I. Meeting Packet

State of Florida
Public Service Commission
INTERNAL AFFAIRS AGENDA
Thursday, August 2, 2012
Immediately following Commission Conference
Betty Easley Conference Center, Room 140

1. Approve July 18, 2012, Internal Affairs Meeting Minutes. (Attachment 1)
2. Update on U.S. EPA Proposed Rule on Greenhouse Gas Emissions for New Electric Generating Units. (Attachment 2)
3. Presentation by Florida Natural Gas Association. (Attachment 3)
4. Executive Director's Report. (No Attachment)
5. Other Matters.

BB/css

OUTSIDE PERSONS WISHING TO ADDRESS THE COMMISSION ON ANY OF THE AGENDAED ITEMS SHOULD CONTACT THE OFFICE OF THE EXECUTIVE DIRECTOR AT (850) 413-6463.

Attachment 1

State of Florida
Public Service Commission
INTERNAL AFFAIRS MINUTES
Wednesday, July 18, 2012
9:30 a.m. – 10:19 a.m.
Betty Easley Conference Center, Room 140

COMMISSIONERS PRESENT: Chairman Brisé
Commissioner Edgar
Commissioner Graham
Commissioner Balbis
Commissioner Brown

STAFF PARTICIPATING: Baez, Hill, Lynn, Kiser, Shafer, Miller, Crawford, Futrell, Trapp, Marr

OTHERS PARTICIPATING: Paul Lewis, Jr., Progress Energy

1. Approve June 19, 2012, Internal Affairs Meeting Minutes.

   The minutes were approved with the following underlined correction to Item 5, Other Matters: After some discussion, the Commissioners unanimously voted to request that EPA extend the deadline for providing comments.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

2. Draft Report on the Status of Competition in the Telecommunications Industry. Approval is sought.

   The Report on the Status of Competition in the Telecommunications Industry was approved.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

3. FERC Orders 1000 and 1000-A: Continued briefing and discussion of options. Guidance is sought.

   The Commissioners directed staff to intervene in Alabama's appeal.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

4. Update on U.S. EPA Proposed Rule on Greenhouse Gas Emissions for New Electric Generating Units.

   The Commissioners were updated on U.S. EPA Proposed Rule on Greenhouse Gas Emissions for New Electric Generating Units. Staff was directed to draft a letter of support of DEP and NARUC comments, and bring it back to a future Internal Affairs meeting.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

5. Executive Director's Report.

   a) Mr. Baez reported FPSC's reorganizational documentation was approved by DMS, with a July 1, 2012, effective date. The Commissioners will receive further information regarding the responsibilities on the technical side, as it becomes more finalized.

   b) Mr. Baez briefed the Commissioners on the status of the Florida Energy Efficiency Conservation Act study. The University of Florida and NRRI proposal was determined to be the most adequate to meet the State's need for the January 31, 2013, report and a contract has been executed.

   c) Mr. Baez briefed the Commissioners on two staff workshops.

      1) The Electric Vehicle Charging Station workshop is scheduled for September 5, 2012. The public will have the opportunity to provide comments. Information is also being gathered through independent means for a report that is due to the legislature on ~~December 31, 2013~~ December 31, 2012.*

      2) A workshop regarding Smart Meters is scheduled for September 20, 2012. The public will have the opportunity to provide comments. Information will be compiled and brought back to the Commissioners for further discussion.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

6. Other Matters.

   The Chairman announced that a noticed meeting with the Commissioners and Duke Energy's Executive Team is scheduled for August 13, 2012, at 1:00 p.m. A status conference is scheduled after this noticed meeting.

   Commissioners participating: Brisé, Edgar, Graham, Balbis, Brown

*Reflects correction to minutes, as approved at the August 2, 2012, Internal Affairs.

Attachment 2

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 25, 2012

TO: Braulio L. Baez, Executive Director

FROM: Division of Economics (Harlow)
Office of Industry Development and Market Analysis (Futrell)
Office of the General Counsel (Miller)

RE: Draft Letter to EPA on Proposed Greenhouse Gas Standard for New Power Plants

Critical Information: Please place on the August 2, 2012 Internal Affairs. FPSC guidance on communications with EPA is sought.

The U.S. Environmental Protection Agency (EPA) has proposed standards of performance for greenhouse gas emissions from new fossil-fueled electric generating units. At the July 19, 2012 Internal Affairs meeting, the Florida Public Service Commission (FPSC) directed staff to draft a letter to the EPA expressing the FPSC's support for comments on these standards which were filed by the Florida Department of Environmental Protection (FDEP) and the National Association of Regulatory Utility Commissioners (NARUC). Attachment 1 is a draft letter to EPA for your consideration.

Subsequent to the July 19, 2012 Internal Affairs, the Chairman's office received a letter from EPA in response to the FPSC's request for additional time to file comments. The EPA stated that while it is not planning to extend the comment deadline, the EPA will "make every effort to consider your comments which we encourage the FPSC to submit to us as soon as possible." The EPA's letter is included as Attachment 2. In view of the EPA's letter, staff has also included detailed draft comments for the FPSC's consideration as an alternative. The draft comments are included as Attachment 3.

Staff seeks guidance from the FPSC on communications with the EPA regarding the proposed greenhouse gas rule. If the FPSC chooses to send either a letter or detailed comments, staff will send these to the EPA both by mail and electronically.

Attachment

cc: Charles Hill
S. Curtis Kiser

STATE OF FLORIDA

RONALD A. BRISÉ
CHAIRMAN

Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
(850) 413-6046

Public Service Commission

July 25, 2012

Air and Radiation Docket and Information Center
Attention Docket ID No. EPA-HQ-OAR-2011-0660
Environmental Protection Agency
Mail Code 2822T
1200 Pennsylvania Avenue, Northwest
Washington, DC 20460

Re: Proposed Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units; Docket ID No. EPA-HQ-IAR-2011-0660

Dear Sir or Madam:

The Florida Public Service Commission (FPSC) is charged with ensuring that Florida's electric utilities provide safe, reliable service for Florida's consumers in a cost-effective manner. The FPSC is statutorily authorized pursuant to Chapter 366, Florida Statutes, to provide for cost recovery to the investor-owned electric utilities for prudently incurred environmental compliance expenditures. We recognize the necessity and role of the U.S. Environmental Protection Agency (EPA) to address public health and environmental measures. We are concerned, however, that the EPA's proposed rule, which sets carbon emission standards for new fossil-fueled electric generating facilities, may have significant impacts on Florida's electric consumers and utilities.

The FPSC wishes to express our support for the attached comments submitted to the EPA by the Florida Department of Environmental Protection (FDEP) and the National Association of Regulatory Utility Commissioners (NARUC) in the instant docket. These parties appropriately raise concerns on the potential impacts of the proposed rule to limit utility flexibility to meet customer energy needs from a reliable and diverse mix of generating resources. We concur with the FDEP and NARUC that the EPA's proposed standard, which was based on the carbon emissions of a natural gas-fired facility, will essentially preclude the development of new coal-fired generation. In order to meet the standard, new coal facilities would be required to install costly, undemonstrated carbon capture and sequestration (CCS) technology. Thus, the proposed rule may have the effect of accentuating fuel diversity concerns in Florida, as natural gas-fired generation currently represents 50 percent of existing capacity and is expected to grow to 55 percent by 2020.

NARUC also appropriately expresses concern on the potential for continued uncertainty for retrofit investment and cost recovery decisions on existing fossil-fueled electric generating resources. The EPA's decision to exclude all modifications and reconstruction of existing facilities from the proposed rule may raise legal challenges. The EPA acknowledges in the proposed rule that it will promulgate rules at the appropriate time for existing facilities. Electric utilities, therefore, will continue to face uncertainty as to whether existing coal- and oil-fired facilities may be impacted in the future. Approximately 27 percent of Florida's electricity needs are currently met with coal- and oil-fired generation. The FPSC is therefore concerned that these units could be at risk of early retirement or required to install unproven, costly CCS technology. The FPSC recognizes that EPA's proposal attempts to provide new coal plants with some compliance flexibility by including the option to average carbon emissions over thirty years. As discussed by the FDEP and NARUC, however, the uncertainty surrounding CCS development may have a chilling effect on a utility's ability to obtain financing for large coal-fired projects.

The EPA has the flexibility under the Clean Air Act to set separate standards for natural gas- and coal-fired generators, as it has consistently in the past for other performance standards. In addition, the Clean Air Act requires that emission performance standards be set based on demonstrated control technology, while taking cost into account. Yet EPA has set a single emission standard based on natural gas-fired technology for all fossil-fueled units. We believe that electric utilities should be given the flexibility to choose the most efficient, least-cost compliance options to meet public health and environmental goals. The FPSC therefore concurs with the FDEP that the EPA should withdraw its proposed carbon standards for new power plants. We also support the FDEP's contention that any new proposed rule should include separate standards for natural gas-fired and coal-fired generation that are achievable with current generating technologies, while taking cost into account.

In conclusion, the FPSC supports the comments of the FDEP and NARUC and urges the EPA to carefully consider their concerns in the rulemaking process.

Thank you for considering our concerns.

Sincerely,

Ronald A. Brisé
Chairman, Florida Public Service Commission

Enclosures: The FDEP's and NARUC's comments filed with the EPA on June 25, 2012.

cc: Christian Fellner
Nick Hutson

Florida Department of Environmental Protection
Bob Martinez Center
2600 Blair Stone Road
Tallahassee, Florida 32399-2400

Rick Scott
Governor

Jennifer Carroll
Lt. Governor

Herschel T. Vinyard Jr.
Secretary

June 25, 2012

Via E-Mail to a-and-r-docket@epa.gov
Via Electronic Submission at regulations.gov

Air and Radiation Docket and Information Center
Attention Docket ID No. EPA-HQ-OAR-2011-0660
Environmental Protection Agency
Mail Code 2822T
1200 Pennsylvania Avenue, Northwest
Washington, DC 20460

Re: Comments on Proposed Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units

Dear Sir or Madam:

Please accept these comments from the Florida Department of Environmental Protection in response to the proposed rule titled "Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units" as published in the *Federal Register* on April 13, 2012 (72 Fed. Reg. 22,392). This EPA proposal would establish a New Source Performance Standard ("NSPS") for carbon dioxide ("CO_2") emitted by certain electric generating units. The proposed standard for regulated units is 1,000 pounds of CO_2 emissions per megawatt-hour (MWh) of electricity produced.

Section 111 of the Clean Air Act requires EPA to establish performance standards for categories or subcategories of new or modified stationary air emission sources. This EPA proposal would create a new category of emission sources subject to the proposed NSPS. The new category of sources would consist of fossil-fuel fired steam boilers, integrated gasification combined cycle units, and combined-cycle combustion turbines. This proposal represents the first time that EPA would group electric generating units that burn solid fossil fuels with those that burn gaseous fossil fuels for the purpose of setting a performance standard.

The proposed 1,000 lbs CO_2/MWh standard is based upon the performance of newer natural gas-burning combined-cycle electric generating units. While the Department concurs with EPA that new, efficient natural gas combined-cycle plants can meet the proposed NSPS, EPA's proposal would effectively preclude construction of new, efficient coal-fired power plants. It is with regard to this issue that the Department comments.

The proposed rule unnecessarily burdens taxpayers and ratepayers.

The Department notes EPA's determination that the proposal would impose no costs nor have any direct climate benefits in terms of CO_2 reductions (72 Fed. Reg. at 22,401). EPA's determination is based on its planning model, which predicts that no electric utility will build a new coal-fired power plant in the next 20 years due to low natural gas prices and other market forces. Yet, untold millions of public and private dollars will be spent debating the legality of EPA's proposal because of a single, glossed-over fact important to federal and state energy policy: New coal-fired power plants will be unable to meet the proposed output-based emission limit without employing a technology (carbon capture sequestration or "CCS") that no power plant ever has employed at commercial scale.

If market forces dictate that no new coal-fired power plants will be built through 2030, it is troubling that EPA would develop and propose a rule that unnecessarily burdens taxpayers and electric utility ratepayers. EPA should mitigate the burden this proposal has created by withdrawing the proposal and issuing a new proposal that would establish separate performance standards for natural gas-fired and coal-fired electric generating units. EPA should base the former on CO_2 emissions achievable by combined-cycle technology and the latter on emissions achievable by "supercritical" boilers.

The Clean Air Act requires a NSPS to be based on existing technology, but expressly prohibits EPA from mandating use of a specific technology.

The Clean Air Act requires EPA to account for the cost and availability of control options when establishing a NSPS. Specifically, the Act requires EPA to set performance standards at a level that is achievable through the best system of emission reduction which, taking into account cost, has been adequately demonstrated. The Act also prohibits EPA from requiring a particular technological system to comply with any new standard. The burden of proving that a standard is reasonable and that the industry is capable of meeting the standard rests with EPA.

The evidence that CCS technology is prohibitively costly and not adequately demonstrated is vast. In its proposal, EPA carefully characterizes CCS as "feasible," but

not as "adequately demonstrated." The proposal references Department of Energy estimates that today's CCS technology would add approximately 80 percent to the cost of electricity for a new coal-fired plant, and approximately 35 percent to the cost of electricity for an integrated gasification-based plant. The proposal notes that "even though it is costly, there are some state and Federal subsidy programs that can make CCS more affordable" (72 Fed. Reg. at 22,418). To the best of the Department's knowledge, the only CCS project actually under construction in the U.S. at commercial scale is a pre-combustion integrated gasification combined cycle facility located in Kemper County, Mississippi. Earlier this month, an independent audit was released to the Mississippi Public Service Commission showing that the project is $366 million above former cost estimates of $2.4 billion.

Because EPA could not conclude that CCS is adequately demonstrated (taking into account cost) for purposes of establishing a NSPS for coal-fired units, EPA employs the legal trick of "revising" the source category to be inclusive of all fossil fuel-fired units. Consequently, instead of establishing a standard that would minimize CO_2 emissions from coal units, EPA essentially would force new coal-fired units to become natural gas-fired units, as only a new natural gas combined-cycle plant could meet the proposed standard. Therefore, EPA's proposal is inconsistent with Congress's specific direction that EPA is not authorized to require a source to install any particular technology system.

A single performance standard for all fossil fuel-fired units is not "fuel neutral" and circumscribes federal and state energy policy.

By creating a new source category, EPA has developed a regulatory standard that would pick a winning fuel and losing fuel for baseload electrical generation. This approach fails to recognize other priorities such as fuel diversity and cost, and would ultimately leave ratepayers vulnerable to price fluctuations. The proposal could also threaten electric grid reliability and hamper efforts to achieve energy independence by essentially precluding new use of coal—this country's most readily accessible and abundant fuel source. Finally, this proposal appears to directly conflict with an "all of the above" energy policy advocated by federal and state administrations.

Nonetheless, the Department recognizes EPA's attempt to allow new coal-fired units "flexibility" through a 30-year averaging option. This compliance option does not go far enough, however, to address economic and regulatory concerns over the ability to sequester captured CO_2. Even if electric utilities were willing to assume the economic risks associated with CCS, the NSPS would shroud new coal projects with onerous regulatory compliance risks, including future civil liability. It is unclear to the Department that an electric utility would be able to obtain financing for a new coal

project given the uncertainty of being able to ultimately comply with the proposed NSPS.

An appropriately flexible compliance program would allow electric utilities or states to reduce CO_2 emissions anywhere within electric generating fleets to offset emission increases, should new coal-fired units be needed for diversity or reliability reasons. Strict control of CO_2 emissions from individual electric generating units simply is not necessary to achieve CO_2 reductions relative to EPA's "endangerment" justifications for the proposed rule. Any effects of CO_2 emissions do not result from acute geographic or temporal emissions typically controlled by unit-level performance standards. Therefore, EPA should reconsider or explain why the proposal summarily rejects averaging between sources or emissions trading during the proposed 30-year compliance option.

The Department appreciates the opportunity to comment on this important proposal. If you have any questions regarding these comments, please contact me or Mr. Brian Accardo at (850) 717-9000.

Sincerely,

Michael P. Halpin, P.E., Director
Division of Air Resource Management
Florida Department of Environmental Protection

cc: Beverly Banister, EPA Region 4
Jeff Littlejohn, P.E., FDEP
Brian Accardo, FDEP

N A R U C
National Association of Regulatory Utility Commissioners

June 25, 2012

VIA ELECTRONIC MAIL and REGULATIONS.GOV

Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Mail Code 2822T
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

Re: Docket ID No. EPA–HQ–OAR–2011-0660

Dear Administrator Jackson:

The National Association of Regulatory Utility Commissioners (NARUC) appreciates the opportunity to comment on this proposed rule. Please see our comments below.

If you have any questions, you can reach me at 202-898-1350 or rlunt@naruc.org.

Sincerely,

/s/

Robin J. Lunt
Assistant General Counsel

cc: Regina A. McCarthy, Assistant Administrator EPA Office of Air and Radiation
David Wright, Commissioner, NARUC President
Erin O'Connell Diaz, Commissioner, NARUC Electricity Committee Chair
Jeanne Fox, Commissioner, Chair NARUC Energy Resources and the Environment Committee
James Gardner, Commissioner, Chair NARUC Task Force on Environmental Regulation and Generation
Charles Gray, NARUC Executive Director
James Bradford Ramsay, NARUC General Counsel

Comments of the National Association of Regulatory Utility Commissioners
Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units

The National Association of Regulatory Utility Commissioners (NARUC) represents the State public service commissioners who regulate essential utility services throughout the country. Our members are charged with protecting the public and ensuring that regulated utilities provide reliable service at fair, just, and reasonable rates. NARUC appreciates the opportunity to comment on the *Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units* (Proposed Rule) (77 Fed. Reg. 22392, April 13, 2012) (Proposed NSPS for GHGs).[1]

NARUC Guiding Principles

Representing the State public service commissioners who regulate the nation's power providers, NARUC's perspective on this rule involves its impact on the utilities we regulate and, by extension, their consumers. During our 2011 Winter Committee Meetings we adopted the following recommendations, urging EPA in its implementation of power sector regulations to:

- Avoid compromising energy system reliability;
- Seek ways to minimize cost impacts to consumers;
- Ensure that its actions do not impair the availability of adequate electricity and natural gas resources;
- Consider cumulative economic and reliability impacts in the process of developing multiple environmental rulemakings that impact the electricity sector;
- Recognize the needs of States and regions to deploy a diverse portfolio of cost-effective supply-side and demand-side resources based on the unique circumstances of each State and region;

[1] *Available at* http://www.gpo.gov/fdsys/pkg/FR-2012-04-13/pdf/2012-7820.pdf.

- Encourage the development of innovative, multi-pollutant solutions to emissions challenges as well as collaborative research and development efforts in conjunction with the U.S. Department of Energy;

- Employ rigorous cost-benefit analyses consistent with federal law, in order to ensure sound public policy outcomes;

- Provide an appropriate degree of flexibility and timeframes for compliance that recognizes the highly localized and regional nature of the provision of electricity services in the U.S;

- Engage in timely and meaningful dialog with State energy regulators in pursuit of these objectives; *and*

- Recognize and account for, where possible, State or regional efforts already undertaken to address environmental challenges.

NARUC understands the significant impact the Proposed NSPS for GHGs and other finalized and pending environmental regulations will have on the power sector. To this end, during our annual Summer Meeting in July 2011, the Association expanded on the principles articulated in the earlier resolution. This new policy stresses the need for flexibility in compliance requirements, coordination among generating plants, and continued dialogue with federal and State utility and environmental regulators to ensure that compliance with these regulations does not hinder system reliability and minimizes cost impacts on consumers. Both resolutions are attached as appendices to these comments.

Proposed NSPS for Green House Gases Background

The Proposed NSPS for GHGs will limit carbon dioxide emissions from new fossil-fuel fired power plants to 1,000 lbs CO_2/MWh per year. The rule arises under Clean Air Act section 111, which governs pollution from stationary sources such as power plants that have been deemed by the EPA Administrator as a category of sources that "causes, or contributes significantly, to, air pollution which may reasonably be anticipated to endanger public health or

welfare." CAA §111(b)(1)(A). The standard for emissions is defined as "best system of emissions reductions, (taking into account the cost of achieving such reduction and any nonair quality health and environmental impacts and energy requirements) the Administrator determines has been adequately demonstrated" CAA §111(a)(1) (BSER). The Proposed NSPS for GHGs is subject to a settlement agreement[2] where States and environmental entities challenged EPA's failure to address GHG emissions in the 2006 Electric Utility Steam Generating Units NSPS.[3]

EPA proposes to combine coal fired power plants and natural gas combined cycle power plants into a single category for the Proposed NSPS for GHGs.[4] The emission limit established for this new combined source category is based on the demonstrated performance of natural gas combined cycle units (NGCC) "which are currently in wide use throughout the country, and are likely to be the predominant fossil fuel technology for new generation in the future." 77 Fed. Reg. at 22,394.

While the Clean Air Act applies NSPS to new and modified sources, the Proposed NSPS for GHGs does not propose a standard for modifications, stating that "sources not subject to the new source performance standards would be treated as existing sources subject to section 111(d)."

The Proposed NSPS for GHGs excludes transitional sources, defined as "a coal-fired power plant that has received approval for its completed PSD [Prevention of Significant Deterioration] preconstruction permit... and that commences construction within 12 months of

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[2] Settlement between the States of New York, California, Connecticut, Delaware, Maine, New Mexico, Oregon, Rhode Island, Vermont, and Washington, the Commonwealth of Massachusetts, the District of Columbia, and the City of New York (collectively "State Petitioners"); and (2) Natural Resources Defense Council (NRDC), Sierra Club, and Environmental Defense Fund (EDF)(collectively "Environmental Petitioners"), and Respondent, the U.S. Environmental Protection Agency ("EPA").
Available at http://www.epa.gov/airquality/cps/pdfs/boilerghgsettlement.pdf. entered into in December 2010. Hereinafter, Settlement Agreement.

[3] 71 Fed. Reg. 9,866 (Feb. 27, 2006).

[4] Boilers and IGCC units are currently included in the Da category while combined cycle natural gas units are Currently in the KKKK Category. The rule combines Da and KKKK Categories into a new TTTT Category.

4

the date of this proposal." 77 Fed. Reg. at 22,422. EPA estimates that there are 15 sources that may qualify as transitional sources. The rule also excludes reconstructions from the Proposed NSPS for GHGs.

The Proposed NSPS for GHGs does not provide guidance to the States for promulgating requirements for existing sources, under Clean Air Act 111(d), but the Proposal anticipates future standards for existing sources,[5] and the Settlement Agreement that catalyzed this NSPS directs EPA to issue guidance for existing affected generating units. [6]

COMMENTS

NARUC does not take a position on the merits of this or any other EPA regulation at this time. The Proposed NSPS for GHGs, however, raises concerns regarding resource diversity, consumer costs, and uncertainty for existing sources. These concerns must be viewed in light of the suite of EPA rules that have been or will be proposed that will all have an impact on electric generation.

Diversity of Resources

NARUC has encouraged EPA to recognize the needs of States and regions to deploy a diverse portfolio of cost-effective supply-side and demand-side resources based on their own unique circumstances and characteristics. The proposed NSPS for GHGs combines two otherwise distinct categories, electric-steam generating units and combined-cycle generating units based on the fact that they "serve the same function,

[5] "EPA anticipated that modified sources would become subject to the requirements the EPA would promulgate at the appropriate time, for existing sources under 111(d)" 77 Fed Reg. at 22,421.
[6] http://www.epa.gov/airquality/cps/pdfs/boilerghgsettlement.pdf.

5

that is to serve baseload and intermediate demand." 77 Fed. Reg. at 22,398. This may create a challenge to resource diversity.

The Proposed NSPS states that "in light of a number of economic factors, including the increased availability and significantly lower price of natural gas, energy industry modeling forecasts uniformly predict that few, if any, new coal-fired power plants will be built in the foreseeable future." 77 Fed. Reg. at 22,395. EPA "recognize[s] that some owners/operators may nevertheless seek to construct new coal-fired capacity. This may be beneficial from the standpoint of promoting energy diversity and today's proposal does not interfere with construction of new coal-fired capacity." 77 Fed. Reg. at 22,395

The rule asserts that it does not preclude the development of coal-fired capacity, but it bases its NSPS on the emissions rates for natural gas combined cycle plants rather than maintaining separate categories and standards for coal and natural gas plants.

> NGCC qualifies as the ''best system of emission reduction'' (BSER) that the EPA has determined has been adequately demonstrated because NGCC emits the least amount of CO_2 and does so at the least cost. We propose that a NGCC facility is the best system of emission reduction for two main reasons. First, natural gas is far less polluting than coal. Combustion of natural gas emits only about 50 percent of the CO_2 emissions that the combustion of coal does per unit of energy generated. Second, new natural gas-fired EGUs are less costly than new coal-fired EGUs, and as a result, our Integrated Planning Model (IPM) model projects that for economic reasons, natural gas-fired EGUs will be the Facilities of choice until at least 2020....
>
> 77 Fed. Reg. at 22,398.

The Proposed GHG NSPS recognizes that some power suppliers may want to build coal plants for resource diversity and suggests a 30 year averaging alternative for coal plants that may exceed the 1,000 lbs CO_2/MWh in the first ten years, and then make up these emissions through reducing emissions below threshold for the next 20 years to meet the BSER standard by

6

averaging those 30 years. NARUC supports flexibility such as that provided in the 30 year averaging mechanism.

The decision to combine coal and natural gas combined cycle categories for the purpose of the Proposed NSPS for GHGs and basing the BSER on the combined cycle emissions favors natural gas fired plants. The Proposed GHG NSPS indicates that, "The best performing subbituminous-fired EGU has maintained a 12-month emissions rate of 1,730 lb CO2/MWh." Even the best performing coal units cannot meet the NSPS without CCS. The Proposed NSPS for GHG goes on to state that "we are not proposing that CCS, including the 30-year averaging compliance option, does or does not qualify as the BSER adequately demonstrated" but solicits comments on that decision. 77 Fed. Reg. 22,420. A commitment to resource diversity would encourage a separate NSPS BSER for coal fired plants and natural gas combined cycle units, keeping the categories separate as they have been historically.

Cost to Consumers

NARUC commissioners are primarily economic regulators who are charged by State law to protect the public interest in affordable and reliable electric service. The Proposed NSPS for GHGs identifies the current trend of low natural gas prices. The price of natural gas, however, like any commodity, can be volatile—the more dependent a system is on a particular fuel, the more risk to the consumer from this volatility. Additionally, depending on natural gas-fired plants increases concerns around gas and electric interdependencies that need to be addressed in order to ensure the continued reliability of the electric grid.[7] Further, while the NSPS for GHGs estimates that it has no cost because the models suggest that all generation developers will build

[7] For an overview of issues surrounding gas and electric dependencies, see Federal Energy Regulatory Commission Docket No. AD12-12-000 and NARUC Comments *available at* http://www.naruc.org/Testimony/NARUC-FERC_Gas_and_Electric_Interdependencies-Comments.pdf

natural gas combined cycle units, in the case that someone builds coal for resource diversity or other purposes, there will be increased costs (probably because of CCS) associated with coal. The Proposed NSPS for GHGs recognizes this cost and suggests that government subsidies are necessary for building coal with CCS. *See, e.g.* 77 Fed. Reg. 22,418 and 22,422 (discussing the six transitional sources that will install CCS and have DOE loan guarantees or grants to do so).

Uncertainty for Existing Sources

In many regions, State commissioners are currently reviewing significant cost recovery requests for power plant compliance plans with the Mercury and Air Toxics Standard (77 Fed. Reg. 9,304) and other rules. The investment decisions may be impacted by the Proposed NSPS for GHGs, but the impact the rule will have on these existing sources remains uncertain.

The proposed NSPS reiterates the established approach that installation of pollution control equipment, such as those required under MATS, does not count as a modification that would trigger the NSPS. *See* Proposed NSPS for GHG at 22,401 and 40 CFR 60.14(e)(5).

EPA has gone further and excluded all modifications and reconstructions from the NSPS. While NARUC does not have a position on EPA's approach, we are concerned that this may raise legal challenges and extend uncertainty for existing sources. Further, the statute, the settlement agreement, and the Proposed NSPS for GHGs indicate that a NSPS standard promulgated under 111(b) would lead to a standard under 111(d) for existing sources that would be covered by the NSPS as if they were new sources. The proposed NSPS for GHGs itself states that "EPA anticipates that [it will] promulgate at the appropriate time, [standards] for existing sources under 111(d)." at 22,421. Uncertainty about these 111(d) requirements will complicate retrofit investment and cost recovery decisions. No one wants to pour millions of dollars into retrofitting a plant to see it close down based on NSPS for GHG standards for existing sources.

8

Other Rules

In addition to this Proposed Rule, several other rules will impact the Utility Sector, including the Mercury and Air Toxics Standard, 77 Fed. Reg. 9304 (Feb. 16, 2012), the Cross-State Air Pollution Rule: "Federal Implementation Plans: Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals," 76 Fed. Reg. 48208 (Aug. 8, 2011) Stayed by the DC Circuit Court of Appeals); the Coal Combustion Residual proposed rule 75 Fed. Reg. 35127 (June 21, 2010); the National Pollution Discharge Elimination System, Clean Water Act 316(b) proposed rule 76 Fed. Reg. 22174 (April 20, 2011). These rules must be evaluated in concert when making investment decisions and cost calculations.

CONCLUSION

NARUC appreciates the opportunity to comment on the Proposed NSPS for GHGs and encourages EPA to consider the principles outlined in our resolutions which are attached, with a specific focus on resource diversity, consumer costs, and the challenges of uncertainty for existing sources when finalizing the NSPS for GHGs.

ATTACHMENTS

10

Resolution on the Role of State Regulatory Policies in the Development of Federal Environmental Regulation[8]

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) recognizes that the U.S. Environmental Protection Agency (EPA) is engaged in the development of public health and environmental regulations that will directly affect the electric power sector; *and*

WHEREAS, EPA is expected to promulgate regulations to be implemented by State environmental regulators concerning the interstate transport of sulfur dioxide and nitrogen oxides, cooling water intake, emissions of hazardous air pollutants and greenhouse gases, release of toxic and thermal pollution into waterways, and management of coal combustion solid waste; *and*

WHEREAS, NARUC at this time takes no position regarding the merits of these EPA rulemakings; *and*

WHEREAS, Such regulations under consideration by EPA could pose significant challenges for the electric power sector, with respect to the economic burden, the feasibility of implementation by the contemplated deadlines and the maintenance of system reliability; *and*

WHEREAS, EPA is expected to provide opportunities for public comment and input with respect to forthcoming regulations; *and*

WHEREAS, Compliance with forthcoming environmental regulations will affect consumers differently depending upon each State's electricity market and the nature of the decisions made by State regulators; *and*

WHEREAS, Addressing compliance with multiple regulatory requirements at the same time may help to reduce overall compliance costs and minimize risk assuming reasonable flexibility with respect to deadlines; *and*

WHEREAS, State utility regulators are well positioned to evaluate risks and benefits of various resource options through policies that appropriately account for and mitigate the risks arising from compliance with pending regulations; *and*

WHEREAS, Cooperation between utility commissions and environmental regulators can promote greater policy coordination and integration and improve the quality and effectiveness of electricity sector regulation; *and*

WHEREAS, State utility regulators, by working with the power sector and State and federal environmental regulators, can help to facilitate least-cost compliance with public health and environmental goals; *and*

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[8] Based upon Resolution on Implications of Climate Policy for Ratepayers and Public Utilities, adopted by NARUC Board of Directors on July 18, 2007

WHEREAS, State utility regulators can help to minimize environmental risk as well as uncertainty regarding reliability and customer rate impacts by requesting regulated utilities with fossil generation to develop plans that evaluate all relevant environmental rulemakings at U.S. EPA; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2011 Winter Committee Meetings in Washington D.C., urges the EPA to ensure that, as it develops public health and environmental programs, it will:

- Avoid compromising energy system reliability;
- Seek ways to minimize cost impacts to consumers;
- Ensure that its actions do not impair the availability of adequate electricity and natural gas resources;
- Consider cumulative economic and reliability impacts in the process of developing multiple environmental rulemakings that impact the electricity sector;
- Recognize the needs of States and regions to deploy a diverse portfolio of cost-effective supply-side and demand-side resources based on the unique circumstances of each State and region;
- Encourage the development of innovative, multi-pollutant solutions to emissions challenges as well as collaborative research and development efforts in conjunction with the U.S. Department of Energy;
- Employ rigorous cost-benefit analyses consistent with federal law, in order to ensure sound public policy outcomes;
- Provide an appropriate degree of flexibility and timeframes for compliance that recognizes the highly localized and regional nature of the provision of electricity services in the U.S;
- Engage in timely and meaningful dialog with State energy regulators in pursuit of these objectives; *and*
- Recognize and account for, where possible, State or regional efforts already undertaken to address environmental challenges; *and be it further*

RESOLVED, That NARUC urges State utility regulators to actively engage with State and federal environmental regulators and to take other appropriate actions in furtherance of the goals of this resolution.

Sponsored by the Committees on Electricity and Energy Resources and the Environment
Adopted by the NARUC Board of Directors February 16,

WHEREAS, The Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC) adopted a resolution on the *Role of State Regulatory Policies in the Development of Federal Environmental Regulations* on February 16, 2011; including the following statements:

- **WHEREAS**, NARUC at this time takes no position regarding the merits of these EPA rulemakings; *and*

- **WHEREAS**, Such regulations under consideration by EPA could pose significant challenges for the electric power sector and the State Regulatory Commissions with respect to the economic burden, the feasibility of implementation by the contemplated deadlines and the maintenance of system reliability; *and*

WHEREAS, NARUC wishes to continue to advance the policies set forth in the resolution as it relates to the proposed EPA rulemakings concerning the interstate transport of sulfur dioxide and nitrogen oxides, cooling water intake, emissions of hazardous air pollutants and greenhouse gases, release of toxic and thermal pollution into waterways, and management of coal combustion solids; *and*

WHEREAS, NARUC recognizes that a reliable energy supply is vital to support the nation's future economic growth, security, and quality of life; *and*

WHEREAS, There are many strategies available to States and utilities to comply with EPA regulations, including retrofits and installation of pollution control equipment, construction of new power plants and transmission upgrades to provide resource adequacy and system security where needed when power plants retire, purchases of power from wholesale markets, demand response, energy efficiency, and renewable energy policies – the collection of which can be implemented at different time frames by different interested parties and may constitute lower-cost options that provide benefits to ratepayers; *and*

WHEREAS, A retrofit timeline for multimillion dollar projects may take up to five-plus years, considering that the retrofit projects will need to be designed to address compliance with multiple regulatory requirements at the same time and requiring several steps that may include, but are not limited to: utility regulatory commission approval, front-end engineering, environmental permitting, detailed engineering, construction and startup; *and*

WHEREAS, Timelines may also be lengthened by the large number of multimillion dollar projects that will be in competition for the same skilled labor and resources; *and*

WHEREAS, NARUC recognizes that flexibility with the implementation of EPA regulations can lessen generation cost increases because of improved planning, selection of correct design for the resolution of multiple requirements, greater use of energy efficiency and demand-side resources, and orderly decision-making; *and*

WHEREAS, Some generators that will be impacted by the new EPA rulemakings are located in constrained areas or supply constrained areas and will need time to allow for transmission or new generation studies to resolve reliability issues; *and*

WHEREAS, The North American Electric Reliability Corporation (NERC) and regional RTOs will need time to study reliability issues associated with shutdown or repowering of generation; *and*

WHEREAS, NARUC recognizes that flexibility will allow time for these needed studies, *and*

WHEREAS, The Federal Energy Regulatory Commission (FERC), through its oversight of NERC, has authority over electric system reliability, and is in a position to require generators to provide sufficient notice to FERC, system operators, and State regulators of expected effects of forthcoming health and environmental regulations on operating plants to allow an opportunity for meaningful assessment and response to reliability claims; *now, therefore be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2011 Summer Committee Meetings in Los Angeles, California, supports efforts to promote State and federal environmental and energy policies that will enhance the reliability of the nation's energy supply and minimize cost impacts to consumers by:

- Allowing utilities to coordinate the closure and/or retrofitting of existing electric generating units in an orderly manner that will ensure the continued supply of electricity and that will allow power generators to upgrade their facilities in the most cost effective way, while at the same time achieving attainable efficiency gains and environmental compliance; *and*

- Allowing regulatory options for units that are necessary for grid reliability that commit to retire or repower; *and*

- Allowing an EPA-directed phasing-in of the regulation requirements; *and*

- Establishing interim progress standards that ensure generation units meet EPA regulations in an orderly, cost-effective manner; *and be it further*

RESOLVED, That Commissions should encourage utilities to plan for EPA regulations, and explore all options for complying with such regulations, in order to minimize costs to ratepayers; *and be it further*

RESOLVED, That FERC should work with the EPA to develop a process that requires generators to provide notice to FERC, system operators, and State regulators of expected effects of forthcoming EPA regulations on operating plants to allow an opportunity for meaningful assessment and response to reliability issues; *and be it further*

RESOLVED, That NARUC and its members should actively coordinate with their environmental regulatory counterparts, FERC, and the electric power sector ensuring electric system reliability and encourage the use of all available tools that provide flexibility in EPA regulation requirements reflecting the timeline and cost efficiency concerns embodied in this resolution to ensure continuing emission reduction progress while minimizing capital costs, rate increases and other economic impacts while meeting public health and environmental goals.

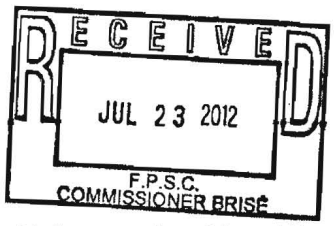
Sponsored by the Subcommittee on Clean Coal and Carbon Sequestration and the Committees on Electricity and Energy Resources and the Environment
Adopted by the NARUC Board of Directors July 20, 2011

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUL 18 2012

OFFICE OF
AIR AND RADIATION

Mr. Ronald A. Brise
Chairman
State of Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850



Dear Mr. Brise:

Thank you for your letter of June 21, 2012, requesting a 30-day extension of the public comment period for the proposed "Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units."

The proposal was published in the *Federal Register* on April 13, 2012. It identified a public comment period of 60 days that was extended an additional 13 days as part of the public hearing process. The public comment period ended June 25, 2012 and we are not planning to extend it. The Agency is working to complete the rulemaking under the terms of a settlement agreement negotiated with a number of states and environmental organizations.

Nonetheless, we will make every effort to consider your comments which we encourage the FPSC to submit to us as soon as possible. We look forward to the receipt of your comments and appreciate your interest in this important rule.

Sincerely,

Gina McCarthy
Assistant Administrator

UNITED STATES OF AMERICA
BEFORE THE
ENVIRONMENTAL PROTECTION AGENCY

Carbon Pollution Standard for New Power Plants Rule
Docket ID No. EPA-HQ-OAR-2011-0660

COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

The Florida Public Service Commission (FPSC) appreciates the opportunity to comment on this rulemaking. We also appreciate the U.S. Environmental Protection Agency's (EPA) letter dated July 18, 2012, stating that the agency will make every effort to consider the FPSC's comments. The FPSC is charged with ensuring that Florida's electric utilities provide safe, reliable energy for Florida's consumers in a cost-effective manner. Section 366.015, Florida Statutes (F.S.), encourages the FPSC to participate in federal proceedings that impact the utilities we regulate.

We recognize the necessity and role of the EPA to address public health and environmental measures. The FPSC is concerned, however, that the EPA's proposed carbon standard for new fossil-fueled power plants and intention to regulate carbon emissions from modified existing plants in the future has the potential for significant rate and reliability impacts on Florida's energy consumers. EPA's final rules should avoid compromising electric system reliability and allow the maximum compliance flexibility for electric utilities provided for under the Clean Air Act. Electric utilities should be given the flexibility to choose the most efficient, least-cost compliance option to meet public health and environmental goals. The FPSC is concerned that as the rule is currently proposed, electric utilities will no longer consider coal to meet future needs due to the uncertainty of obtaining financing for coal units with high-cost and undeveloped carbon capture and sequestration (CCS) technology. Further, EPA's decision to set a single standard for all fossil-fueled generators based on natural gas-fired combined cycle technology sets a precedent for regulating greenhouse gas emissions from existing coal- and oil-fired generation in the future. EPA must consider the impact of its proposed carbon standard on each utility's ability to meet consumer needs in a cost-effective manner, while maintaining a balanced fuel supply for electric generation. Because a balanced fuel supply can enhance system

reliability and significantly mitigate the effects of volatile fuel price fluctuations, it is important that utilities have the greatest possible level of flexibility in their generation fuel source mix.

Background

The proposed Carbon Pollution Standard for New Power Plants rule is of direct concern to the FPSC. The FPSC has authority pursuant to Section 366.04(5), F.S., over the planning, development, and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes. The FPSC has full regulatory authority under Chapter 366, F.S., over Florida's five investor-owned electric utilities, including aspects of rates, operations, and safety. The statute provides the FPSC with more limited authority over Florida's 35 municipally-owned and 18 rural electric cooperatives, which includes safety, rate structure, and planning. Pursuant to Section 403.519, F.S., the FPSC is charged with determining need for all new steam electric generating facilities over 75 megawatts (MW).

Florida has a total generating capacity of 58,420 MW (summer). Transmission capability to import energy into peninsular Florida from other states is approximately 3,600 MW. Given Florida's peninsular geography and this existing capacity of transmission interconnections to other states, the opportunity for Florida to import energy from generating units outside Florida for which compliance costs are low will be limited relative to other states. Currently, more than 50 percent of the electric power in Florida is generated by natural gas, while approximately 27 percent is generated by coal and oil.

Pursuant to Section 366.8255, F.S., Florida's investor-owned electric utilities have the opportunity to petition the FPSC for rate relief for prudently incurred costs to comply with new environmental requirements. The FPSC has implemented this statute through an annual Environmental Cost Recovery Clause. Between base rate proceedings, Florida's investor-owned electric utilities will have the opportunity to recover the costs associated with the proposed New Source Performance Standard rule through this cost recovery clause, subject to FPSC review. Recovery of these compliance costs through a cost recovery clause, as required by Florida law, will have a near immediate rate impact on Florida's consumers.

The proposed rule essentially requires costly, unproven CCS technology for new coal-fired plants, and sets a precedent which could be applied to existing coal- and oil-fired power plants in the future. This could result in the need for high capital cost compliance measures for Florida's electric utilities and consumers. The FPSC is concerned about the impact of these potentially substantial compliance costs on Florida's consumers, particularly in this time of economic distress and high unemployment. Increases to the cost of electricity are of particular concern in Florida due to the state's unique weather, customer base, and high reliance on electricity for cooling and heating. Florida has the highest number of cooling degree days of any state in the continental U.S., indicating the greatest need for air conditioning in the summer months. Our state's high proportion of residential customers comprises almost 89 percent of Florida's electricity customers, and includes a large portion of senior citizens on fixed incomes. Compared to other states, Florida's customers rely more heavily on electricity to meet their energy needs, rather than the direct use of natural gas or other fuels for cooling and heating. Approximately 85 percent of Florida's residential customers' energy needs are met with electricity.

Key Principles

The FPSC supports the general principles for federal environmental regulations as established in the National Association of Regulatory Utilities Commissioner's (NARUC) resolution, entitled "Resolution on the Role of State Regulatory Policies in the Development of Federal Environmental Regulations." The resolution was approved by the Board of Directors of NARUC at its 2011 Winter Committee Meetings in February 2011, and is included as Appendix A. The FPSC further supports the comments specific to the proposed rule filed by NARUC on June 25, 2012, which were based on this resolution.[1] In accordance with the resolution's principles, the final rules should:

- ***Avoid compromising system reliability*** – Section 111 of the CAA requires EPA to issue standards of performance for emissions from each category or subcategories of new and modified stationary sources that "cause or contribute significantly to air pollution that

[1] See RIN 2060-AQ91, filed June 25, 2012, in Docket ID No. EPA-HQ-OAR-2011-0660, by Robin J. Lunt, Assistant General Counsel, NARUC.

may reasonably be anticipated to endanger public health or welfare." Section 111(a)(1) of the CAA defines the term "standard of performance" as "a standard for emissions of air pollutants which reflects the degree of emission limitation achievable through the application of the best system of emission reduction which (taking into account the cost of achieving such reduction and any non-air quality health and environmental impact and energy requirements) the Administrator determines has been adequately demonstrated." EPA has the authority to determine the categories of stationary sources for which each emission standard is set and then sets the standard based on that category's best system of emission reduction. Thus, EPA's designation of the categories of generating units that must meet a new carbon standard is essential in defining the emission limitation each type of generating technology must meet and the technologies necessary to meet this standard.

EPA is proposing to combine its existing categories of electric utility steam generating units (boilers and IGCC units) and combined cycle units into a new category for purposes of regulating GHG emissions. EPA's decision to combine all new fossil-fuel generating units, including those fueled by solid and natural gas fuels, into a single category for setting performance standards for GHGs appears to be unprecedented and has major implications for the standards that must be met by new, and potentially existing, coal- and oil-fired power plants. Combining these types of generators into a single category allowed EPA to set a single standard of 1,000 pounds of carbon dioxide (CO_2) per megawatt-hour based on the demonstrated performance of natural gas combined cycle units. EPA states that "new coal-, coal refuse-, oil- and petroleum coke-fired boilers and IGCC units should also be able to meet this standard by employing carbon capture and storage (CCS) technology." The FPSC is concerned that EPA's proposed single standard based on natural gas combined cycle emissions would essentially preclude the development of new coal-fired facilities (including low emission integrated gasification combined cycle plants) by requiring undeveloped and costly CCS technology.

Further, the FPSC is concerned that EPA's decision to set a single standard for all new fossil-fueled generators sets a precedent which could be applied to existing generators in the future, potentially impacting reliability. While EPA has exempted modified existing units from the proposed rule, EPA has expressed its intention to develop GHG standards

for modified units in the future. For the purposes of setting new source performance standards, Section 111(a)(2) of the CAA defines new sources to include modified units. EPA's proposed rule sets a precedent for EPA to employ a single category for setting GHG emission standards for modified power plants. Approximately 27 percent of Florida's electricity needs are currently met with coal- and oil-fired generation, which would be required to install unproven, costly CCS technology if these standards are expanded to modified plants. The FPSC notes that many of these existing plants will require modification to meet the requirements of other EPA rules in various stages of development, including the Cross-State Air Pollution rule, the Mercury and Air Toxics rule, the Cooling Water Intake Structures rule, and the Coal Residuals rule. Electric generators and their consumers should not be placed in the position where investments to meet one EPA rule trigger an unobtainable GHG standard for existing coal- and oil-fired generators.

- ***Minimize cost impacts to consumers and provide an appropriate degree of flexibility for compliance*** – In order to minimize costs, each utility should have the flexibility to choose compliance options to meet air emissions standards that best fit the utility's unique system and customer base. By setting a single standard for all fossil-fueled generators, EPA has essentially required CCS for all new coal- and oil-fueled generators. In the final rule, the EPA should avoid one-size-fits-all mandates that would unnecessarily increase utility costs. The CAA requires EPA to review New Source Performance Standards every eight years. EPA argues that this would allow EPA to revise the standard before CCS is required for new coal units if CCS is not yet technically feasible. Yet there is nothing that prevents EPA from setting separate standards for natural gas- and solid-fueled generators, which would avoid the requirement for CCS before it is technologically feasible. Section 111(a)(1) of the CAA requires EPA to set a standard of performance based on the emissions limitation achievable through the best system of emission reduction, while taking into account the cost of achieving the reduction EPA determines has been adequately demonstrated. CCS is costly and has certainly not been "adequately demonstrated" on the scale necessary for electric generation. Until CCS is feasible and cost-effective, EPA should set a separate standard for coal-fired generators that could be achievable through supercritical or IGCC technology.

- ***Recognize the needs of each state and region to deploy a portfolio of cost-effective supply- and demand-side resources based on unique circumstances*** – Over the past twenty years, the vast majority of new capacity additions in Florida have been natural gas-fired. EPA's proposed carbon standard, Cross-State Air Pollution rule, Mercury and Air Toxics rule, and currently low gas prices may further encourage utilities to install natural gas-fired generation or repower existing oil- or coal-fired capacity to natural gas as a compliance strategy. EPA contends that the proposed rule will have little or no cost because utilities are not currently planning to install additional coal capacity. Florida's utilities currently have not identified the need for new coal- or oil-fired generating capacity in their Ten-Year Site Plans. Although natural gas is currently the fuel of choice to meet electric generation needs, the FPSC believes that utilities should not be precluded from considering coal for future projects based on EPA's unprecedented decision to set a single standard for GHGs. The proposed rule provides new coal plants with the option to average CO_2 emissions over 30 years, which EPA contends would allow a new coal unit to delay installation of CCS for 11 years and still meet the standard. While long-term averaging of emissions can provide some flexibility, the FPSC questions whether utilities would be able to obtain financing for large projects given the uncertainty surrounding CCS development. In order to provide Florida's consumers with the benefits of a balanced fuel mix, EPA should not set a standard that essentially requires CCS until this technology is proven on the scale necessary for electric generators.

Conclusion

The EPA's proposed Carbon Standard for New Power Plants rule and intention to regulate carbon emissions from modified existing plants in the future has the potential for significant rate and reliability impacts on Florida's energy consumers. By setting a single standard based on natural gas technology, the proposed rule precludes utilities from considering coal-fired generation to meet future needs. The Clean Air Act requires that performance standards be set based on demonstrated control technology, while taking cost into account. Yet the proposed standard can only be met by coal-fired generators through the installation of costly, undemonstrated CCS technology. Given EPA's stated intention to regulate GHG emissions from modified power plants, the proposed rule has introduced uncertainty for electric utilities and has implications for reliability. If EPA expands the standard to include modified power plants, CCS

would be necessary at Florida's coal- and oil-fired generating units, and some units would be at risk of retirement. Electric generators and their consumers should not be placed in the position where investments to meet one EPA rule trigger an unobtainable GHG standard for existing coal- and oil-fired generators. EPA's final rules should avoid compromising electric system reliability and allow the maximum compliance flexibility for electric utilities provided for under the Clean Air Act. Electric utilities should be given the flexibility to choose the most efficient, least-cost compliance options to meet public health and environmental goals. The FPSC contends that these goals can only be met by setting separate standards for natural gas and solid fuel generating technologies. Until CCS is feasible and cost-effective, EPA should set a separate standard for coal-fired generators that is achievable through supercritical or IGCC technology.

Attachments: Appendix A - NARUC Resolution

Resolution on the Role of State Regulatory Policies in the Development of Federal Environmental Regulations[1]

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) recognizes that the U.S. Environmental Protection Agency (EPA) is engaged in the development of public health and environmental regulations that will directly affect the electric power sector; *and*

WHEREAS, EPA is expected to promulgate regulations to be implemented by State environmental regulators concerning the interstate transport of sulfur dioxide and nitrogen oxides, cooling water intake, emissions of hazardous air pollutants and greenhouse gases, release of toxic and thermal pollution into waterways, and management of coal combustion solid waste; *and*

WHEREAS, NARUC at this time takes no position regarding the merits of these EPA rulemakings; *and*

WHEREAS, Such regulations under consideration by EPA could pose significant challenges for the electric power sector, with respect to the economic burden, the feasibility of implementation by the contemplated deadlines and the maintenance of system reliability; *and*

WHEREAS, EPA is expected to provide opportunities for public comment and input with respect to forthcoming regulations; *and*

WHEREAS, Compliance with forthcoming environmental regulations will affect consumers differently depending upon each State's electricity market and the nature of the decisions made by State regulators; *and*

WHEREAS, Addressing compliance with multiple regulatory requirements at the same time may help to reduce overall compliance costs and minimize risk assuming reasonable flexibility with respect to deadlines; *and*

WHEREAS, State utility regulators are well positioned to evaluate risks and benefits of various resource options through policies that appropriately account for and mitigate the risks arising from compliance with pending regulations; *and*

WHEREAS, Cooperation between utility commissions and environmental regulators can promote greater policy coordination and integration and improve the quality and effectiveness of electricity sector regulation; *and*

WHEREAS, State utility regulators, by working with the power sector and State and federal environmental regulators, can help to facilitate least-cost compliance with public health and environmental goals; *and*

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[1] Based upon Resolution on *Implications of Climate Policy for Ratepayers and Public Utilities*, adopted by NARUC Board of Directors on July 18, 2007.

WHEREAS, State utility regulators can help to minimize environmental risk as well as uncertainty regarding reliability and customer rate impacts by requesting regulated utilities with fossil generation to develop plans that evaluate all relevant environmental rulemakings at U.S. EPA; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2011 Winter Committee Meetings in Washington D.C., urges the EPA to ensure that, as it develops public health and environmental programs, it will:

- Avoid compromising energy system reliability;
- Seek ways to minimize cost impacts to consumers;
- Ensure that its actions do not impair the availability of adequate electricity and natural gas resources;
- Consider cumulative economic and reliability impacts in the process of developing multiple environmental rulemakings that impact the electricity sector;
- Recognize the needs of States and regions to deploy a diverse portfolio of cost-effective supply-side and demand-side resources based on the unique circumstances of each State and region;
- Encourage the development of innovative, multi-pollutant solutions to emissions challenges as well as collaborative research and development efforts in conjunction with the U.S. Department of Energy;
- Employ rigorous cost-benefit analyses consistent with federal law, in order to ensure sound public policy outcomes;
- Provide an appropriate degree of flexibility and timeframes for compliance that recognizes the highly localized and regional nature of the provision of electricity services in the U.S;
- Engage in timely and meaningful dialog with State energy regulators in pursuit of these objectives; *and*
- Recognize and account for, where possible, State or regional efforts already undertaken to address environmental challenges; *and be it further*

RESOLVED, That NARUC urges State utility regulators to actively engage with State and federal environmental regulators and to take other appropriate actions in furtherance of the goals of this resolution.

Sponsored by the Committees on Electricity and Energy Resources and the Environment
Adopted by the NARUC Board of Directors February 16, 2011

Attachment 3

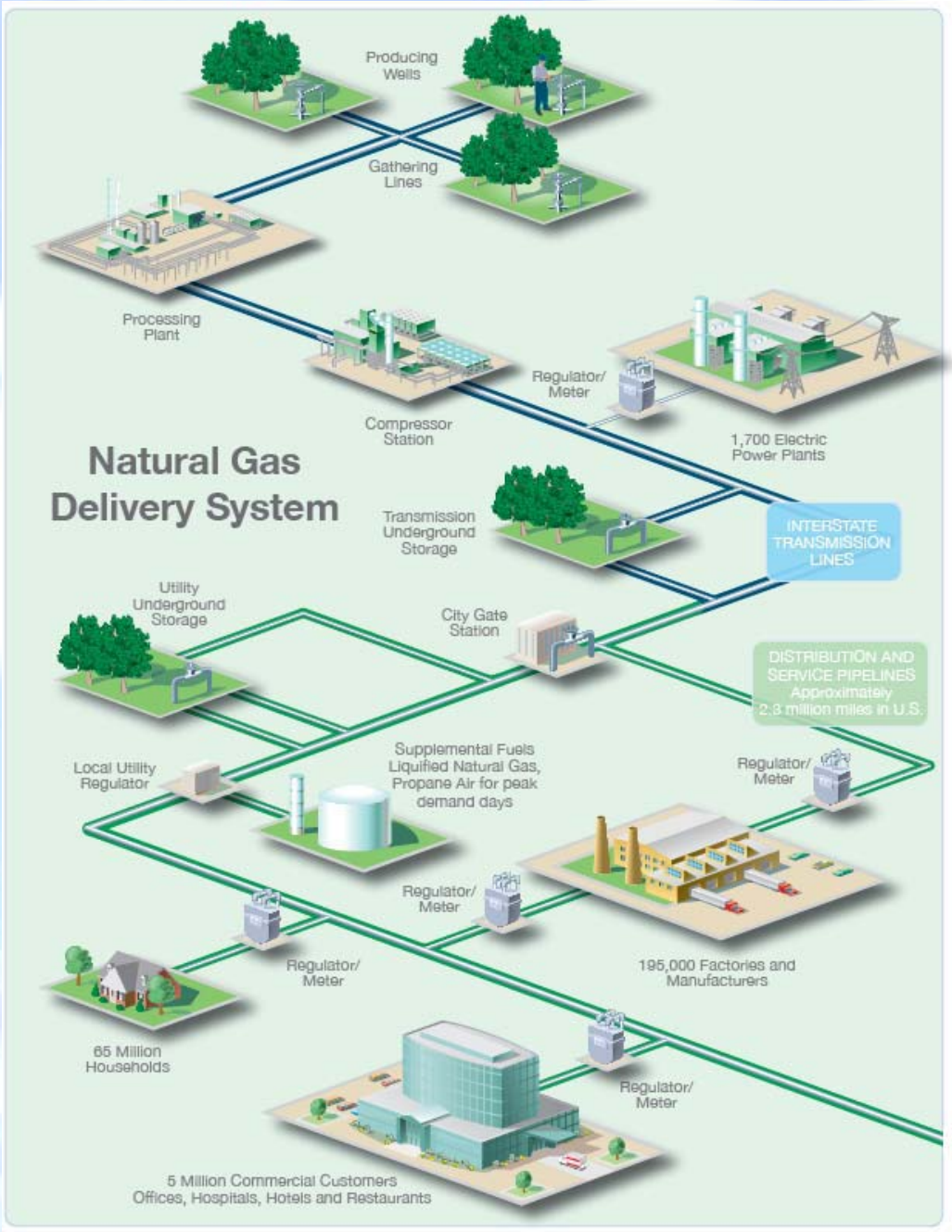
Florida's Natural Energy

- DISCOVER THE DIFFERENCE -

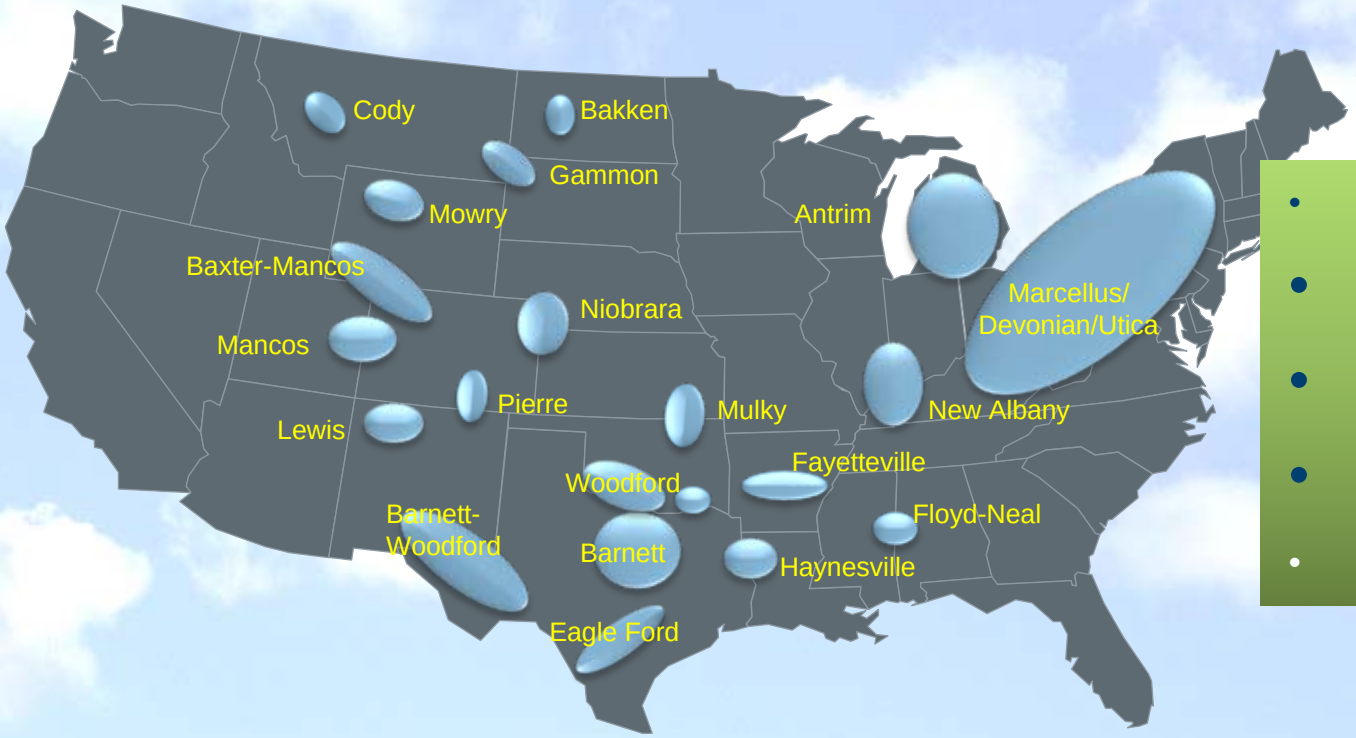
Since 1961, the objective of the Florida Natural Gas Association has been to advance and promote the delivery, sale and use of natural gas, natural gas appliances, and the necessary services in Florida.

With a membership of more than 100 companies, FNGA represents every segment of the natural gas industry

We Believe:
Natural gas is clean, domestic, abundant and efficient, making it the perfect foundation fuel to help strengthen America's economic recovery, meet our environmental challenges and improve our overall national security by reducing our dependence on foreign energy sources.



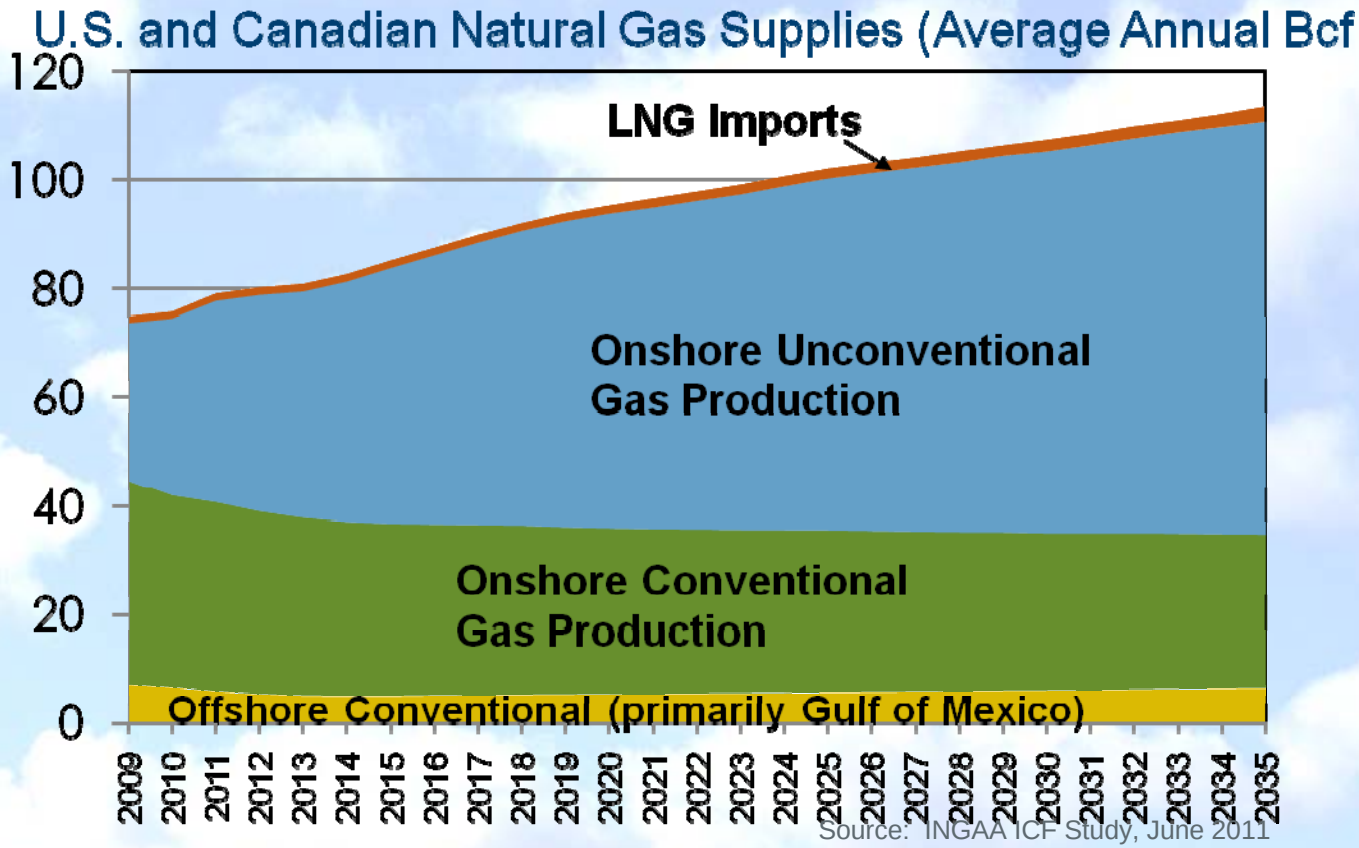
America's Natural Gas Supply



- **EIA: 2011**
- **862TCF** shale
- **2,543TCF** total
- **67%**
  INCREASE
- in just three years

- Advances in drilling technologies have completely revolutionized the outlook for natural gas in the United States. The new supplies of natural gas that we have been able to obtain in the last few years mean that we are now able to meet the growing demand for natural gas through the next several generations.
- These discoveries have fundamentally transformed the long-term outlook for natural gas supplies…for the stability of the market…for the energy choices we have as a nation.

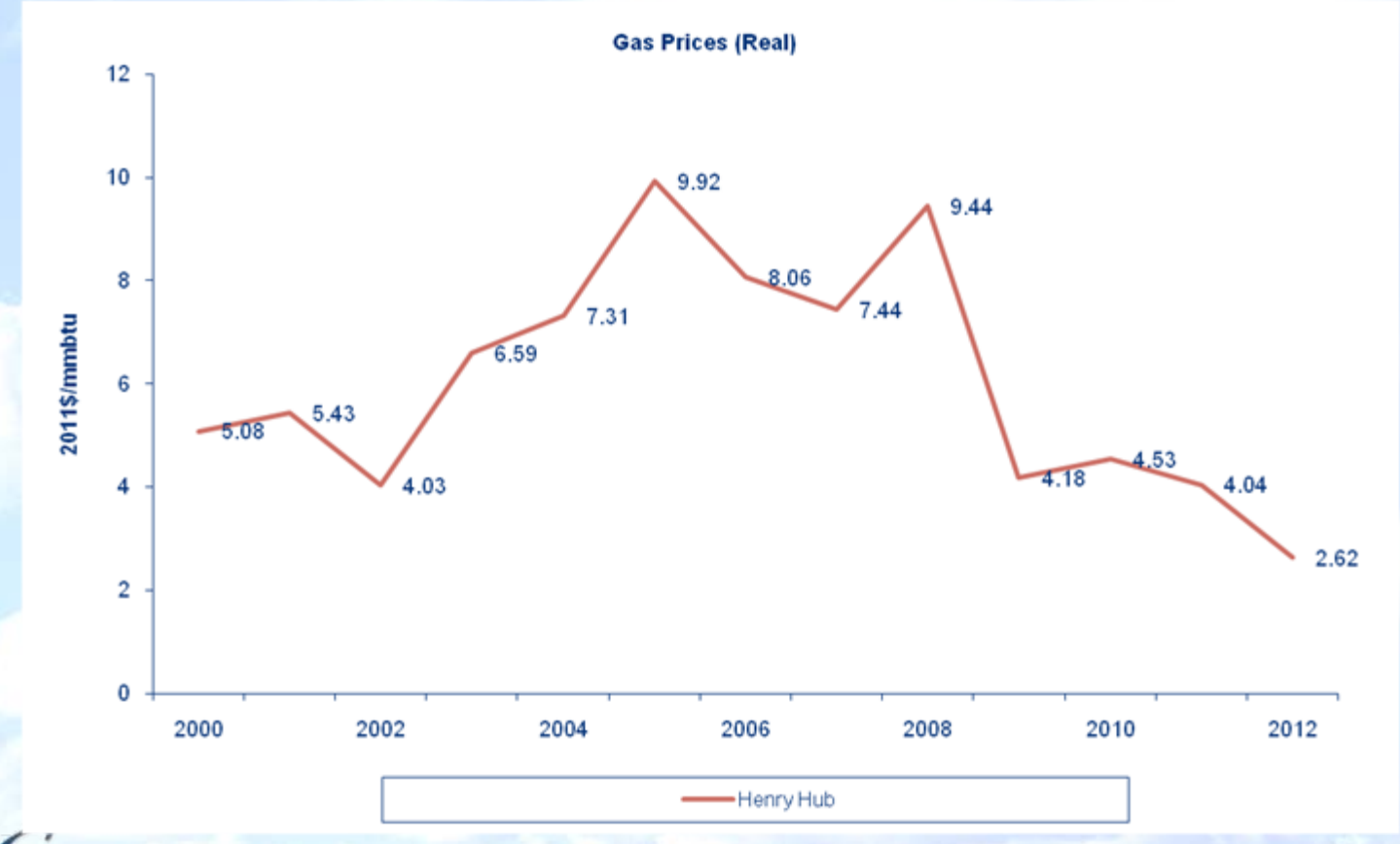
Shale Gas Changed the Mix, Displaced Imports, and Increased Overall Supply



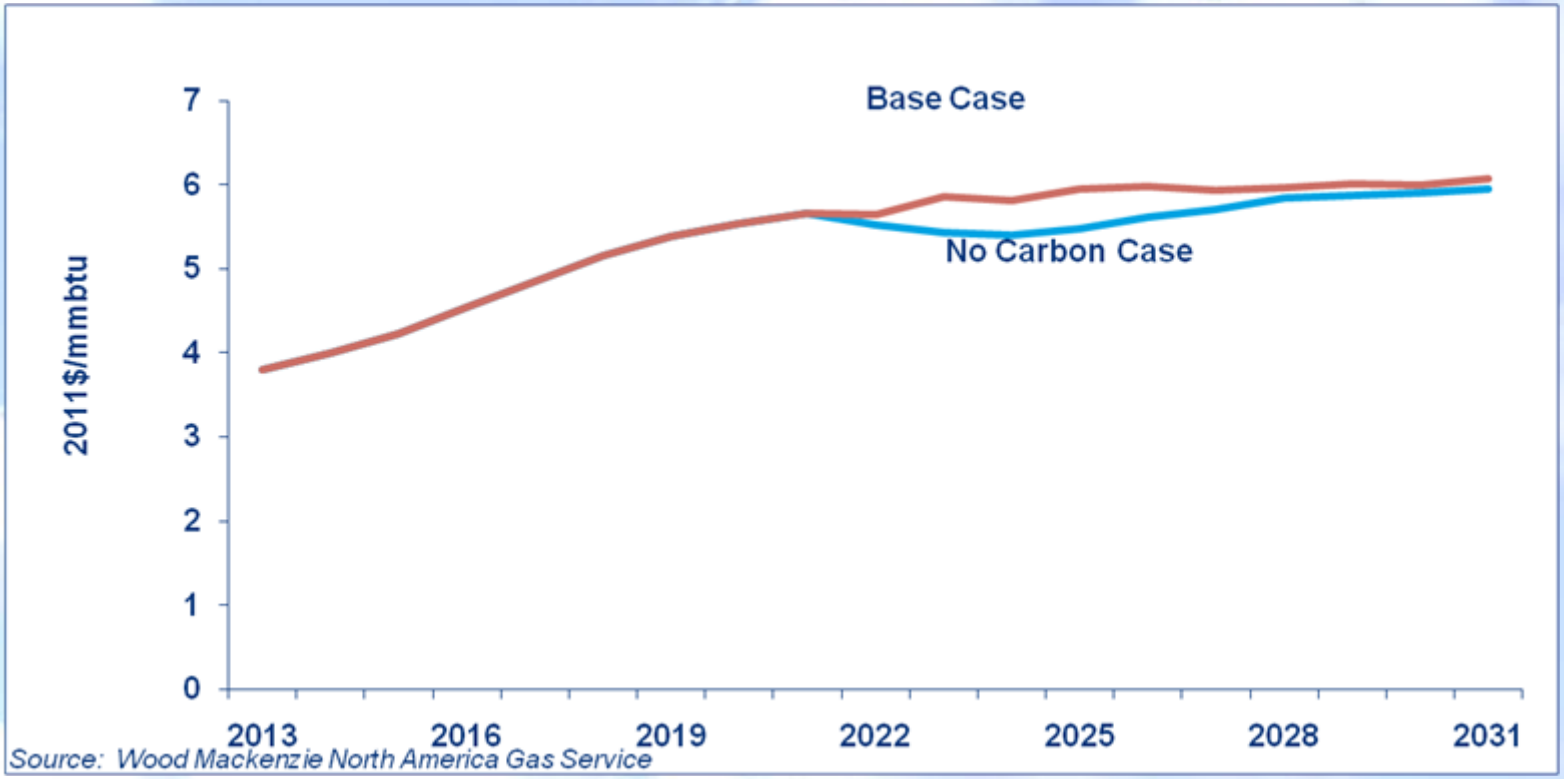
Source: INGAA ICF Study, June 2011

- Domestic gas production accounts for about 89% (63.8 Bcf) of all natural gas consumed in the United States.

Sharp Price Drop and Price Stability Corresponded to the Onset of Abundance

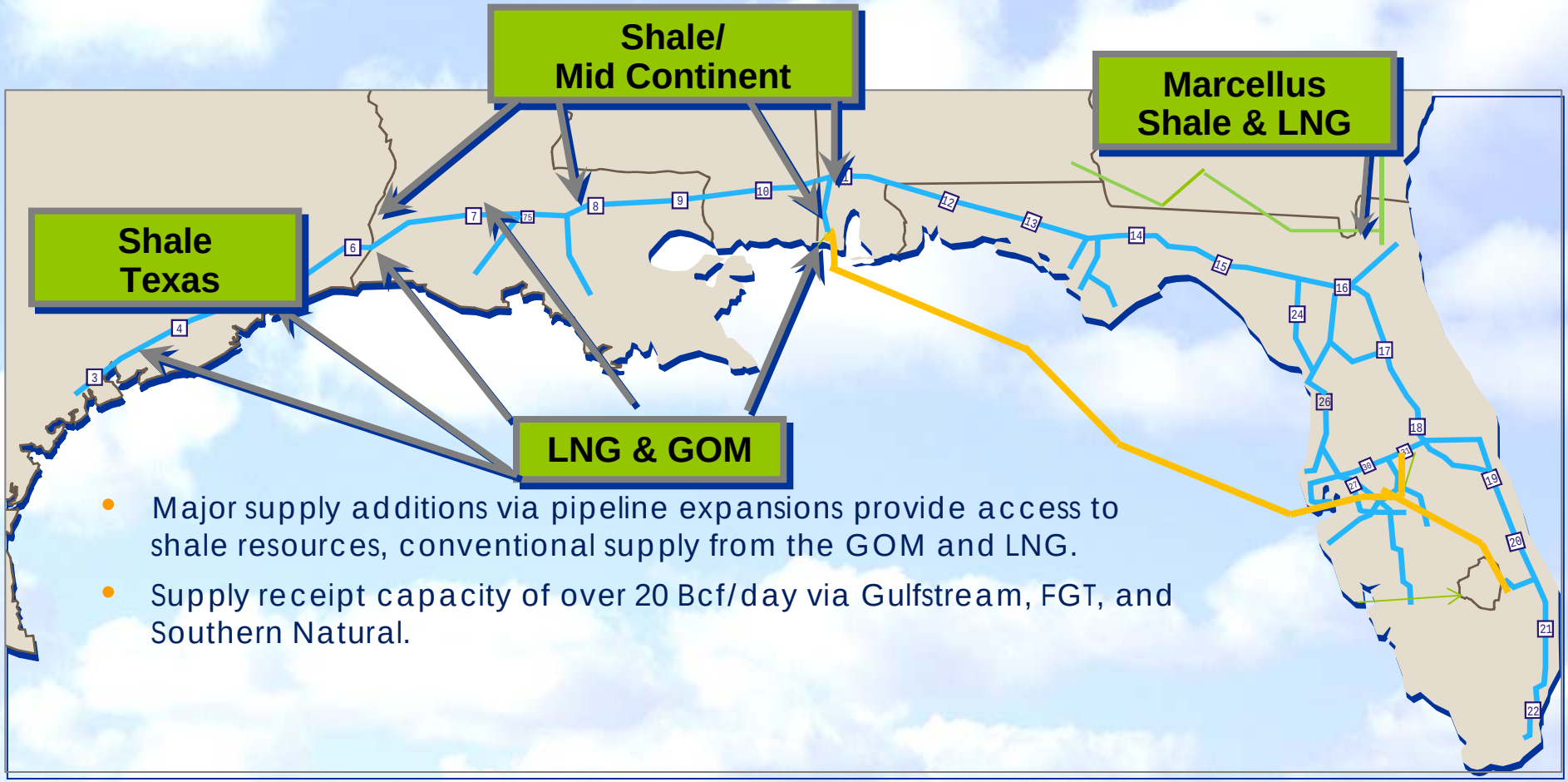


The outlook for future stable, affordable supplies is strong



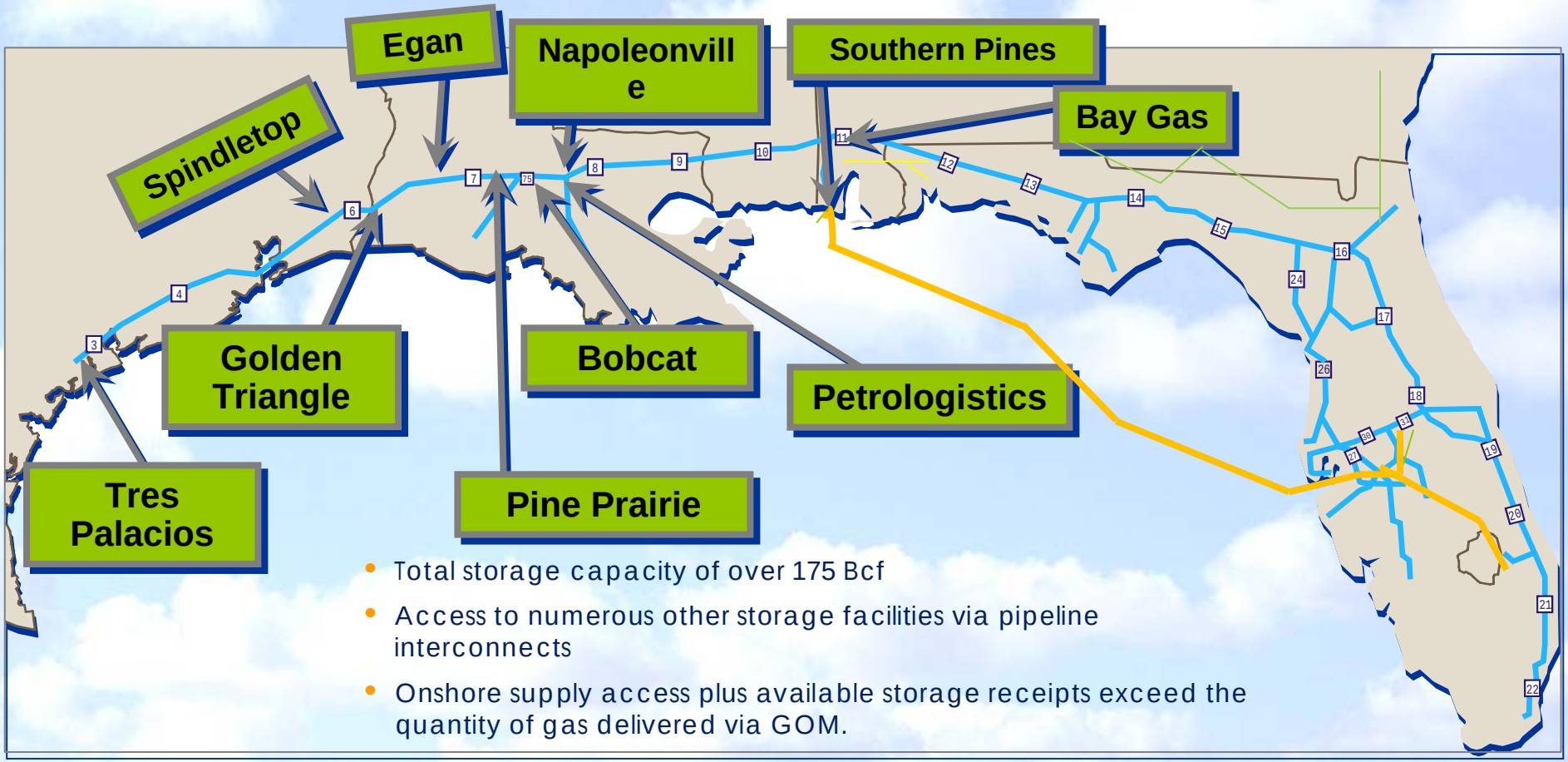
Many predict that natural gas prices will remain below $7 per million BTU almost through 2035.

Supply Options for Florida



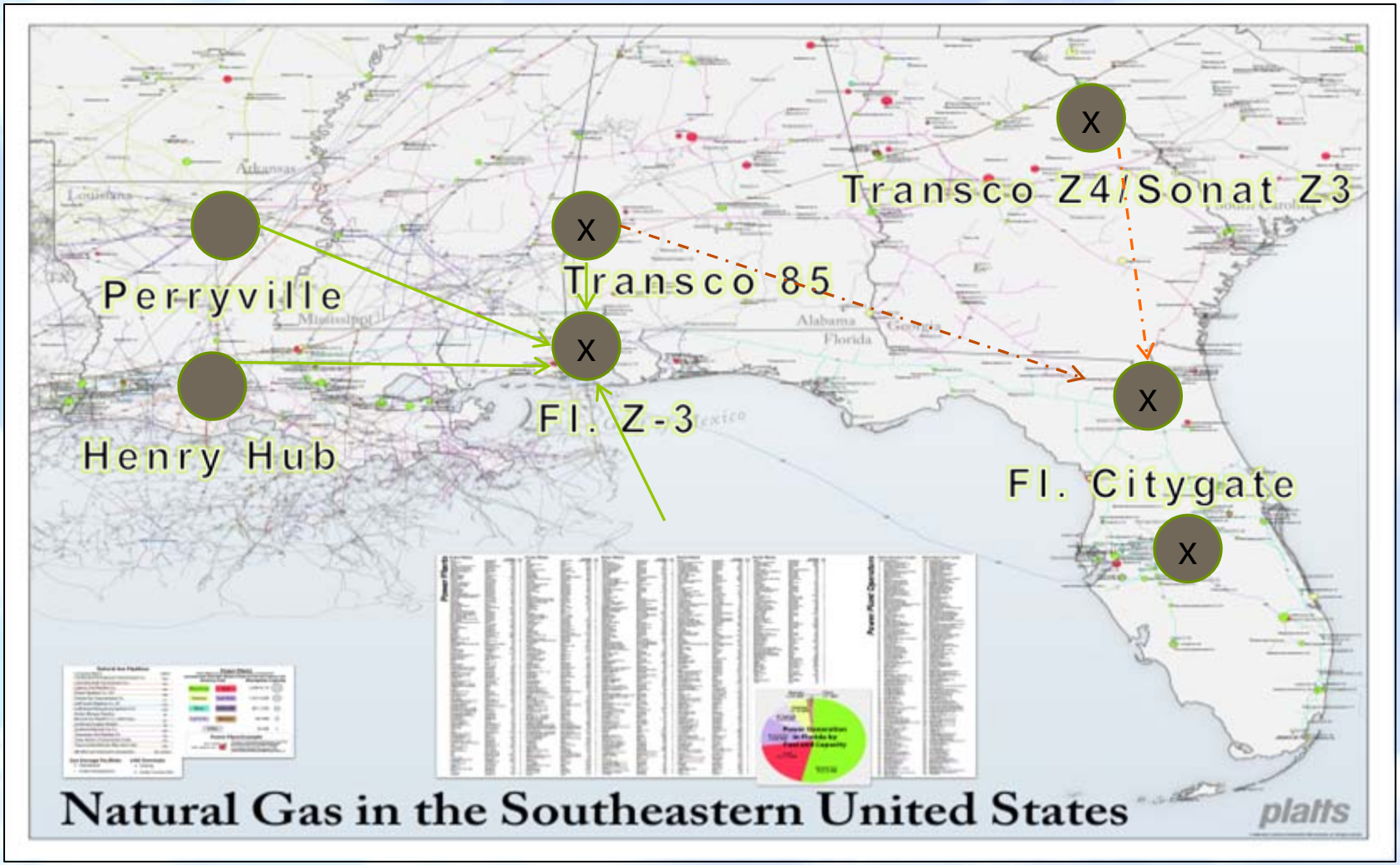
- Major supply additions via pipeline expansions provide access to shale resources, conventional supply from the GOM and LNG.
- Supply receipt capacity of over 20 Bcf/day via Gulfstream, FGT, and Southern Natural.

Storage Connections



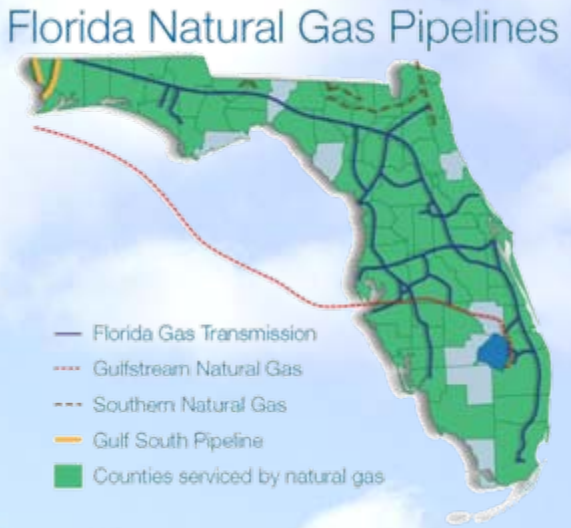
- Total storage capacity of over 175 Bcf
- Access to numerous other storage facilities via pipeline interconnects
- Onshore supply access plus available storage receipts exceed the quantity of gas delivered via GOM.

Diverse Supply Access is Key to Growth

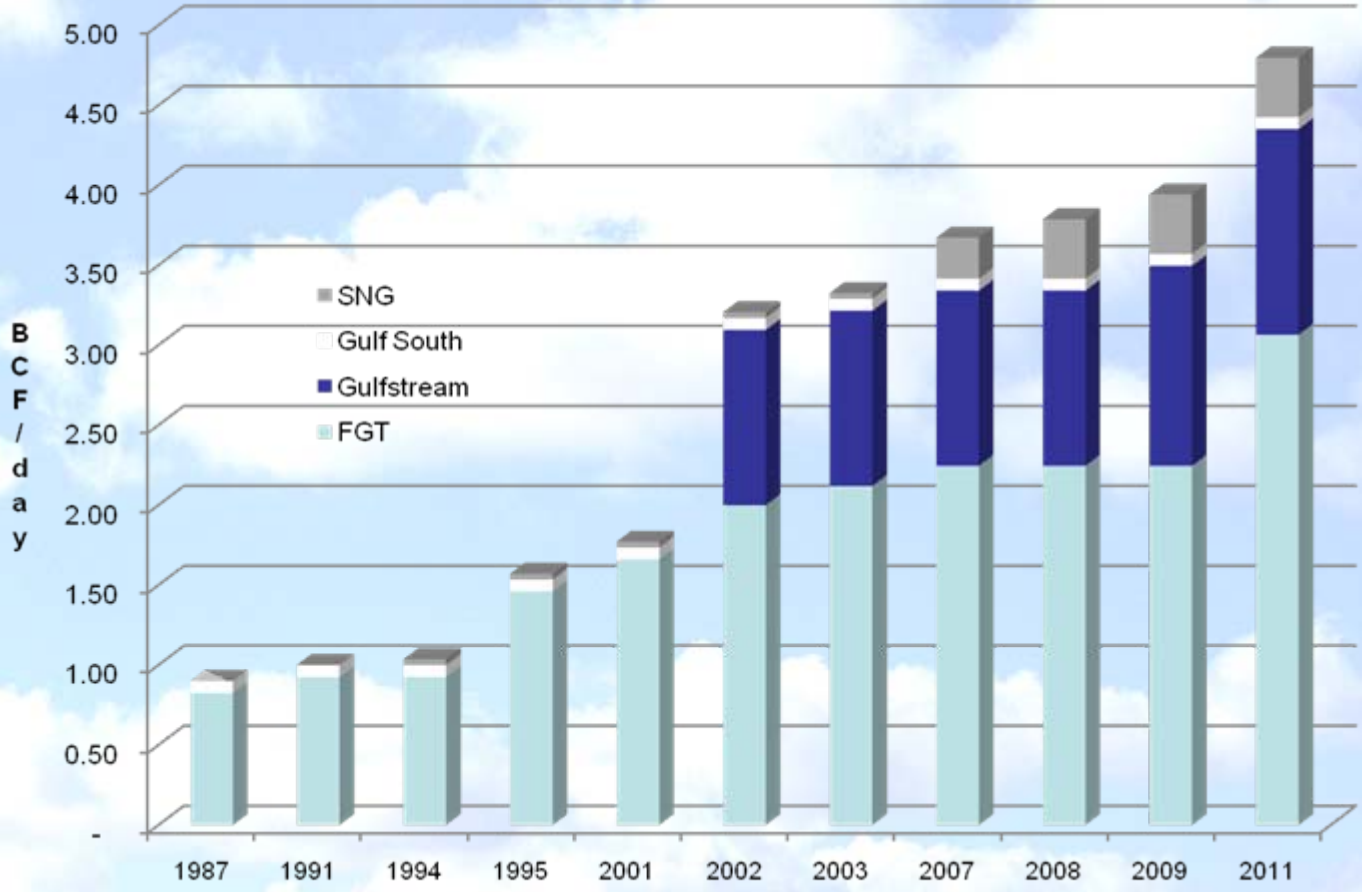


Interstate Pipeline Capacity

Pipeline	Fla. Capacity MMBtu/d	Contracted MMBtu/d
FGT(w Phase VIII)	3,100,000	2,900,000
Gulfstream	1,300,000	1,300,000
Southern Natural	365,000	365,000
Gulf South	75,000	75,000
Total	4,840,000	4,640,000

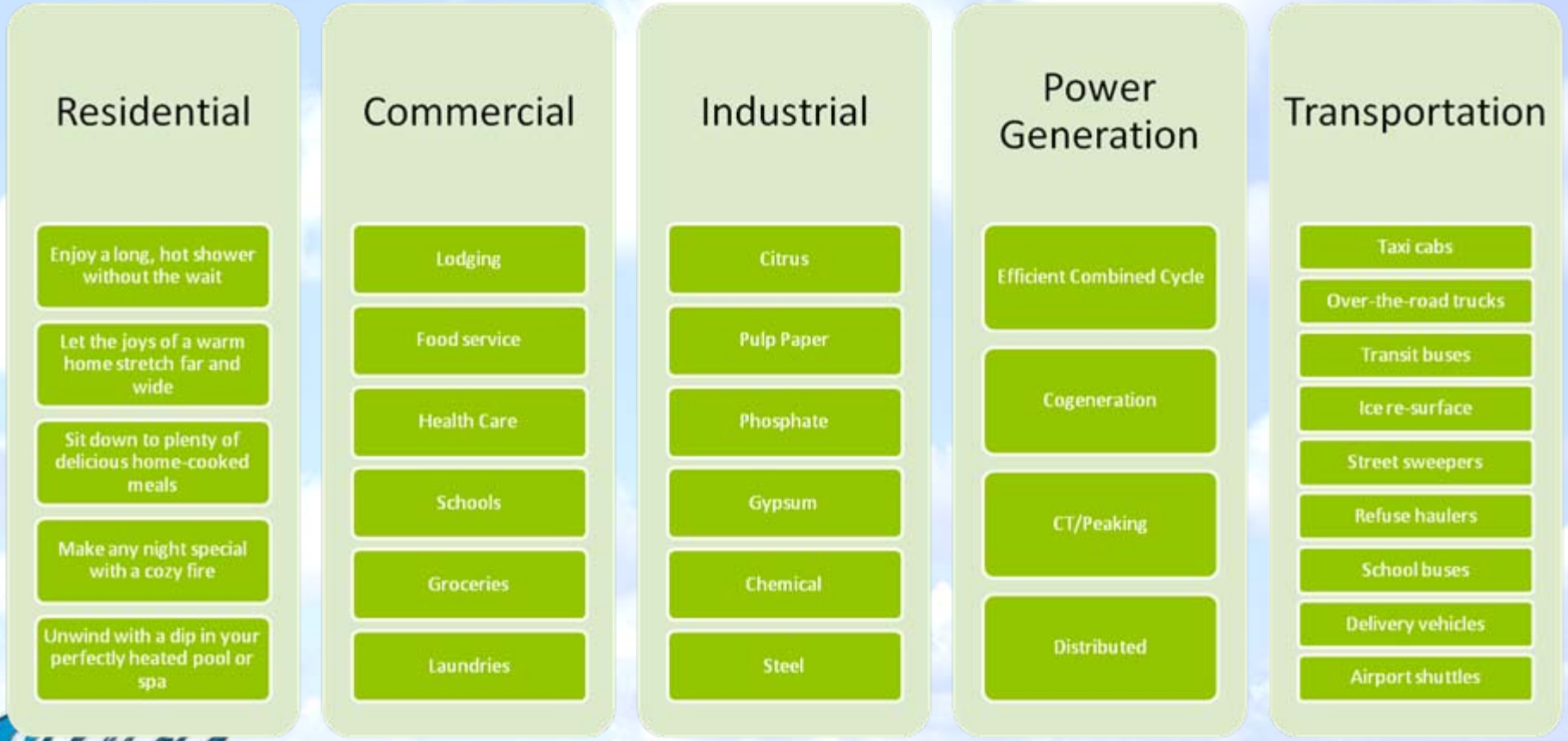


Florida History of Pipeline Expansions



Florida pipelines have sponsored 12 major expansions since 1987, accounting for approximately $7 billion of investment in pipeline infrastructure

Unlike other fossil fuels, natural gas plays a major role in most sectors of the modern economy – power generation, transportation, industrial, commercial and residential.



Regulatory Framework

When working with regulators, we seek to help ensure the following:

- The natural gas transmission and distribution system continues to be the safest, most reliable and most cost-effective method for delivering energy to America's customers

- Policymakers fully leverage demand-side management tools and the impact of full-fuel-cycle energy and emissions measurement when setting policy

- Natural gas markets function efficiently, including physical markets and financial markets

- In order to continue promoting conservation while maintaining a utility's financial well-being, we are asking regulators to consider allowing utilities to implement innovative pricing techniques that do not depend on sales volumes.

- Integrate natural gas systems with the evolving smart energy grid policy.

Summary

- U.S. reserves are growing and the outlook for future stable, affordable supplies is strong.
- Florida markets have access to a vast, geographically diverse supply area
- Florida's Gas Industry has a long history of expansion to meet demand growth.
- We are also the safest, most reliable energy delivery system in America
- Use of natural gas is beneficial to energy security, keeps jobs in the U.S. and contributes to a cleaner environment…..Natural Gas is Abundant, Affordable, Clean, and American

"Now, in terms of new sources of energy, we have a few different options. The first is natural gas. Recent innovations have given us the opportunity to tap large reserves — perhaps a century's worth of reserves, a hundred years' worth of reserves — in the shale under our feet."

President Barack Obama

"The City has today adopted a rule that phases out the use of heavy heating oils and will accelerate conversion to cleaner fuels like natural gas and low-sulfur #2 oil through a combination of incentives, streamlined permitting, education and collective action."

Mayor Michael R. Bloomberg

New York City

"Our country's natural gas supply should help us maintain cost competitiveness in manufacturing, reduce greenhouse gas emissions through the mid-term, increase our energy independence, and create good paying jobs and leaseholder opportunities in many parts of the country."

John P. Surma

Chairman and CEO, U.S. Steel

"If there were ever a fuel with all of the right characteristics to efficiently and cost-effectively power our nation's economy, while also reducing greenhouse gas emissions and enhancing energy security, it is natural gas in the year 2012 — and beyond."

Dave McCurdy

President and CEO American Gas Association

II. Outside Persons Who Wish to Address the Commission at Internal Affairs

OUTSIDE PERSONS WHO WISH
TO ADDRESS THE COMMISSION AT

INTERNAL AFFAIRS
August 2, 2012

Speaker	**Representing**	**Item #**
J. R. McLelland	Florida Natural Gas Association	3

III. Supplemental Materials Provided During Internal Affairs

<u>NOTE</u>: The records reflect that there were no supplemental materials provided to the Commission during this Internal Affairs meeting.

IV. Transcript

STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Internal Affairs Meeting

Thursday, August 2, 2012

Betty Easley Conference Center, Room 148

P R O C E E D I N G S

CHAIRMAN BRISÉ: Good afternoon, everyone. We are convening Internal Affairs. It is Thursday, all day, August 2nd, 2012. And we are convening Internal Affairs, again -- I think I said that already. I'm ready to entertain a motion to approve the minutes from July 18th. I think we have some adjustments to be made to the minutes. If staff could help us out with that.

MR. BAEZ: Commissioners, the minutes are erroneous. There is a typo, I guess, on Page 2 where it reports the Electric Vehicle Charging Station Report as being due to the Legislature on December 31st, 2013. We need to make a small adjustment to bring it back to 2012.

CHAIRMAN BRISÉ: All right. Thank you.

Is there a motion? Okay. So moved.

CHAIRMAN BRISÉ: Is there a second?

COMMISSIONER GRAHAM: Second.

CHAIRMAN BRISÉ: Any further discussion on the minutes? All right. Seeing none, all in favor say aye.

(Vote taken.)

CHAIRMAN BRISÉ: All right. Moving on to Item Number 2, Update on U.S. EPA Proposed Rule on Greenhouse Gas Emissions for New Electric Generating Units, Attachment 2.

MR. FUTRELL: Good afternoon, Mr. Chairman and Commissioners. I'm Mark Futrell with the staff, along with Judy Harlow and Cindy Miller.

In Item, 2, we are presenting options if you wish to communicate with the Environmental Protection Agency regarding the proposed rule on greenhouse gas emissions for new electric generating units. Per your direction during the last Internal Affairs meeting, we've included a draft letter of support for the comments of the Florida Department of Environmental Protection and NARUC.

Subsequent to the last Internal Affairs meeting, the EPA sent a letter to the Commission stating it was not planning to extend the comment period for the proposed rule. However, the EPA encourages the Commission to submit comments and states that the EPA would make every effort to consider the comments.

We have included draft comments for your consideration which express concerns with the impacts of the proposed rule on cost and fuel diversity. The proposed rule would effectively remove consideration of coal-fired generation by requiring the installation of carbon capture and sequestration in order to meet the standard. This technology is costly and has not been adequately demonstrated as being technologically

feasible.

The proposed emission standard would have the effect of narrowing the options for new generation to primarily gas-fired technologies. This would be contrary to the efforts of the State of Florida to enhance fuel diversity. Also, the EPA's approach introduces further uncertainty regarding the potential for regulation of greenhouse gas emissions from existing coal-fired units.

We are seeking your guidance on how you would like to proceed, and we are available for any questions.

CHAIRMAN BRISÉ: Thank you, Mr. Futrell.

Any comments? Commissioner Balbis.

COMMISSIONER BALBIS: Thank you. A question for Mr. Futrell. I have in my packet the draft letter from the Chairman's office with the attached DEP and NARUC comments. My question for you is what you just read from, what is that document you are reading from? Your comments, are those just prepared for this meeting?

MR. FUTRELL: That was just a prepared introduction.

COMMISSIONER BALBIS: Because to be honest, I feel that those comments that he prepared, I think, were very specific, and I would like to see a portion of those comments entered into the cover letter. Because I

thought it better addressed at least my personal concerns on the effect that this standard has on future coal plants, the effect on fuel diversity, et cetera.

So I don't know what our options are, since there is no time frame. We already missed the deadline, but if there is, you know, a way that we can incorporate some of those comments into the cover letter, I mean, I think there is quite a bit of information in the letter as is. I don't if we need that much that's already included, but I would just like to hear the other Commissioners comments on this issue.

CHAIRMAN BRISÉ: Okay. Commissioner Brown.

COMMISSIONER BROWN: Thank you.

Well, I think if we are going to go ahead and include the Attachment 3, though, which I think is -- it outlines our concerns very well. And the fact that EPA has given us kind of a bone that it will consider our comments. I think we should jump on the opportunity to submit these comments that staff prepared. I don't think it would be necessary to include additional comments, though, in the cover letter, if we are going to include the Attachment 3. So --

CHAIRMAN BRISÉ: Okay. Commissioner Balbis.

COMMISSIONER BALBIS: I just want to be clear -- and maybe I'm confused, which could be the

case. This draft letter that's coming from your office, I would just like to see some of the language that Mr. Futrell just read, you know, give you the direction to look at those statements and see if we can incorporate those into the letter, but keep the attachments. And I'm not requesting additional comments or anything else. Just a revision to your letter to include some of those comments.

CHAIRMAN BRISÉ: Okay. Any further comments? Commissioner Edgar.

COMMISSIONER EDGAR: Thank you.

Mr. Futrell, to be clear, the draft letter that is listed as Attachment 1, and then at the bottom of it it references enclosures, DEP and NARUC comments. And then we have in our material, Attachment 3, which would be comments of this agency.

Is one thing that is being suggested by staff to include these comments of the PSC as basically a third attachment to this draft letter --

MR. FUTRELL: Commissioner Edgar --

COMMISSIONER EDGAR: -- or is it a substitute? Sorry.

MR. FUTRELL: I think we see that as two choices that you may choose to take, as far as a letter expressing support for DEP and NARUC's comments or

comments of the Commission, of this Commission to EPA. And if you would like to include with that a cover letter which expresses some thoughts as a means of transmittal of the comments, that's something to include with it. But the idea that we had presenting to you is two options for you to consider, if you wish to communicate with EPA.

COMMISSIONER EDGAR: Okay. So basically what we have before us is, you know, one approach procedurally, a second approach procedurally, or maybe some other or some combination thereof. So with that, I'm wondering, Commissioner Balbis, the way that Mr. Futrell kind of phrased some of the comments in his introduction I think maybe tracks more to the language in Attachment 3. I don't know if that's accurate.

MR. FUTRELL: Yes.

COMMISSIONER EDGAR: So that may address your concerns or the way you want to put the emphasis is if Attachment 3 were to be what we would send, rather than the shorter letter that just attaches the DEP and NARUC comments.

COMMISSIONER BALBIS: Yes. I think that would be sufficient. As long as we include Attachment 3, that would address my concerns. Thank you.

CHAIRMAN BRISÉ: All right. Any further

comments? Okay. Commissioner Edgar.

COMMISSIONER EDGAR: Thank you.

Then, I have two very, very, very -- maybe three -- minor, minor wording changes to suggest to Attachment 3. Emphasis on minor.

On Page 26, Mark, about two-thirds of the way down, the first paragraph, there is a phrase that says Florida's electricity customers and includes a large portion of senior citizens. If we could just change portion to population. Again, very, very minor.

And then, moving on to Page 29. And I don't think this is a substantive change, but, again, almost halfway down that first paragraph that starts with the bolded underlined sentence, I would remove the clause that says "although natural gas is currently the fuel of choice to meet electric generation needs," just remove that clause, and then begin that sentence with, "However, the PSC believes," and moving on. I don't think that changes anything substantive at all.

And then on Page 30, the very first word at the top, instead of would, I would suggest could, since we are talking about something potentially prospective.

And, Mr. Chairman and Commissioners, if you would consider those very, very, very minor language tweaks, then I would suggest that we direct our staff to

have Attachment 3 put in whatever is the appropriate format for the Chairman's consideration to send on to EPA on this issue as comments of this agency.

CHAIRMAN BRISÉ: Okay. Is that a motion?

COMMISSIONER EDGAR: Yes.

CHAIRMAN BRISÉ: Okay. Is there a second to that motion? Any further discussion on the motion? Okay. Seeing none, all in favor say aye.

(Vote taken.)

CHAIRMAN BRISÉ: All right. Moving on to the next item, which is a presentation by Florida Natural Gas Association. They have a PowerPoint presentation.

MR. McLELLAND: Thank you.

My name is J.R. McLelland. I'm managing director for fuel supply for Tampa Electric and Peoples Gas. Today, I'm here representing the FNGA. I know it has been a long morning. I promise just to hit the highlights on this presentation. I'll keep it quick.

The FNGA has been active in Florida since 1951. Our objective is to promote and advance the use, sale, and delivery of natural gas. We represent every segment of the natural gas industry, including distributors, marketers, pipelines, storage operators, and producers. We believe natural gas is clean, domestic, abundant, affordable and efficient, making it

a perfect foundation fuel to power our economy.

The U.S. has massive shale placed throughout much of the country. Advances in drilling technologies have completely revolutionized the outlook for natural gas in the United States. If you look on the table on the right, the EIA in 2011 suggested we have in excess of 2,500 TCF of reserves. Given current consumption levels, that's in excess of eight decades of use.

These discoveries have fundamentally transformed the long-term outlook for natural gas supplies for the stability of the market for the energy choices we make as a nation.

Shale gas changed the mix, displaced imports, increased overall supply. In 2000, shale only represented about one percent of the total gas resource. Today shale contributes about 20 percent, and we believe by 2035 shale will contribute over 35 percent. Over 50 percent of the total resource. The additions have been dramatic, and sharp price drop in price stability corresponded to the onset of the abundance.

In 2005, prices were in excess of $9 per MMBtu. A steep contrast to where they are today. There is no doubt that the consumers have benefited substantially from these incremental supplies.

To make it relative to Florida, Florida

consumes on average about 3.4 Bcf a day, and when you look at the dramatic decline in price that has represented about $3 billion a year in savings to the consumers in Florida. A big number.

Going forward, the outlook for future stable affordable supply is strong. Many predict prices below $5.50 between now and 2020 and below $7 throughout 2035. Florida has many supply -- several supply options which have emerged since 2008. With over 20 Bcf of receipt capacity, we access supply from many geographical locations, including the Gulf of Mexico, Texas, Oklahoma, Arkansas, Louisiana, Mississippi, and Alabama. In the future, we believe we will also access the Marceles through interconnects with Southern Natural Pipeline, Transfield Pipeline, and Tennessee Pipeline.

The Gulf Coast has experienced major storage development post-Hurricane Katrina and Rita. Mostly, salt dome development. Florida has access to more than 175 Bcf of storage which can support about 45 days of consumption.

If you look at the chart here, you'll notice that Florida does not have any storage located in the peninsula of the state. A lot of that is due to the geological formations really don't support it. There are, however, a couple of -- two or three storage

facilities under development; two above ground, and one reservoir in Southwest Florida.

This chart illustrates the major supply hubs that serve the southeast, including Florida. Gas effectively moves from the west to the east and from the south to the north through the supply hubs. When I refer a supply hub on this chart, I simply mean it's a place where lots of quantities of gas gather, and there's lots of market participants buying and selling at those points.

As you may know, the shale (inaudible) have been significant. However, they all will not develop at the same pace. Therefore, it is our position that it is important to have access not to just one supply hub, but multiple supply hubs.

The pipes that currently serve Florida don't necessarily connect directly with all the supply hubs, but we can get access to them through upstream pipelines, such as the Southeast Supply Header, the Transco 4A lateral, and Gulfsouth Pipeline.

Flexible reliable pipelines are an essential part of Florida's energy infrastructure. We use the interstates to bring the gas to Peninsular Florida, intrastates and LDCs to distribute to the markets. We currently have four major pipelines, interstate

pipelines that serve Florida: FGT, Gulfstream, Southern Natural, and Gulfsouth with a total capacity of 4.8 Bcf a day.

By comparison, on average we consume about 3.4 Bcf a day of natural gas, and we peak at about 4.3 Bcf a day. So you can see by this chart we have a little bit of reserve margin; however, we believe by the end of the decade we will require another major expansion.

In that regard, the Florida gas industry has a long history of expansion to meet our state's growing need for natural gas. Florida pipelines have sponsored 12 major expansions since 1987 and spent over $7 billion to enhance the infrastructure serving Florida.

Let me move a little bit over from supply over to the end use of natural gas. Unlike other fossil fuels, natural gas plays a major role in most sectors of the modern economy; the power generation sector, the transportation sector, industrial/commercial, and, of course, residential.

Let me take a second and make mention on a couple of these segments. The low gas price scenario that we are benefiting from today has helped Florida considerably. We are seeing several industrial customers within Florida switch from what they traditionally consumed in Number 2 oil to natural gas.

These fuel switching opportunities have allowed us to build-out major expansions; one in North Florida to Amelia Island, and one in South Florida to a major citrus processor. Power generation, of course, is the largest sector of gas use in Florida with over 37,000 megawatts of gas-fired generation. It represents over 85 percent of the gas burned.

Most of those generation facilities are served directly by interstate pipelines. However, Florida is a bit unique from other states in that we have in excess of 5,000 megawatts served behind LDCs.

The transportation market is somewhat of an emerging market. The state currently has 31 fill stations of which 14 have been built in the last 18 months. The primary target, at least initially, has been the fleet vehicles with market inroads being made with taxis, over the road trucks, transit buses, refuse, school buses, et cetera.

In terms of the regulatory framework, let me say this: The FNGA is committed to foster governmental understanding of, confidence in, and cooperation with the natural gas industry. I have listed just a couple of items here on this. These are just kind of the ones that are top of mind. Certainly we have others. I won't read them off to you, but I wanted to list them.

Let meet close with a summary. I promised I would keep it brief. U.S. reserves are growing, and the outlet for future stable affordable supplies is strong. Florida markets have access to a vast geographically diverse supply area. The Florida gas industry has a long history of expansion to meet demand and growth. We also are the safest, most reliable energy delivery system in America, and the use of natural gas is beneficial to the energy security. It keeps jobs in the U.S. and contributes to a cleaner environment.

Simply put, natural gas is abundant, affordable, clean, and American. We appreciate the time today. I'll be happy to answer any questions.

CHAIRMAN BRISÉ: Thank you for your presentation.

Are there any questions?

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman.

I appreciate your presentation. I know some of us were at the NARUC conference in Portland, and I serve on the Natural Gas Committee, and I attended several presentations on natural gas. And I had a couple of questions for you.

On your map where you presented the different hubs, if you will, there was a lot of discussion in

Portland about bottlenecks bringing in the natural gas from the shale formations into the markets. Do you know of any bottlenecks that impact Florida that need to be resolved?

MR. McLELLAND: Right now Florida has about 3.8 Bcf a day. A lot of the gas that we need will come from the shale basins. It require to get up and access the Perryville Hub as well as Station 85 into the Florida Zone 3.

We currently do not have enough capacity to take 100 percent of our needs from those shale basins. We encourage the members of the FNGA and the consumers of Florida to support projects that will allow expansion of the upstream pipeline grid to bring more gas into and closer to Florida. To be specific, the southeast supply header. We believe that that is ripe for expansion. It is currently a Bcf a day facility and it runs full almost every day.

The Williams Company has expanded their Transco 4A lateral, which is a lateral that took gas out of Mobile Bay south to north. They recently turned it around to bring gas north to south to bring the shale gas over from the west. Now we can bring it down. That is also at capacity. We believe that is ripe for expansion.

So to answer your question, we can serve load every day because we have such a diversity of supply. But if we are going to get more of the shale gas to Florida, if we are going to meet some of the demand, we believe some of the upstream pipelines need to expand, further expansions to give us more access to the shale supply.

Those expansions -- there is a process that is followed in the FERC arena. The pipelines issue an open season. Customers put in their request for quantities. Precedent agreements are negotiated that ultimately turn them into long-term firm transportation agreements.

Those long-term firm transportation agreements are what support the expansion of the pipes. So as I mentioned earlier, we encourage the members of the FNGA to kind of stay ahead of things and support the expansion of these pipelines. Do to it through long-term commitments to these companies.

COMMISSIONER BALBIS: Thank you.

CHAIRMAN BRISÉ: Okay. Any further questions or comments?

All right. Seeing none, thank you for your presentation this afternoon.

MR. McLELLAND: Thank you.

CHAIRMAN BRISÉ: All right. Moving on to Item

Number 4, Executive Director's Report.

MR. BAEZ: No report.

CHAIRMAN BRISÉ: All right. No report today.

All right. Other matters. I understand that there may be a couple of issues on other matters today. We're good for today.

Oh, Commissioner Balbis.

COMMISSIONER BALBIS: I just have a few hours of discussion here. But, no, I just wanted to follow-up on the presentation that was made by the Florida Natural Gas Alliance or Association, FNGA.

CHAIRMAN BRISÉ: Association.

COMMISSIONER BALBIS: And, you know, it is really coming on the heels of the comments that we are providing to EPA. And if coal is going to taken off the board, when it comes to fuel diversity and our reliance on natural gas, at least for electricity generation, you know, there's a lot of discussion on fuel diversity. And, really, I think we have need to shift now towards, you know, fuel security.

And I believe that the reason why there is appropriate attention on fuel diversity is, you know, to minimize any supply interruptions or price fluctuations. And I appreciate FNGA pointing out the existing pipelines coming into the state, how they are at

capacity and there really is no redundancy in place, nor the ability to have adequate storage in natural formations, being in Florida.

So I appreciate the presentation that was given to us. And hopefully we will continue to address fuel diversity, maybe on the fuel security side.

And I mentioned it as well as far as the NARUC meeting in Portland. I did have the opportunity to moderate a panel on compressed natural gas facilities and, you know, where the market is for that, and the regulatory treatment of it. And I thought it was a very interesting panel. I think a lot of the other Commissioners from other states are dealing with this issue. It's likely we'll probably deal with it at some point in the future, but I think it was a good opportunity to discuss it, and that's all I had to add.

CHAIRMAN BRISÉ: All right. I went to the panel discussion which was moderated by Commissioner Balbis, and he did an excellent job moderating it. He represented our state well, and I think it was a well put together panel, as well. So there's a lot of interesting things happening in that arena.

And as you said, Commissioner, at some point sooner than later some of those issues will become our issues as well.

All right. With that, Commissioner Brown moves we rise.

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, Office of Commission Clerk, do hereby certify that the foregoing proceedings were transcribed from digital recording to the best of my ability.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 5TH DAY OF OCTOBER, 2012.

JANE FAUROT, RPR
FPSC Official Commission Reporter
(850) 413-6732