

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Communications and Public Utilities Committee

BILL: SB 1202

INTRODUCER: Senator Bennett

SUBJECT: Power Plants/Integrated Gasification

DATE: March 5, 2007

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wiehle	Caldwell	CU	Favorable
2.	_____	_____	EP	_____
3.	_____	_____	GA	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

The bill creates new provisions relating to the determination of need and cost recovery for an integrated gasification combined cycle (IGCC) power plant. It provides for consideration during the determination of need of factors such as: the need for base-load capacity; the enhancement to the reliability of electric power production by improving the balance of power plant fuel diversity and reducing Florida's dependence on fuel oil and natural gas; and the cost-effectiveness of the source of power, taking into account the need to improve the balance of fuel diversity, reduce Florida's dependence on fuel oil and natural gas, reduce air emission compliance costs, and contribute to the long-term stability and reliability of the electric grid. The bill exempts a proposal to build an IGCC plant from the bid rule requirement that a utility proposing to build a power plant obtain competitive bids to provide the proposed power prior to petitioning for a determination of need. Finally, it provides for advance recovery of the costs incurred in the siting, design, licensing, and construction of an IGCC power plant.

The bill substantially amends sections 366.93 and 403.519 of the Florida Statutes.

II. Present Situation:

During the 2006 Regular Session, the Legislature amended s. 403.519, F.S., to create new provisions relating to the determination of need for a proposed nuclear power plant. s. 43, ch. 2006-230, Laws of Florida. The new provisions require that the petition set forth and that the Public Service Commission consider specified information as to reliability, fuel diversity, and the need for base-load generation. The legislation also exempted an electric utility proposing to build a nuclear plant from the bid rule requirement of obtaining competitive bids from other potential sources of that power.

Finally, it created s. 366.93, F.S., to provide for advance recovery of costs incurred in the siting, design, licensing, and construction of a nuclear power plant.

These provisions are discussed more fully below in the context of the bill's proposals.

III. Effect of Proposed Changes:

The bill amends ss. 366.93 and 403.519, F.S., to include integrated gasification combined cycle (IGCC) power plants in the new provisions relating to nuclear plants and the determination of need for a proposed plant, the exemption from the bid rule, and early cost recovery.

The bill defines the term "integrated gasification combined cycle power plant" for purposes of s. 366.93, F.S., as an electrical power plant that uses synthesis gas produced by integrated gasification technology. Generally speaking, an IGCC power plant combines a power plant and a chemical plant. The power plant is a gas fueled combined cycle plant, much like a natural gas plant. The chemical plant produces a synthetic gas, typically by gasifying coal. This synthetic gas is then burned in the power plant similar to natural gas.

Section 2 of the bill amends s. 403.519, F.S., relating to the determination of need for a proposed power plant. A utility proposing to build and operate an IGCC power plant would file a petition for determination of need with the Florida Public Service Commission (PSC or commission).

The petition must contain:

- A description of the need for the generation capacity.
- A description of how the proposed IGCC power plant will enhance the reliability of electric power production within the state by improving the balance of power plant fuel diversity and reducing Florida's dependence on fuel oil and natural gas.
- A description of and a nonbinding estimate of the cost of the IGCC power plant.
- The annualized base revenue requirement for the first 12 months of operation of the IGCC power plant.
- Information on whether there were any discussions with any electric utilities regarding ownership of a portion of the plant by such electric utilities.

In making its determination to either grant or deny the petition, the commission would be required to consider the need for electric system reliability and integrity, including fuel diversity, the need for base-load generating capacity, and the need for adequate electricity at a reasonable cost. More specifically, the PSC would have to take into consideration matters within its jurisdiction which it deems relevant, including whether the IGCC power plant would:

- Provide needed base-load capacity.
- Enhance the reliability of electric power production within the state by improving the balance of power plant fuel diversity and reducing Florida's dependence on fuel oil and natural gas.
- Provide the most cost-effective source of power, taking into account the need to improve the balance of fuel diversity, reduce Florida's dependence on fuel oil and natural gas, reduce air emission compliance costs, and contribute to the long-term stability and reliability of the electric grid.

The PSC would be required to hold a hearing within 90 days after the filing of the petition, and to issue an order granting or denying the petition within 135 days after the date of the filing of the petition. The commission would be the sole forum for the determination of need and the issues addressed in the petition, which could not be reviewed in any other forum, or in the review of proceedings in any other forum.

The utility proposing to build an IGCC power plant would be exempt from the bid rule, rule 25-22.082, Florida Administrative Code, which requires that a utility proposing to build a power plant request bids from other generators to provide the proposed power prior to petitioning for a determination of need.

The commission's determination of need for an IGCC power plant would create a presumption of public need and necessity. After a petition for determination of need for an IGCC power plant has been granted, the right of a utility to recover any costs incurred prior to commercial operation, including, but not limited to, costs associated with the siting, design, licensing, or construction of the plant, would not be subject to challenge unless and only to the extent the commission finds, based on a preponderance of the evidence adduced at a hearing, that certain costs were imprudently incurred. Proceeding with the construction of the IGCC power plant following an order by the commission approving the need for the IGCC power plant would not constitute evidence of imprudence. Imprudence would not include any cost increases due to events beyond the utility's control. Further, a utility's right to recover costs associated with an IGCC power plant could not be raised in any other forum or in the review of proceedings in such other forum. Costs incurred prior to commercial operation would be recovered pursuant to chapter 366, F.S.

Section 1 of the bill amends s. 366.93, F.S., relating to advance cost recovery for pre-construction costs of an IGCC power plant. The bill requires the commission to establish, by rule, alternative cost recovery mechanisms for the recovery of costs incurred in the siting, design, licensing, and construction of an IGCC power plant. The mechanisms must be designed to promote utility investment in IGCC power plants and allow for the recovery in rates of all prudently incurred costs, including but not limited to:

- Recovery through the capacity cost recovery clause of any preconstruction costs.
- Recovery through an incremental increase in the utility's capacity cost recovery clause rates of the carrying costs on the utility's projected construction cost balance associated with the IGCC power plant.

After a petition for determination of need is granted, the utility could petition the commission for cost recovery as permitted by this section and commission rules. After the petition is granted, and up until the IGCC plant is placed in commercial service, the utility would be required to report to the commission annually the budgeted and actual costs as compared to the estimated inservice cost of the IGCC power plant provided by the utility in its petition for a determination of need. When the IGCC power plant is placed in commercial service, the utility is to be allowed to increase its base rate charges by the projected annual revenue requirements of the IGCC power plant.

If the utility were to elect not to complete, or to be precluded from completing, construction of the IGCC power plant, the utility would be allowed to recover all prudent preconstruction and construction costs incurred following the commission's issuance of a final order granting a determination of need for the IGCC power plant. The utility would recover the costs through the capacity cost recovery clause over a period equal to the period during which the costs were incurred or 5 years, whichever is greater

The bill would take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

According to representatives of Tampa Electric Company (TECO), the company has been awarded tax credits contingent upon meeting requirements as to the construction and operation of an IGCC plant. The tax credits would effectively lower the incremental revenue requirements for the new IGCC plant by approximately \$15 million per year. TECO representatives also state that the advanced cost recovery provisions will result in lower capital costs and lower rates for customers. Finally, they state that these economic benefits will allow TECO to build an IGCC plant instead of a natural gas plant. An IGCC plant is more capital intensive than a natural gas plant but has lower fuel costs. They project total customer savings between the two technologies of \$7 billion over the life of the plant, from 2013 to 2038.

C. Government Sector Impact:

The PSC would have minor expenses for rule making and hearings which it could absorb in existing resources.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

viii. Summary of Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
