

10/6/11
Citizen Comment
Nathan Scop

Most Cost-Effective Alternative and Risk Mitigation Measures

The purchased power from the GREC project may initially increase the cost of electricity for GRU's customers by \$3 to \$13 dollars per month. **The evidence continues to indicate that the only scenario where the GREC Project would become the most cost-effective alternative would be if pending legislation regarding CO₂ emissions is enacted.** While we are concerned about what risk mitigation measures have been taken or will be taken in order to minimize any adverse rate impacts, the **Gainesville City Commission is ultimately responsible to its citizen-ratepayers for the rate impact associated with the project.** During the supplemental hearing, witnesses described risk mitigation techniques and indicated that the Gainesville City Commission considered other aspects of the project such as additional tax revenues, local job creation, bond ratings, and other matters outside the need determination statutes. **Again, if projections presented at the hearing do not materialize, then we would expect GRU and the Gainesville City Commission to respond accordingly in order to minimize any adverse rate impacts.**⁴

Fuel Availability

The evidence contained in the record shows that there is an adequate supply of woody biomass available to support the output of the GREC facility. While no contracts have been signed to date, there are letters of intent and GREC LLC continues to negotiate with area suppliers. During the public testimony phase of the supplemental hearing, forestry representatives from near-by communities offered their support of the project and the resulting employment opportunities. We note that since this is a purchased power agreement, GRU's ratepayers will only pay if power can be produced. In other words, if the GREC facility were not able to secure enough woody biomass to meet its performance obligations, then GRU's ratepayers would be held harmless.

Summary of Findings

After considering all the evidence contained in the full record, we approve the application for determination of need for the GREC Project. In support of this decision, we find that the GREC Project will: enhance the overall reliability of the GRU system and can replace older, less efficient generation; satisfy a need for GRU to improve its fuel diversity and supply reliability; promote the development of renewable generation in Florida; and become the most cost-effective alternative if pending legislation regarding CO₂ emissions is enacted. This order reflects our decision and serves as our report under the Power Plant Siting Act, as required by Section 403.507(4)(a), F.S.

⁴ Florida Statutes and our Rules related to purchase power contracts provide safeguards such that regulated investor owned utility (IOU) ratepayers would not pay above avoided costs for purchases of renewable capacity and energy. See § 366.051, Fla. Stat. (2010) and Rules 25-17.0825, 25-17.0832, 25-17.240, and 25-17.250, F.A.C. Such is not the case with the current proceeding because GRU is not rate-regulated by this Commission. We note, therefore, that if the applicants were an IOU, our decision may have been different.

Nacogdoches Power compared the advantages and disadvantages of a power purchase agreement contract structure versus GRU ownership and operation of the facility and concluded that the PPA structure would provide the most value to GRU. Nacogdoches Power proposes to sell capacity, renewable energy and environmental attributes from the Project to GRU under a twenty-year power purchase agreement; the environmental attributes would include any and all renewable energy credits, carbon dioxide emission reduction credits, and future environmental attributes associated with the capacity and energy sold to GRU.

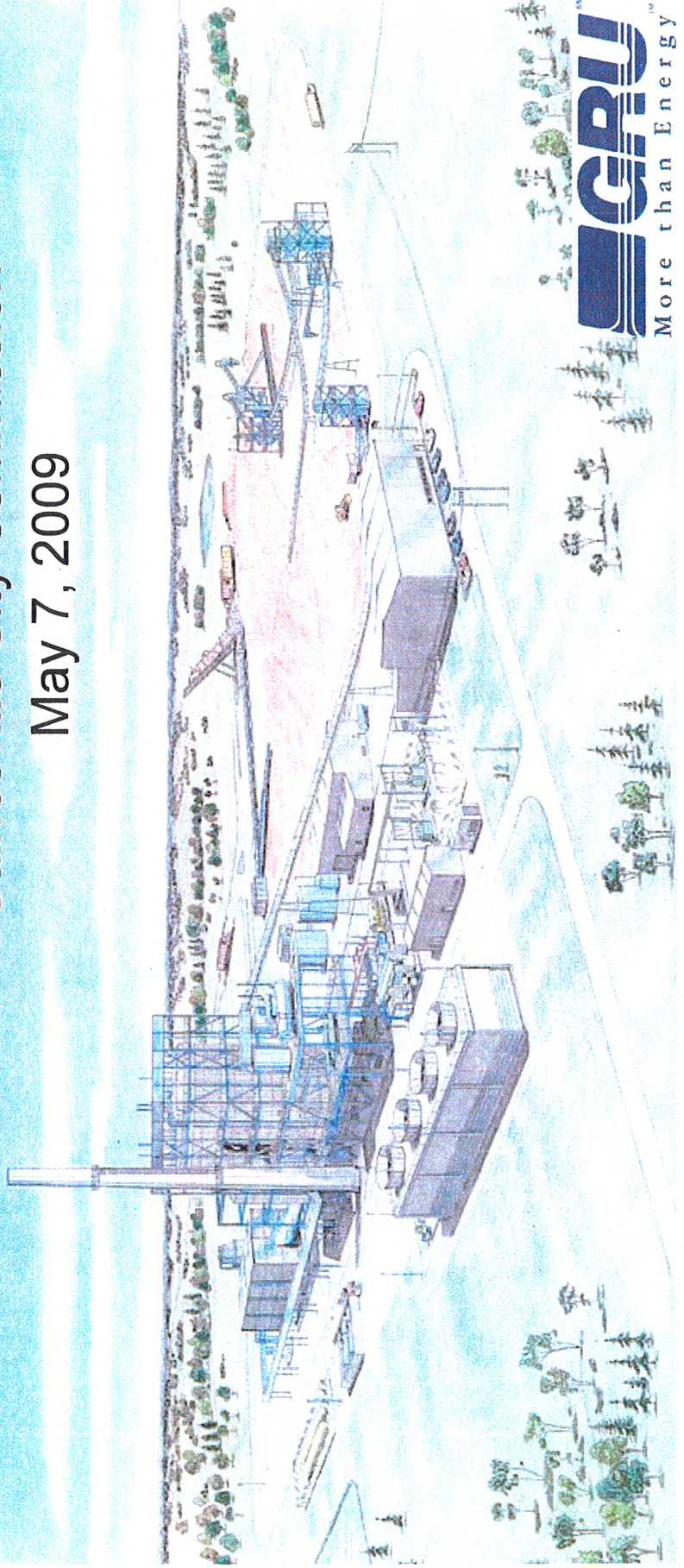
Nacogdoches Power proposes to sell the output from the Project to GRU on a firm capacity and energy basis, rather than on an as-delivered energy basis. The firm capacity and energy basis PPA structure will provide GRU with energy supply portfolio flexibility as GRU will be able to dispatch the Project as needed. This type of power purchase agreement structure is preferred by lenders because it aligns dispatch incentives between the Project and its offtakers. In addition, a twenty-year PPA would allow Nacogdoches Power to reduce the cost of constructing and financing the Project by maximizing the tenor of project debt.

Nacogdoches Power was recently awarded a similar 50 MW power purchase agreement by another Florida utility and has begun the formal development of the Project. Therefore, Nacogdoches Power proposes the following three power purchase agreement options to be evaluated separately (listed in order of Nacogdoches Power's preference):

- Proposal Option 1: Nacogdoches Power constructs a 100 MW biomass-fired electric generating facility at the existing Deerhaven Site and sells 50 MW of capacity, renewable energy and environmental attributes from the Project to GRU under a twenty-year power purchase agreement; Nacogdoches Power sells 50 MW to another utility under a twenty-year power purchase agreement with substantially similar terms.
- Proposal Option 2: Nacogdoches Power constructs a 100 MW biomass-fired electric generating facility at an alternative site and sells 50 MW of capacity, renewable energy and environmental attributes from the Project to GRU under a twenty-year power purchase agreement; Nacogdoches Power sells 50 MW to another utility under a twenty-year power purchase agreement with substantially similar terms.
- Proposal Option 3: Nacogdoches Power constructs a 100 MW biomass-fired electric generating facility at the existing Deerhaven Site and sells 100 MW of capacity, renewable energy and environmental attributes from the Project to GRU under a twenty-year power purchase agreement.

Contract For Biomass-Fueled Generation

Presentation to the
Gainesville City Commission
May 7, 2009



Gainesville Renewable Energy Center, LLC (GREC) Project Description (Continued)

- American Renewables (www.amrenewables.com):
 - Energy Management Inc. 25.5% share
 - BayCorp Holdings Ltd. 25.5% share
 - Tyr Energy 49.0% share
 - Subsidiary of ITOCHU Corporation
 - Will own and operate the Gainesville Renewable Energy Center LLC
- GRU Opted for 100% of Output
 - More than needed initially
 - Third party participant for 50 MW, 10 years