

GRU/City of Gainesville Draft Testimony on the Proposed Clean Power Plan Rule
July 30, 2014, 9:55 a.m.
Atlanta, Georgia

Gainesville Regional Utilities (GRU) is a multi-service utility owned by the City of Gainesville, Florida. GRU is the 5th largest municipal electric utility in Florida. Our combined services make us the most comprehensive utility service provider in the state. We serve approximately 90,000 retail and wholesale customers in Gainesville and surrounding areas, offering Electric, Natural Gas, Water, Wastewater, and Telecommunication Services.

Over the last decade, the City of Gainesville/GRU has done exactly what we believe the EPA's Clean Power Rule intends to accomplish - greatly reduce carbon dioxide emissions. We set a goal of reducing CO₂ emissions to seven percent below 1990 values by the end of 2013 and, with a concerted effort, exceeded this goal with a thirteen percent reduction by the end of 2012. We accomplished these reductions through a variety of measures, including adding renewable energy to our generation mix, burning more natural gas and implementing aggressive energy conservation programs since 2005. Our energy conservation programs alone have resulted in the reduction of 26 megawatts (MW) of demand and 131,000 MW hours of energy annually. In fact, electricity consumption by GRU's customers was the same in 2013 as it was in 2000. While some of this can be attributed to factors such as a sluggish economy, new federal appliance standards and updated building codes, our efforts, combined with our customers' efforts, have helped us make huge reductions in energy use. This has not been without a cost to our customers. GRU currently has the highest electric rates in the state of Florida, in part due to our actions taken to reduce CO₂. With these factors in mind, there are two primary points we would like to offer for consideration in proposed CO₂ rulemaking.

First, the proposed rule does not give credit for the significant investments made by utilities for renewable energy and energy efficiency programs to reduce greenhouse gas CO₂ prior to 2012. We believe that EPA should allow states to incorporate emission reductions made by electric systems prior to the effective baseline of 2012. As noted above, GRU has implemented significant renewable energy projects and invested \$28 million in energy efficiency. We were the first utility in the United States to offer a European style solar feed-in tariff which dramatically stimulated the construction of solar energy in our community. We created conservation programs which include residential duct sealing and attic insulation rebate programs. We incorporated landfill gas-to-energy projects into our generation portfolio. We were the first utility east of the Mississippi River to build and operate a natural gas-fired combined heat and power facility with a thermal efficiency greater than 70%.

In prior years, GRU's electric generation was primarily fossil fuel-based with non-fossil generation representing less than five percent of our energy supply. However, in late 2013 we added 100 megawatts (MW) of biomass energy to our electric generating system. This addition, along with an aggressive solar energy program that has added approximately 16 MW of photovoltaic solar capacity to our system, will allow us to meet nearly 34 percent of our customer energy needs with renewable

generation. As proposed, the Existing Source Performance Standard (ESPS) penalizes GRU and other Florida Utilities by not providing credit for early actions taken to reduce CO₂. The proposed ESPS emission reduction goals depend on 4 compliance building blocks (BBs). EPA's compliance BB#3 assumes that about ten percent of Florida's generation could come from renewable energy by 2030. Since GRU already has roughly 34% of its energy coming from renewable energy, additional renewable energy is not a viable option for us. It should be noted that the proposed ESPS fails to recognize GRU's early action to adopt renewable energy.

EPA's compliance BB#4 assumes that demand side management can reduce electric demand by ten percent by 2030. However, Florida and Gainesville are estimated to continue to experience significant population growth. EPA's ESPS does not appear to consider a state or a locality's future growth. Additionally, GRU's aggressive historical conservation programs, along with providing natural gas service to end use customers, have helped us attain the lowest per capita electricity use in the state of Florida.

Failure to recognize earlier reductions sends the wrong public policy message. Early, voluntary actions must be considered for compliance purposes in EPA's ESPS guidelines to the states and to individual utilities such as GRU.

A second primary concern relates to the potential for stranded costs from early investments our community made to comply with EPA's Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR). The ESPS, as proposed, depends primarily on load shifting from coal to gas-fired generation (BB#2) for compliance with Florida's CO₂ reduction goals. The shift to natural gas would likely result in the premature closing of our only coal unit, Deerhaven Unit 2. While EPA recognizes the increased costs to the consumers with load shifting to natural gas, it does not consider the stranded costs for those units that still carry considerable debt.

GRU, along with many other Florida municipal utilities, built coal units in the 1980s due to the Electric Power Industrial Fuel Use Act of 1977 that disallowed the use of natural gas and oil for any new electric generating units. The Fuel Use Act was passed while GRU was still in the process of building DH2 as a unit capable of burning both natural gas and oil. As a result of the Act, GRU was required to redesign DH2 as a coal-fired generator. GRU invested millions of dollars in redesigning and building a coal-fired generator, not because we wanted a coal-fired generating unit but because the federal law provided no other choice for new generation other than cost-prohibitive nuclear generation. Then, in 2009, GRU spent \$149 million on state-of-the-art air pollution control systems to comply with EPA's Clean Air Interstate Rule and Clean Air Mercury Rule. Creating existing source CO₂ standards that would force GRU to retire DH2 prematurely will leave our ratepayers with millions of dollars in stranded costs. Also, the proposed ESPS emission reduction goals were developed considering national and regional assumptions that may not translate to a state and its utilities. This is especially the case regarding EPA's assumed coal unit efficiency improvements (BB #1), since relatively recent investments in Florida's coal-fired generating fleet, including our Deerhaven Unit 2, already employ most of those improvements.

The concept of stranded costs is an even more significant concern for those utilities and communities that have made the investment to comply with existing EPA rules, and the extraordinary investments required to voluntarily reduce CO₂ in the recent past. Under the proposed rules, our customers would pay twice as much as those who have yet to invest in CO₂ reduction strategies. Effectively, our customers' bills are already higher than other utilities in the state, in part because of the investments we made in renewable energy and energy efficiency, and would go even higher under the EPA's rule as proposed.

Each electric utility generating system in the state of Florida is unique, just as each state's electric generating system is unique. It is critical that EPA's ESPS rule for CO₂ takes into account consideration of each state's unique energy and economic situation as well as the technological feasibility of EPA's compliance building blocks for each state. We would urge the EPA to fully consider Florida's unique situation with respect to fuel diversity, system reliability, economic growth, technological feasibility, and especially the investments and additional costs our customers already bear and any additional costs that will be forced upon them in the future.

Thank you for the opportunity to comment on the proposed ESPS rule.