removes the risk of fuel cost fluctuations that would typically affect energy generation costs. The benefit to the ratepayers, however, will depend more heavily on overall changes in the cost of fuel. For example, if fuel costs decline in the future, PEF ratepayers would still be obligated to pay the possibly higher-cost fixed payments of the proposed contract through the fuel cost recovery clause. If fuel costs increase in the future, the benefits to PEF's ratepayers will increase because they will pay the relatively lower-cost fixed payments of the proposed contract.

Because of this general energy price dependency, our staff requested fuel forecast sensitivity analyses of the contract to estimate the range of its fixed price. PEF provided a cost comparison of the negotiated contract payments to both the 2010 and 2011 Standard Offer avoided unit given base, low (15 percent decrease), and high (15 percent increase) natural gas price forecasts. These forecasts were based upon a reasonable natural gas price forecast provided by PIRA Energy Group. These cost analyses are summarized in the table below:

[1] See Docket No. 110092-EI - In re: Petition for approval of amended standard offer contract, by Progress Energy Florida, Inc.

Negotiated Contract Savings Versus Varying Fuel Forecast Scenarios						
	2010 Standard Offer			2011 Standard Offer		
	Low (-15%)	Base	High (+15%)	Low (-15%)	Base	High (+15%)
NPV Total Savings	$29,330,000	$61,597,000	$93,864,000	$(2,912,000)	$28,453,000	$59,819,000

The 2011 Standard Offer fuel forecast shows a projected savings from the negotiated contract of up to approximately $59.8 million given a high fuel cost scenario, but also noted a risk of having a projected net cost of approximately $2.9 million given a low fuel cost scenario. The negotiated contract payments in the early years of service track the beginning of the 2011 Standard Offer payments. If one assumes a sudden drop in fuel pricing in the immediate future, as in the low fuel cost scenario, it is reasonable to expect the payments to the Trans World Facility to be above PEF's avoided costs.

Although there is a risk of overpaying given the specific scenario mentioned above, we believe that the risk is relatively small, and the terms of the negotiated contract will allow PEF's customers to receive a greater economic benefit from prices that may be lower than payments under either the 2010 or 2011 Standard Offer Contract.

Completion/Performance Security

Section 5 of the negotiated contract contains certain conditions precedent for implementation of the contract. For example, Trans World must obtain transmission service, finance documents, and proof of insurance by January 20, 2013, or the negotiated contract will terminate and neither party will have any further obligation under its terms. Prior to January 20, 2013, Trans World will be required to deliver to PEF performance security collateral based upon the amount of committed capacity and Trans World's credit rating. In the event of a default, PEF is permitted to draw from the performance security to recover any damages PEF incurs. If Trans World is unable to meet the proposed in-service date of July 1, 2013, the contract provides that PEF is entitled to the performance security in full.

When the Trans World Facility is operational, the expected annual energy produced will be 329,373 MWh, based upon a 94 percent capacity factor. The energy payment has been fixed and combined with the capacity payment, and the combined payment depends solely on the performance of the Trans World Facility for each individual month. Performance security provisions of the negotiated contract also require that the Annual Billing Factor[2] (ABF) for the Facility be calculated monthly. In the event that the ABF for any rolling 12-month period is less than 74 percent, payment to Trans World for that month will be reduced by 5 percent. If Trans

[2] The Annual Billing Factor is defined as the total amount of energy received, divided by the sum of the products of committed capacity and the number of hours for each of the most recently completed Monthly Billing Periods. This calculation shall be performed at the end of each Monthly Billing Period until enough Monthly Billing Periods have elapsed to calculate a 12-month rolling average.

World fails to maintain an ABF of at least 74 percent for 12 consecutive months, it will be considered an event of default and PEF will receive the performance security discussed above.

The negotiated contract also requires Trans World to maintain a Termination Security through a letter of credit covering a Termination Fee. The cumulative Termination Fee is calculated on a monthly basis as the difference between the negotiated contract and PEF's Standard Offer. If the ABF is maintained at or above 74 percent, a reduction value is applied on a sliding scale which reduces the cumulative Termination Fee. If the ABF of the Facility is less than 74 percent, the Termination Fee will accrue with no reduction. Upon any termination of the negotiated contract, PEF is entitled to receive the full amount of the Termination Security. This system compensates for payments to the proposed facility before the in-service date of the Standard Offer avoided unit.

We find that the provisions contained in the contract are sufficient to protect PEF's ratepayers if Trans World fails to deliver capacity and energy as specified by the negotiated contract, or in the event that Trans World defaults on its obligations.

CONCLUSION

The negotiated contract between PEF and Trans World provides PEF 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 both the 2010 and 2011 Standard Offer Contract avoided units, and beneficial to PEF ratepayers under varying natural gas fuel price scenarios. If a portion of the planned renewable generation cannot be implemented under the terms of the negotiated contract, the security provisions effectively mitigate the risk to the ratepayer. Considering these facts, we approve the contract.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition for approval of negotiated purchase power contract with Trans World Energy LLC by Progress Energy Florida, Inc. is granted. 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 Commission Clerk, 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 June, 2011.

ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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(S E A L)

MCB

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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 4, 2011.

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.