

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: SEPTEMBER 4, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (HARLOW, BOHRMANN) *9/3/03 RJ*
OFFICE OF THE GENERAL COUNSEL (C. KEATING) *JDJ*

RE: DOCKET NO. 020404-EQ - PETITION FOR APPROVAL OF PLAN TO
SHARE RISKS OF BAY COUNTY QUALIFYING FACILITY CONTRACT
MODIFICATION BY FLORIDA POWER CORPORATION

AGENDA: 09/16/03 - REGULAR AGENDA - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020404.RCM

CASE BACKGROUND

On June 17, 1988, by Order No. 19509, the Commission approved a purchased power contract between Florida Power Corporation, now known as Progress Energy Florida, Inc. (Progress Energy), and Bay County. The negotiated contract provides Progress Energy with 11 megawatts of capacity and associated energy from Bay County's Resource Recovery Facility, a qualifying facility (QF). The contract was set to expire in 2022. The pricing structure of the contract was unusual because it included early capacity payments to the cogenerator in exchange for a ten-year period of firm energy with no capacity payments from 2013 through 2022.

DOCUMENT NUMBER-DATE

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By Order No. PSC-02-0483-PAA-EQ, issued April 8, 2002, in Docket No. 011365-EQ, the Commission granted a petition by Progress Energy to amend the Bay County Contract. The amendment terminates the contract in 2006 rather than 2022 and requires Progress Energy to pay Bay County \$610,000. In its Order, the Commission noted that:

The risks associated with variances from the projected energy and capacity costs used to measure the cost-effectiveness of this amendment are, at present, borne entirely by FPC's ratepayers . . . a sharing of both the risks and rewards associated with this amendment could be beneficial to both the utility and its customers.

The Commission therefore ordered Progress Energy to consider a sharing plan and to either file a petition seeking approval of a sharing plan or submit a report detailing why a sharing plan was not proposed.

On May 8, 2002, Progress Energy filed a petition for approval of a plan to share the risks of the Bay County contract amendment. At the September 3, 2002, Agenda Conference, the Commission voted to defer the item to allow Progress Energy and the Office of Public Counsel time for further discussion on this matter. Progress Energy filed an amendment to its petition on March 11, 2003.

On August 8, 2003, Progress Energy filed a Notice of Voluntary Withdrawal of its proposed sharing plan for the Bay County contract amendment. This recommendation addresses the Notice of Voluntary Withdrawal.

Jurisdiction in this matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.051, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission acknowledge Progress Energy's Notice of Voluntary Withdrawal of its Petition for Approval of its Plan to Share the Risks of the Bay County Contract Modification?

RECOMMENDATION: Yes. The unusual nature of the original Bay County contract does not lend itself to the application of a sharing plan which equitably shares the risks among ratepayers and shareholders. Acknowledging Progress Energy's Notice of Voluntary Withdrawal does not preclude Progress Energy from filing sharing plan proposals with future cogeneration contract restructurings.

STAFF ANALYSIS: In its Notice of Voluntary Withdrawal, Progress Energy states that the unusual nature of the original Bay County contract does not lend itself "to the initial application of the sharing concept encouraged by the Commission when the amendment was approved." Staff agrees with Progress Energy that the early capacity payments to Bay County and ten-year zero capacity payment period at the end of the original contract make it difficult to design a sharing plan which equitably shares the risks among ratepayers and shareholders. Staff therefore recommends that the Commission acknowledge Progress Energy's Voluntary Notice of Withdrawal of the proposed Bay County sharing plan.

Progress Energy further states that it believes the risk and reward sharing concept has the potential to provide significant benefits to Progress Energy and its customers in future QF contract restructuring negotiations, and it urges the Commission to continue its encouragement of this concept. In recommending that the Commission acknowledge Progress Energy's Notice of Voluntary Withdrawal, staff notes that this acknowledgment does not preclude Progress Energy from filing risk sharing plans associated with future cogeneration contract restructurings.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed after the time for filing an appeal has expired.

STAFF ANALYSIS: This docket should be closed after the time for filing an appeal has expired.