Matilda Sanders

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From: rhunter@greencoastenergy.org
Sent: Wednesday, December 06, 2006 3:38 PM
To: Filings@psc.state.fl.us
Subject: R. Hunter post-hearing comments for Green Coast Energy on Proposed Rule for Firm Capacity and Energy Payments
Attachments: R Hunter Green Coast's Posthearing Comments on proposed rule 25-17.0832.doc

Good afternoon,
Attached please find the post-hearing comments and suggestions of Green Coast Energy, Inc for Docket No. 060555-EI, Proposed Amendments to Rule 25-17.0832, FAC, Firm Capacity and Energy Payments. Thank you for your assistance and please let me know if anything further is needed from Green Coast to add these comments to the docket.

Best regards,

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Amendments to Rule	)	DOCKET NO. 060555-EI
25-17.0832 – Firm Capacity and Energy	)	Submitted: December 6, 2006
Contracts	)	
	)	

POST-HEARING COMMENTS OF GREEN COAST ENERGY, INC

PERTAINING TO RULEMAKING ON STANDARD OFFER CONTRACTS

FOR RENEWABLE ENERGY

Green Coast Energy, Inc ("GCE") is grateful for the opportunity, and the generous time allowance, to submit comments regarding the discussions held on the hearing of November 9th. GCE seeks to develop renewable energy projects in Florida, and is currently seeking a negotiated contract with Florida Power and Light for firm capacity and energy of a 42 megawatt (gross) biomass facility to be located in Volusia County.

I would like to begin my discussion with a quote from Commissioner Carter: "It is a great day in the State of Florida." GCE would concur with this statement, and the context in which it was made. We had the opportunity to learn a great many things from each other on the hearing of November 9th, and I believe we learned, as Mr. Moyle put it, 'that renewable energy is not an easy issue.' However, I think that we all have a much better understanding now of what it will take to bring renewable power projects on-line to diversify our fuel source.

But I would ask the question: is diversifying our fuel source the only benefit that having renewable energy brings? Is it only to avoid putting all our electrical-generating eggs in one basket? Or is there more value to renewable energy than just a 'different way to make electricity?'

I believe Senator Bennett's speech came as a wake-up call on this question, and answered it with a resounding, 'Yes!' To quote: (Bennet, pages 9-10)

And often times it's come back to us, well, yes, Senator, you can get the renewable energy, but it's going to increase the cost to the consumer in the State of Florida and we don't want to do that, and I've always disagreed with that argument. It might increase the price a little bit, but it's not going to increase the cost. If we have sustainable energy and renewable energy in the State of Florida, it'll decrease the cost because part of the cost is polluted air, part of the cost is depleting our natural resources. Those are costs. The price is what you actually pay. It's the cost of not doing renewable energy that the consumers and your children and their grandchildren are going to pay if we all don't do something here.

I honestly do not believe it could be said any more clearly than that. The State of Florida *needs* renewable energy for a sustainable future. The opportunity cost of *not* having renewables is significantly greater than the couple cents extra per kilowatt hour it would cost to fairly compensate renewable energy producers. The Legislature has empowered the PSC with the flexibility and responsibility to enact rules that will capitalize on the renewable resources our state enjoys and diversify our fuel source. The current level of renewables in Florida is an insignificant fraction (whether we are using the 500, 600, or 800 MW estimates), and the only way for us to increase it is to have standard offer contracts that are attractive to investors.

Case in Point: GCE's Negotiations with FPL for Sale of Renewable Power

To demonstrate the inadequacy of the existing standard offer contracts, I would now like to depart from the theory of the matter and delve into a current, real-life example. As the reader may know, GCE is developing a 42 MW biomass facility in the Volusia County area. We met with representative from FPL on November 14th at their Miami office to negotiate terms for a contract to sell the renewable power generated by the project.

The existing 2012 coal-based Standard Offer Contract provides for capacity payments that we calculated on a per-kilowatt-hour basis to equate to approximately 3 cents per kwh. The 'avoided cost' basis energy payments are variable but could be estimated at around 1.7 cents per kwh (an estimate confirmed by FPL at the meeting). So this coal-based contract, the most likely document to be financeable, provides for a grand total revenue of only 4.7 cents per kilowatt hour! I cannot speak for my renewable colleagues, but for GCE this is insufficient to cover debt service and expenses, much less provide a return to equity investors or a coverage ratio.

To date, the argument has been that if the terms of a standard offer contract are insufficient for the renewable producer, then we are free to negotiate different payment terms. The representatives from FPL indicated they were receptive and willing to negotiate contract terms, as long as it had nothing to do with the pricing. This standpoint called to mind Henry Ford's famous 'I'll paint the car any color you want, as long as it is black.' I would like to note that the FPL representatives indicated that their inflexibility in deviating from the existing price is derived from some PSC mandate; perhaps this new rule is an excellent opportunity for the Commission to clarify this issue (going back to what Commissioner Tew said about encouraging fixed energy payments in negotiated contracts, though not requiring them in the rule).

There are other contract offers out there, using different avoided units, but the capacity payments are negligible in comparison, leaving the majority of the project revenues pegged to uncertain and volatile fuel prices. I had thought that the intent was to *save* consumers from that risk, rather than bind them to it inextricably. I will address this further in my recommendations to come.

The contracts with low capacity payments ask our investors to take much higher risk, since so much of the contract revenues are uncertain. Assuming that they are willing to take that risk, it is a certainty that they will demand a higher return, increasing our cost of capital further. Moreover, my conversations with staff have indicated that the terms of the contract only apply *when the avoided unit would be running*...at all other times, the renewable producer would be paid the as-available energy rate instead of the contract rate.

So, for a contract based on a combustion turbine 'peaker' unit, the contractual energy payment rate would only apply a small percentage of the time, and for the rest of the time the rate would be that of the last incremental unit dispatched, be it coal, nuclear, gas, etc. This adds even more uncertainty to the revenue stream and acts as a strong disincentive for those considering bringing their investment money to the State of Florida.

As a company developing a new renewable energy project, GCE may end up being one of, if not *the*, Florida poster child for the new PSC rulemaking. Thus, I would ask you to consider our current situation as one that all future renewable producers will face when contemplating Greenfield development in Florida. To bring about renewable energy and diversify our fuel supply we need to have a contract where the dollars and cents make it feasible.

After participating in the hearing on November 9th, reading over all the documents, and my own negotiations with one of the investor-owned utilities, I have maintained and

confirmed my comments that the Proposed Rule as put forth by Mr Zambo and his team represents a balanced approach in encouraging renewable energy with minimal impact upon the consumers. At the same time, I would like to suggest the following solutions:

Idea 1: How much should be paid for renewable energy?

The existing standard-offer contracts are inadequate for encouraging renewable energy; at the same time, we want to minimize the financial impact and volatile risk of fossil fuels upon the ratepayers. This is a difficult and complicated situation, and such situations are often solved by simple solutions.

Why not establish a panel of experts to just *set* the total amount that should be paid for renewable energy?

I know that this is a deviation from what has been the norm (perhaps even a 'bold move' as the senator put it), but I would ask everyone to consider this with an open mind.

This statewide renewable energy rate would be calculated taking into consideration the additional amount that the utility must charge to cover its overhead costs. For example, I am an FPL customer and my electric bill runs approximately 10-12 cents per kwh (dependant upon how much electricity my household consumes). So if FPL's cost of electricity is 7 cents per kwh, and their overhead is 4 cents per kwh (hypothetical numbers), then this panel of experts (under the guidance and authority of the PSC) could take this into account when deciding how much renewable energy is worth, how much renewable producers need to operate, and how much extra cost there is.

The end result would be a fixed contractual energy payment that 'energizes the market' for renewables, while minimizing the risk to the consumer of volatile fuel prices. So if the panel and PSC decide that renewable energy is worth 8 cents per kwh, and the utility's overhead is 50%, then the net cost to the consumer would be 12 cents per kwh, as compared to

the status quo of 10-12 cents per kwh PLUS pollution PLUS fuel volatility PLUS diminishing natural resources. Remember, like Senator Bennett said, we have to consider the big picture.

We know we want renewables, the Legislature and Senator Bennett made that abundantly clear. We know the existing rules have resulted in miniscule diversification of the fuel supply, and we know that companies like GCE who want to build more renewables are deterred from doing so by standard contracts which won't pay the bills.

If the PSC were to adopt this recommendation in some form and *set* a price for renewable energy that fairly compensates the producer, then the State of Florida would quickly diversify its fuel source and meet whatever realistic goals it may choose to set for renewable energy. Moreover, consumers would not need to fear rising costs of fossil fuels or worry that conflict in the Middle East will cause their expenses to shoot up.

Idea 2: A Statewide Green Pricing Program

This second suggestion may not be germane to the standard offer contract rule itself, but Commissioner Carter *did* ask for ideas to energize the renewable market. So I apologize in advance if this is not the proper forum to relate this idea.

Several utilities around the nation have what is known as a 'Green Pricing Program', in which customers voluntarily purchase 'blocks of green'. For example, Georgia Power offers customers the opportunity to make their electricity 'green' by buying 100 kwh blocks for $4.93 per block. This goes to support their investments in renewable energy projects.

What if the PSC established a statewide green pricing program, in which the consumers who choose to support renewables purchase blocks of green, and at the end of the year the total green payments get liquidated amongst those producing renewable energy? The PSC could establish a fund for these renewable pricing payments, administered by a fiduciary of impeccable character.

This could serve as one tool the PSC might use to encourage the development of renewable energy in Florida. An attractive part of this idea is that it is entirely at the discretion of the consumers and there is nothing to lose by implementing it.

Idea 3: The Renewables and the IOU's Working Together?

This is another idea that would probably not be a part of any rule, but that nonetheless might be useful in some situations to energize the market and have the renewables and the IOU's team up on these projects.

Under the current tax provisions (IRC sec. 45), there is a production tax credit available of $19/mwh for producers of renewable energy using wind, solar or closed-loop biomass. There is a partial tax credit of $10/mwh for several other types of renewable facilities, including open-loop biomass, municipal solid waste, and hydroelectric power. These are indexed for inflation and are available for the first ten years of a project.

It is quite possible that a project's federal income tax liability will be significantly less than the tax credit, and thus unless the renewable producer has other tax liability to be offset against, the tax credit may not be fully realized. The IOU's, however, have substantial tax liability and could make good use of this federal tax credit. For many renewable projects, it might make sense for the IOU and REP to join forces and pass the tax credit on to the IOU, in return for a revenue payment.

Example An REP and an IOU do a joint venture in which the IOU receives all the production tax credits to apply against their taxes. The IOU agrees to pay the REP a revenue stream (above and beyond capacity and energy) equal to the $10/mwh tax credit, which improves the REP's ability to finance the project. The REP produces 10 mwh of electricity, and receives $100. The IOU receives $100 in production tax credits. Net results: the REP has more front-

loaded income to make the project financeable, the IOU is price-neutral, consumers are price-neutral.

This idea will only work for certain projects in certain situations, but is worth considering as a means to improve cash flows without affecting the utility or the consumers.

Of the three ideas GCE has put forth, only the first two would actually require PSC action, but I hope that they will be considered with the current situation in mind. Lastly, I would like to reiterate a key point for renewable producers: the contract start date. The rule proposed by staff incorporates a Portfolio Approach, and offers the REP a choice of avoided units. However, the rule as proposed does not yet offer the REP the ability to choose *when* the contract will start under the SOC terms.

For example, if GCE wishes to enter into a contract with FPL based upon their combined cycle unit, the contract start date will not be until 2015. Our 42 MW biomass facility will be up and running 2011-2012, but under the current rule our contract would not begin until 2015. Whether the Commission ultimately adopts a rule based on the Renewable Group's proposal, or Staff's proposal, GCE asks you to include in this rule a provision allowing the contract to start once the REP begins providing firm capacity and energy.

The Legislature has given the Commission the flexibility to make 'bold moves' to improve our state's energy situation, and I hope that these post-hearing comments will be helpful to Staff and the Commission in formulating your recommendations and decisions.

Once again, we would like to express our thanks to the Commission and Staff for the opportunity to submit these comments.

Respectfully submitted this day, December 6th, 2006.

/s/ *Robert E. Hunter*

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