

Ruth Nettles

090451-EM

**From:** Rhonda Dulgar [rdulgar@yvlaw.net]  
**Sent:** Thursday, April 01, 2010 1:01 PM  
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**Subject:** Electronic Filing - Docket 090451-EM  
**Attachments:** 090451.GRU-GREC.PHS.4-1-10.pdf

a. Person responsible for this electronic filing:

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b. 090451-EM

In Re: Joint Petition to Determine Need for Gainesville Renewable Energy Center in Alachua County, by Gainesville Regional Utilities and Gainesville Renewable Energy Center, LLC.

c. Document being filed on behalf of Gainesville Regional Utilities and Gainesville Renewable Energy Center, LLC.

d. There are a total of 11 pages.

e. The document attached for electronic filing is the Prehearing Statement (for GRU and GREC).

(see attached file: 090451.GRU-GREC.PHS.4-1-10.pdf )

Thank you for your attention and assistance in this matter.

Rhonda Dulgar  
Secretary to Schef Wright  
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DOCUMENT NUMBER-DATE

02389 APR-1 2010

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition to determine need for Gainesville Renewable Energy Center in Alachua County by Gainesville Regional Utilities and Gainesville Renewable Energy Center, LLC.

DOCKET NO. 090451-EM

DATED: April 1, 2010

**PREHEARING STATEMENT**

Pursuant to the requirements of the Revised Order Establishing Procedure, Order No. PSC-10-0135-PCO-EM, and the initial Order Establishing Procedure, Order No. PSC-09-0671-PCO-EM, Gainesville Regional Utilities ("GRU") and Gainesville Renewable Energy Center LLC ("GREC LLC") hereby submit their Prehearing Statement.

A. **Known Witnesses** - GRU and GREC LLC intend to offer the testimony of:

<u>Witness</u>	<u>Proffered By</u>	<u>Subject Matter</u>
Pegeen Hanrahan, P.E.	GRU/GREC LLC	The Florida PSC's role in this need determination for a renewable energy facility proposed by a municipal electric utility; the PSC's consideration of Gainesville's renewable energy, sustainability, and energy independence policy objectives in light of Florida policy adopting the same objectives; risks associated with the GREC project and risk mitigation actions taken by GRU and the City; likelihood of greenhouse gas regulation; economic development benefits as a public interest consideration of the GREC project.
Richard M. Schroeder	GRU/GREC LLC	Quantities and types of biomass fuels for the GREC facility; GREC LLC's procurement strategy; availability of biomass fuels for the GREC facility; status of GREC LLC's negotiations with potential biomass fuel suppliers; sustainability of biomass fuel supply for the GREC facility; availability and sustainability of biomass fuels for the GREC project, and for existing and potential users in north central Florida.

DOCUMENT NUMBER - DATE

02389 APR-1 0

FPSC-COMMISSION CLERK

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 GRU / GREC LLC SUPPLEMENTAL PREHEARING STATEMENT

Richard D. Bachmeier	GRU/GREC LLC	Additional analysis of the economics of off-system sales from GRU's assets made possible by the GREC facility; discussion of the concept of stranded costs relative to GRU's existing generating fleet and the economics of adding the GREC facility to GRU's system.
Edward J. Regan, P.E.	GRU/GREC LLC	Risk mitigation benefits of adding the GREC facility to GRU's generating system; risk mitigation benefits of the power purchase agreement between GRU and GREC LLC; GRU's ongoing risk management and mitigation mechanisms and activities; update on legislation and regulatory initiatives regarding carbon/greenhouse gas emissions and renewable portfolio/energy standards; GRU's and Gainesville's need for the GREC project to mitigate risks associated with, and create value for GRU's customers resulting from, carbon and renewable energy regulation; risks and cost-effectiveness impacts associated with off-system sales from GREC and/or from GRU's assets made available by adding GREC; optimal size and in-service timing for the GREC facility.
Myron R. Rollins, P.E.	GRU/GREC LLC	Role of the Florida PSC in this need determination for a renewable energy facility by a municipal electric utility, with particular regard to weighing the statutory criteria and other matters within the PSC's jurisdiction.

**B. Known Exhibits - GRU and GREC LLC intend to offer the following exhibits:**

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Pegeen Hanrahan, P.E.	GRU/GREC LLC	(PH-1)	Resumé of Pegeen Hanrahan, P.E.
		(PH-2)	Gainesville, Florida One Community's Strategy to Reduce Global Warming

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		(PH-3)	U.S. Mayors Climate Protection Agreement
		(PH-4)	Alachua County Environmental Protection Advisory Committee – Review of the Gainesville Regional Utilities' Proposal for New Coal-Fired Power Plant
		(PH-5)	Economic Impact Analysis of Gainesville Renewable Energy Center (GREC) Proposed Biomass Power Project in Alachua County and Surrounding Counties
Richard M. Schroeder	GRU/GREC LLC	(RMS-1)	Resumé of Richard M. Schroeder
		(RMS-2)	“Biomass Options for GRU – Part II” report prepared by Don Post and Tom Cunilio
		(RMS-3)	“Supplementary Study of Generating Alternatives for Deerhaven Generating Station” report prepared for GRU by Black & Veatch
		(RMS-4)	“City of Gainesville Electricity Supply Needs” report prepared for GRU by ICF Consulting
		(RMS-5)	“Economic Availability of Alternative Biomass Sources for Gainesville Florida”
		(RMS-6)	“Florida Renewable Energy Potential Assessment” report prepared for the Florida Public Service Commission by Navigant Consulting

		<u>(RMS-7)</u>	"Economic Impacts of Expanded Woody Biomass Utilization on the Bioenergy and Forest Products Industries in Florida" report prepared by the Institute of Food and Agricultural Sciences (IFAS), University of Florida
		<u>(RMS-8)</u>	"Woody Biomass for Electricity Generation in Florida: Bioeconomic Impacts under a Proposed Renewable Portfolio Standard (RPS) Mandate" report prepared by the University of Florida, School of Forest Resources and Conservation and the North Carolina State University, Department of Environmental Resources for the Florida Department of Agriculture and Consumer Services, Division of Forestry
		<u>(RMS-9)</u>	"Woody Biomass Economic Study" report prepared by the University of Florida, School of Forest Resources and Conservation and the University of Florida, Food and Resource Economics Department for the Florida Department of Agriculture and Consumer Services, Division of Forestry and the Florida Department of Environmental Protection (includes cover letters from Commission of Agriculture Charles H. Bronson to Governor Charlie Crist, Senate President Jeff Atwater and House Speaker Larry Cretul)
		<u>(RMS-10)</u>	Presentation related to a pending biomass assessment report being prepared BioResource Management for GREC LLC
		<u>(RMS-11)</u>	Forest Sustainability Sheet
		<u>(RMS-12)</u>	Petitioners' Response to Staff's Interrogatory No. 91

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		<u>                    </u> (RMS-13)	Petitioners' Response to Staff's Interrogatory No. 92
		<u>                    </u> (RMS-14)	Petitioners' Response to Staff's Interrogatory No. 93
		<u>                    </u> (RMS-15)	Letter of Intent between GREC LLC and Wood Resource Recovery, LLC
Richard D. Bachmeier	GRU/GREC LLC	<u>                    </u> (RDB-4)	Resumé of Richard D. Bachmeier
		<u>                    </u> (RDB-5)	"Market Value of GRU's Generation Portfolio" study performed by The Energy Authority (TEA)
Edward J. Regan	GRU/GREC LLC	<u>                    </u> (EJR-4)	Financial Costs Associated With Policy Objectives, Environmental Regulations, Fuel Price Volatility and Adding New Generation Capacity
		<u>                    </u> (EJR-5)	Biased Expected Value Risk Analysis for GREC
		<u>                    </u> (EJR-6)	Gas Price Forecasts are Unstable
		<u>                    </u> (EJR-7)	Mid-Range Expected Value Risk Analysis for GREC
		<u>                    </u> (EJR-8)	Black & Veatch, Biomass Sizing Study, January 2007
		<u>                    </u> (EJR-9)	FMPA, Letter to Florida Public Service Commission, February 24, 2010

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		_____ (EJR-10)	OUC Letter to GRU General Manager, March 8, 2010
Myron R. Rollins, P.E.	GRU/GREC LLC	_____ (MRR-1)	Resumé of Myron R. Rollins, P.E.

GRU and GREC LLC reserve the right to identify additional exhibits for the purpose of cross-examination or rebuttal.

**C. Statement of Basic Position**

**GRU/GREC LLC:** The commission should grant the petition for determination of need for the Gainesville Renewable Energy Center (GREC) because it is the most cost-effective option that allows GRU to meet future power requirements. There are no cost-effective renewable energy resources or conservation/demand-side measures available to offset the need for the GREC. The GREC biomass facility will provide adequate electricity at a reasonable cost as well as contribute to the reliability and integrity of GRU's system. In addition, GRU will have utilized renewable energy sources and technologies as well as conservation measures to the extent reasonably available. (All GRU/GREC LLC Witnesses)

**D.-F. Issues and Positions**

GRU's and GREC LLC's positions on the issues identified in this proceeding are as follows:

**ISSUE 1: Are Gainesville Regional Utilities and Gainesville Renewable Energy Center, LLC proper applicants within the meaning of Section 403.519, F.S.?**

**GRU/GREC LLC:** Yes. GRU is a municipal electric, natural gas, water, wastewater, and telecommunications utility serving retail customers that is owned and operated by the City of Gainesville in Alachua County, located in north-central Florida and is a valid applicant under the Florida Electrical Power Plant Siting Act (PPSA), Chapter 403, Part II, Florida Statutes.

GREC LLC is a private renewable power producer that will own, operate, and maintain the proposed GREC biomass facility and sell 100 percent of the facility's electric power output to GRU under a 30 year power purchase agreement (PPA). GREC LLC is therefore an appropriate joint applicant pursuant to the Commission's decisions and the Florida Supreme

Court's opinion in Nassau Power Corp. v. Deason, 641 So. 2<sup>nd</sup> 396 (Fla. 1994). (Regan, Levine)

**ISSUE 2:** **Is there a need for the Gainesville Renewable Energy Center, taking into account for the need for electric system reliability and integrity, as this criterion is used in section 403.519, Florida Statutes?**

**GRU/GREC LLC:** Yes. GREC's capacity is needed to improve and maintain the reliability of GRU's existing system. The capacity from GREC is needed to replace capacity from GRU's lowest cost existing fossil fueled unit, Deerhaven 2, during maintenance and forced outages. Deerhaven 2 serves approximately 50 percent of GRU's system peak demand and, as an aging facility that will be 32 years old when the GREC facility goes into service in late 2013. With increased age, the availability of Deerhaven 2 is expected to decrease. Most of the remainder of GRU's capacity is older than Deerhaven Unit 2 and will be retired during the term of the GREC LLC PPA. Thus, GRU needs the capacity from GREC to meet GRU's 15 percent reserve margin planning criterion. (Regan, Hanrahan)

**ISSUE 3:** **Is there a need for the Gainesville Renewable Energy Center, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in section 403.519, Florida Statutes?**

**GRU/GREC LLC:** Yes. The GREC LLC PPA was evaluated on a levelized cost basis against comparable supply-side alternatives over the term of the GREC LLC PPA. The supply-side alternatives were evaluated considering seven different scenarios of fuel cost, capital cost, and carbon dioxide (CO<sub>2</sub>) regulation. On a levelized cost basis, the GREC LLC PPA is lower in cost than any of the alternatives in 23 of the 28 cases that were evaluated. The GREC LLC PPA is lower in cost than any of the natural gas alternatives considered. Although it is uncertain whether any type of coal unit could be permitted in Florida at this time, the GREC LLC PPA is lower in cost than coal units when CO<sub>2</sub> regulation is considered. (Regan, Bachmeier)

**ISSUE 4:** **Is there a need for the Gainesville Renewable Energy Center, taking into account the need for fuel diversity and supply reliability, as this criterion is used in Section 403.519, Florida Statutes?**

**GRU/GREC LLC:** Yes. The GREC is needed to diversify GRU's existing fuel mix which is dominated by coal and natural gas. Coal is potentially at risk under future CO<sub>2</sub> emissions regulations. The price of natural gas has been highly volatile, and availability of natural gas may be considered a risk. Additionally, natural gas is also potentially at risk under future CO<sub>2</sub> emissions regulations. The GREC is needed to minimize the effects of these potentially costly and regulation-constrained fuels. (Regan, Schroeder, Hanrahan)



**ISSUE 5:** Are there any renewable energy sources and technologies, as well as conservation measures, taken by or reasonably available to Gainesville Regional Utilities which might mitigate the need for the proposed Gainesville Renewable Energy Center?

**GRU / GREC LLC:** No. GRU has invested significant effort in developing the demand-side management (DSM) programs currently offered to its customers and is considered one of the leading utilities in the State in this area. Since 1980, GRU has offered incentives and services for energy conservation and demand reduction. DSM programs are available for all of GRU's retail customers, including commercial and industrial customers. In addition, GRU continues to offer rebates for solar water heating and net metering and rebates for solar photovoltaics. In addition, GRU is successfully offering the first Feed-in-Tariff for solar photovoltaics in the United States designed to stimulate the photovoltaic industry in the Gainesville area and Florida in general. GRU has also utilized landfill gas, the only other renewable resource readily available to GRU, to the extent of its availability. GRU has several programs to improve the adequacy and reliability of the transmission and distribution systems, which also result in decreased energy losses. The combined successes of these programs and initiatives has helped to delay the need for additional capacity to beyond the proposed commercial operation date of the GREC biomass facility; however, the benefits associated with the GREC project, as well as economic incentives available to the proposed project that would not be realized if the commercial operation date is delayed beyond 2013, are significant enough to warrant GRU's petition for determination of need at this time. (Regan, Hanrahan)

**ISSUE 6:** Is the Gainesville Renewable Energy Center the most cost-effective alternative available, as this criterion is used in section 403.519, Florida Statutes?

**GRU/GREC LLC:** Yes. The GREC is lower in cost than any of the natural gas alternatives considered. The facility is also lower in cost than coal units when CO<sub>2</sub> regulation is considered.

The economics of GRU's PPA with GREC LLC were compared to the cost of the supply-side alternatives using a levelized cost of energy (LCOE) approach. The LCOE combines capital, operating, maintenance and fuel costs. There were a total of 28 different supply-side alternative scenarios evaluated. The GREC LCOE was lowest in cost in 23 of the 28 scenarios with only scenarios with coal units without any consideration of CO<sub>2</sub> being lower in cost. It is uncertain as to whether coal units of any type can be permitted in Florida at this time, and the Gainesville City Commission and community have thoroughly considered and clearly

adopted a long-range energy policy that does not include new coal-fired generation.. (Hanrahan, Regan, Bachmeier)

**ISSUE 7:**            **Based on the resolution of the foregoing issues, should the Commission grant the petition to determine the need for the proposed Gainesville Renewable Energy Center?**

**GRU/GREC LLC:** Yes. The Commission should grant the petition for determination of need for the Gainesville Renewable Energy Center (GREC) because it is the most cost-effective option that allows GRU to meet future power requirements. There are no cost-effective renewable energy resources or conservation/ demand-side measures available to offset the need for the GREC. The GREC biomass facility will provide adequate electricity at a reasonable cost as well as contribute to the reliability and integrity of GRU's system. In addition, GRU will have utilized renewable energy sources and technologies as well as conservation measures to the extent reasonably available. (All GRU/GREC LLC Witnesses)

**ISSUE 8:**        **Should this docket be closed?**

**GRU/GREC LLC:** Yes. This docket should be closed after expiration of the time for filing an appeal of the Commission's final order addressing the petition for determination of need.

**G.    Stipulated Issues**

Issue 1 has been stipulated by the Petitioners and the Commission Staff.

**H.    Pending Motions**

None.

**I.    Requests for Confidentiality**

GREC LLC has pending Requests for Confidential Classification dated January 14, 2010, March 30, 2010, and April 1, 2010.

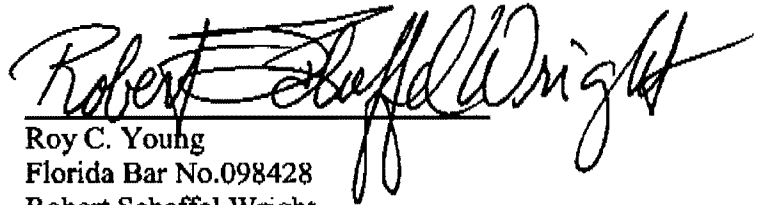
**J.    Requirements of Order**

GRU and GREC LLC believe that this prehearing statement complies with all the requirements of the Order Establishing Procedure.

**K. Objections to Qualifications**

GRU and GREC LLC have no objection to the qualifications of any expert witness in this proceeding.

Respectfully submitted this 1st day of April, 2010.



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**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been served by electronic mail and hand delivery (\*) or U.S. Mail this 1st day of April, 2010, on the following:

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