



NOTICE OF SPECIAL MEETING

Notice is hereby given that City Manager Jack L. McLean Jr. has called a Special Meeting pursuant to section 2.51 of the City of Quincy Charter. Quincy City Commission will hold a Special Meeting on Wednesday, May 20, 2020 at 4:00pm in the City Commission Chambers via Zoom.

Special Meeting Item(s) of Discussion:

- Modification of Florida Power and Lights (FPL) Bulk Power Supply Contract Renewal
 - Passing on Savings to Customers



City of Quincy, Florida
SPECIAL MEETING

AGENDA

May 20, 2020
4:00 P.M.

City Hall Commission Chambers
Via Zoom

Call to Order

Roll Call

Special Meeting Item(s) of Discussion:

1. Modification of the Florida Power and Lights (FPL) Bulk Power Supply Contract Renewal
 - Passing on Savings to Customers
 - Jack L. McLean Jr., City Manager
 - Robin Ryals, Utilities Director

Adjournment

**CITY OF QUINCY
CITY COMMISSION
AGENDA REQUEST**

Date of Meeting: May 20, 2020

Date Submitted: May 19, 2020

To: Honorable Mayor and Members of the City Commission

From: Jack L. McLean Jr., City Manager
Robin Ryals, Utilities Director

Subject: Modification of the Florida Power and Lights (FPL) Bulk Power Supply Contract Renewal

Statement of Issue

The City's current bulk power contract with FPL ends in 2024. During the Staff's consideration of opportunities to extend the Florida Power and Light (FPL) Bulk Power Contract, Commissioner Sapp brought to the attention of Staff that Florida Power and Light announced plans to cut electric bills amid the coronavirus pandemic substantially.

Background:

Buoyed by lower than expected natural gas prices, Florida Power and Light announced plans to lump together fuel savings this year into a one-time deal reduction in May 2020. Traditionally the PSC expects these types of FUEL CHARGES savings to be spread over the balance of the year. Florida Power & Light's plan is now pending before the Florida PSC.

The City of Tallahassee implemented a temporary reduction in electric rates for all customers. Tallahassee's reduction was accomplished via a reduction in the Energy Cost Recovery Charge, commonly known as the "FUEL CHARGE." The FUEL CHARGE is used primarily to recover the costs of the Natural Gas used to generate electricity. Tallahassee reduction is occurring over 1 to 3 months.

The cost savings for FPL and Tallahassee are based on the substantial reduction in natural gas, which over time, lowers the FUEL CHARGE. Quincy's approach is not to front-end the saving for a few months but rather to use the traditional approach of spreading the savings over time. The City has not seen a change in the collection because of the Coronavirus. Staff continually monitors customer behavior over time, and

if the need arises, Staff will present other options related to the FUEL CHARGE to the City Commission.

Based on WHH ENTERPRISES, the retained consultant, the FUEL CHARGE is anticipated in the first year of the revised contract is \$4.50 per kWh starting in July 2020, and the last year of the revised contract the FUEL CHARGE is \$6.70 per kWh. Currently, the FUEL CHARGE on the average bill is \$9.80. The new FUEL CHARGE percent reduction ranges from 45% to 68%. A typical customer bill with a 1000 kWh monthly bill is listed below.

Meter Charge	\$6.00
Energy Charge	\$92.40
Hurricane Michael Fee	\$8.79
FUEL CHARGE	\$9.80
Total	\$116.99

The new FUEL CHARGE rate decreases the average bill starting in July 2020 by 3.8%, and in the last year of the revised contract, the average bill decreases by 5.7%.

The reduction may only occur if the contract wholesale bulk contract is extended by 4 years until 2027. Currently, the City’s monthly FUEL CHARGE is based on the FPL system average only. Under the revised contract, the City has the option to choose natural gas pricing or the system average. In the forecast contract extension window, natural gas pricing is the best option.

Below is a table of the bulk forecasted power supply cost per MW-hr. The bulk power supply costs consist of the capacity, non-fuel, and fuel energy.

Delivered Bulk Forecasted Power Supply Costs \$ per MW-hr.

	2020	2021	2022	2023	2024	2025	2026	2027
Existing Contract	\$50.61	\$52.49	\$54.44	\$56.29				
Proposed Extended Contract	\$46.40	\$47.59	\$48.76	\$50.01	\$50.76	\$52.16	\$53.65	\$55.22

The revised contract is identical to the existing contract with the following changes.

1. Capacity Charges have been reduced significantly. The reductions range from 14% in 2021 to 23% in 2023.

2. The NON-FUEL ENERGY CHARGE has been reduced from 25% to 29% between 2021 and 2023.
3. The FUEL ENERGY CHARGE provisions have been revised. The FUEL ENERGY CHARGE in the existing contract is based on the average system fuel costs for the entire FPL system. The revised contract provides the City with an annual option to choose fuel energy pricing based on natural gas prices or fuel energy pricing based on the FPL system average. Since natural gas prices have been so low, it is in the City's best interest to select the fuel energy pricing based on natural gas prices. Based on current natural gas prices and current FPL system average energy prices, this option to select pricing based on natural gas pricing would represent a reduction in FUEL ENERGY CHARGES of about 10 percent. Note, the prior statement is based on March 2020 prices, and one should not assume that savings in the future equal savings in March 2020. If natural gas prices should unexpectedly escalate, the City can revert to fuel energy pricing based on the FPL system average. WHH notes that natural gas prices are currently low, and the Energy Information Administration (an agency of the Department of Energy) forecasts that natural gas prices remain low in the future.
4. The existing contract obligates FPL to schedule the energy to be sold to Quincy on an hourly basis based on FPL forecasts since FPL does not have meters at the Quincy substations.
5. These forecasts are not exact, resulting in differences between the energy scheduled by FPL and Quincy's actual requirements. Also, since Quincy receives about 30 percent of its energy requirements from SEPA and the amount of SEPA deliveries are not known until after the end of each month, further complicates the accurate hourly scheduling of energy. The difference between the scheduled energy and actual energy requirements (and there are differences in every hour of each month) are subject to penalties from Duke Energy Florida.

FPL has offered these attractive price concessions in exchange for a four-year extension in the contract term. The proposed contract would extend until December 31, 2027. The escalation rate in the bulk power supply price is 2.6 percent annually based on current natural gas price assumptions. WHH notes that the DOE has forecasted the escalation in electric generation prices at 2.4 percent annually, reasonably consistent with the FPL proposal's escalation. WHH believes that since current prices are at historical lows, any contract based on current prices and reasonable escalation rates is likely to be extremely competitive in the future.

The present value of bulk power supply prices to Quincy for the 7 years ending in December 2027 is nearly equal for the two alternatives. The present value of costs with FPL extension is \$49.9 million, whereas the present value of costs for the alternative of allowing the FPL contract to expire in 2023 and then going out to the market for the remaining four years is \$49.3 million. FPL claims that their analysis shows lower present

value costs for extending the FPL contract. Clearly, the difference is explained by differing assumptions in the market prices of bulk power supply in the post-2023-time frame. WHH's analysis is based on a discount rate of 3.5 percent, which is appropriate for the City's current interest rate environment. However, from the perspective of the customers of Quincy, the appropriate discount rate is probably closer to 10-12 percent. At this higher discount rate, extending the FPL contract is the superior alternative. The higher discount places greater value in the near-term price reductions.

Future Savings Consideration:

These are termed imbalance charges. WHH believes that the magnitude of these imbalance charges can be reduced if the City assumes the scheduling responsibility. WHH has estimated net annual savings of approximately \$60,000 if the City should assume scheduling responsibility. This estimate is the net of savings from imbalance charges and the additional charges of a third party to perform the scheduling responsibilities. Staff is bringing this issue back to the City Commission before July 2020.

Recommendation:

Staff and the consultant WHH recommend that subject to legal review; the City approves the revised contract extending the term of the FPL power supply contract so that the lower prices can become effective in July 2020.

Options:

Option 1: The City Commission approves the contract execution and authorizes the Mayor and City Manager to execute the contract subject to legal review.

Option 2: The City Commission does not approve the contract extension.

Staff Recommendation:

Option 1

Attachments:

FPL Proposed Revised Contract

FIRST AMENDMENT TO THE NATIVE LOAD FIRM AND SYSTEM FIRM POWER AND ENERGY TRANSACTION CONFIRMATION

Between

City of Quincy, FL and Florida Power & Light Company dated August 31, 2015

Whereas, Florida Power & Light Company (“Seller”) and the City of Quincy, Florida (“Buyer”) entered into a Transaction Confirmation dated August 31, 2015 (the “Transaction Confirmation”) that sets forth the terms and conditions of a transaction between Seller and Buyer pursuant to Florida Power & Light Company’s FERC Electric Tariff No. 1 (“Tariff”).

Whereas, Seller and Buyer desire to amend certain aspects of the Transaction Confirmation as set forth below.

Now Therefore, for good and valuable consideration the receipt of which is acknowledged, the parties agree as follows:

- 1) Section 6, Delivery Period, subsection a) the date December 31, 2023 shall be replaced with December 31, 2027.
- 2) Section 7, Power and Energy, subsection c) and d) shall be deleted in its entirety and replaced with the following:
 - c) Scheduling: Buyer shall schedule energy to meet its hourly load as described in this section below. Buyer has the option to have Seller perform the scheduling services by providing notice to Seller at least two months prior to the change in scheduling.
 - i) On or before 8:30 a.m. EPT of the prior Business Day (“Scheduling Deadline”), Buyer or its designated agent, shall provide Seller its schedule for Energy for each interval of the applicable Delivery Day, including any intervening non-Business Days (“Schedule for Energy”). For example, on a Friday before a weekend which is followed by a non-Business Day Monday, Buyer would provide a schedule for Saturday, Sunday, Monday and Tuesday. All such notifications as described herein shall be provided via electronic mail sent to jeffrey.dunn@fpl.com. Seller shall promptly confirm receipt of any such request from Buyer via electronic mail to _____, or by calling _____. Buyer and Seller may mutually agree in writing to an alternate notification methodology.
 - ii) If Buyer has not elected the Buyer’s Option in Section 8(c), then any Schedule for Energy submitted by Buyer shall be deemed for service under Section 8(a) unless Buyer specifies the Schedule of Energy is for service under Section 8(b).
 - d) On an annual basis, Buyer shall have the option to select the method in which the Energy price is determined (either System Average Energy or Gas Index Energy as described in Appendix C) for the following year by providing notice to Seller on or

before August 15th of the previous year. As an example, Buyer would need to provide notice to Seller by August 15, 2021 to elect either System Average Energy or Gas Index Energy beginning January 1, 2022. Failure to provide notice to Seller will result in rolling over the previous year's Energy price election to the following year.

- 3) Section 8, Quantity of Power and Energy, subsection a) and b), the date December 31, 2023 shall be replaced with December 31, 2027.
- 4) Appendix A, Section 1) the SFDC table shall be deleted in its entirety and replaced with the following:

Year	SFDC (\$/kW-Month)
2016	\$2.00
2017	\$2.00
2018	\$2.00
2019	\$2.00
2020	\$2.00
2021	\$2.00
2022	\$2.00
2023	\$2.00
2024	\$2.00
2025	\$2.00
2026	\$2.00
2027	\$2.00

- 5) Appendix A, Section 1) the NLFDC table shall be deleted in its entirety and replaced with the following:

Year	NLFDC (\$/kW-Month)
2016	\$4.85
2017	\$4.90
2018	\$5.15
2019	\$5.40
2020(a)	\$5.90
2020(b)	\$5.25
2021	\$5.25
2022	\$5.25

2023	\$5.25
2024	\$5.00
2025	\$5.00
2026	\$5.00
2027	\$5.00

Note: The term for 2020(a) shall be from January 1, 2020 to June 30, 2020
The term for 2020(b) shall be from July 1, 2020 to December 31, 2020

- 6) Appendix A, Section 2) the NLFDC table shall be deleted in its entirety and replaced with the following:

Year	NLFDC (\$/kW-Month)
2016	\$6.95
2017	\$7.00
2018	\$7.25
2019	\$7.50
2020	\$8.00
2021	\$8.50
2022	\$9.00
2023	\$9.50
2024	\$9.50
2025	\$9.50
2026	\$9.50
2027	\$9.50

- 7) Appendix B, Section 1) the SFNFEP table shall be deleted in its entirety and replaced with the following:

Year	SFNFEP (\$/kWh)
2016	\$.0035
2017	\$.0035
2018	\$.0035
2019	\$.0035
2020(a)	\$.0035
2020(b)	\$.0030
2021	\$.0030

2022	\$.0030
2023	\$.0030
2024	\$.00275
2025	\$.00275
2026	\$.00275
2027	\$.00275

Note: The term for 2020(a) shall be from January 1, 2020 to June 30, 2020
The term for 2020(b) shall be from July 1, 2020 to December 31, 2020

- 8) Appendix B, Section 1) the NLFNFEP table shall be deleted in its entirety and replaced with the following:

Year	NLFNFEP (\$/kWh)
2016	\$.0150
2017	\$.0150
2018	\$.0150
2019	\$.0150
2020	\$.0150
2021	\$.0150
2022	\$.0150
2023	\$.0150
2024	\$.0150
2025	\$.0150
2026	\$.0150
2027	\$.0150

- 9) Appendix B, Section 2) the NLFNFEP table shall be deleted in its entirety and replaced with the following:

Year	NLFNFEP (\$/kWh)
2016	\$.0035
2017	\$.0035
2018	\$.0035
2019	\$.0035
2020	\$.0035
2021	\$.0040

2022	\$.00425
2023	\$.00425
2024	\$.00425
2025	\$.00425
2026	\$.00425
2027	\$.00425

10) Appendix C, Section 1) shall be deleted in its entirety and replaced with the following:

1) For each calendar year, unless Buyer exercises the Buyer's Option in Section 8(c) for such calendar year, the Monthly Energy Fuel Payment for each Monthly Billing Period shall be determined as follows based on the Buyer's Energy price election:

a) **System Average Energy**

$$MEFP = [(SFPE * PEP) + (SFOPE * OPEP)] + [\sum_{k=1}^n (NLFE_k * NLFGHR_k * GI)]$$

Where:

MEFP – Monthly Energy Fuel Payment, expressed in dollars, for the Monthly Billing Period;

SFPE – System Firm Peak Energy, expressed in MWh, shall be the total On-Peak Energy based on the sum of Buyer's hourly scheduled values at the Points(s) of Delivery for each applicable billing period of the Delivery Period;

SFOPE – System Firm Off-Peak Energy, expressed in MWh, shall be the total Off-Peak Energy based on the sum of Buyer's hourly scheduled values at the Points(s) of Delivery for each applicable billing period of the Delivery Period;

PEP – Peak Energy Price, expressed in \$/MWh and calculated in accordance with Appendix D;

OPEP – Off-Peak Energy Price, expressed in \$/MWh and calculated in accordance with Appendix D;

NLFED – Native Load Firm Energy, expressed in MWh, shall be the total Energy, if any, not served by either SFPE or SFOPE due to an interruption in service based on the sum of Buyer's hourly scheduled values at the Points(s) of Delivery for each applicable billing period of the Delivery Period;

NLFGHR – the Native Load Firm Guaranteed Heat Rate shall be 50.0 mmBtu/MWh;

GI – the daily midpoint price of natural gas (expressed in \$/MMBtu) for the relevant day of delivery of energy for Louisiana-Onshore South Florida Gas, Zone 3, as published in Platt’s Gas Daily Price Survey, plus the Florida Gas Transmission (“FGT”) fuel loss factor, the FGT average usage charge from the applicable FGT tariff, and a \$0.80/MMBtu demand charge. In the event that no such price is published for the relevant Delivery Day, then the following shall be used: (a) the arithmetic average of the daily midpoint price (expressed in \$/MMBtu) of the last published price prior to and the next published price after the relevant day of delivery of energy;

n – number of hours in the Monthly Billing Period;

k – each hour, for the Monthly Billing Period.

b) Gas Index Energy

$$MEFP = [\sum_{k=1}^n (SFE_k * SFGHR_k * GI)] + [\sum_{k=1}^n (NLFE_k * NLFGHR_k * GI)]$$

Where:

MEFP – Monthly Energy Fuel Payment, expressed in dollars, for the Monthly Billing Period;

SFE – System Firm Energy, expressed in MWh, shall be the total Energy based on the sum of Buyer’s hourly scheduled values at the Points(s) of Delivery for each applicable billing period of the Delivery Period;

SFGHR – the System Firm Guaranteed Heat Rate shall be 7.0 MMBtu/MWh;

NLFED – Native Load Firm Energy, expressed in MWh, shall be the total Energy, if any, not served by SFE due to an interruption in service based on the sum of Buyer’s hourly scheduled values at the Points(s) of Delivery for each applicable billing period of the Delivery Period;

NLFGHR – the Native Load Firm Guaranteed Heat Rate shall be 50.0 mmBtu/MWh;

GI – the daily midpoint price of natural gas (expressed in \$/MMBtu) for the relevant day of delivery of energy for Louisiana-Onshore South Florida Gas, Zone 3, as published in Platt’s Gas Daily Price Survey, plus the Florida Gas Transmission (“FGT”) fuel loss factor, the FGT average usage charge from the applicable FGT tariff, and a \$0.55/MMBtu demand charge. In the event that no such price is published for the relevant Delivery Day, then the following shall be used: (a) the arithmetic average of the daily midpoint price (expressed

in \$/MMBtu) of the last published price prior to and the next published price after the relevant day of delivery of energy;

n – number of hours in the Monthly Billing Period;

k – each hour, for the Monthly Billing Period.

- 11) Except as set forth above, all other rates, terms and conditions of the Native Load Firm and System Firm Power and Energy Transaction Confirmation, shall remain in full force.

Agreed to as of May ____, 2020.

FLORIDA POWER & LIGHT COMPANY

CITY OF QUINCY, FL

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____