



ENERGY NEWS

of the Southeast Florida Society of Energy Professionals, a Chapter of the Association of Energy Engineers

February 2001 • Volume 14 • Number 2

An open market for merchant plants—betting Florida's energy future on the wrong horse

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The *Energy 2020 Study Commission* submitted its Interim Report, "Proposal for Restructuring Florida's Wholesale Market for Electricity" to the Governor and Legislature earlier this month. (Visit www.myflorida.com/energy to download a copy.)

The report begins by recommending that Florida open its doors to Excluded Wholesale Generators (EWGs) so they can build merchant power plants at will. There is no requirement for Need Determination, which is required only for utility power plants serving retail (not wholesale) load.

There are no requirements for performance standards to improve the efficiency of these power plants, much less incremental performance standards. Instead there is an indication that outmoded end-of-pipe environmental controls will win out unless an environmental technical advisory committee, to be formed later, convinces the Commission otherwise. As for the future—there's a nod to the Florida Public Service Commission to "encourage R&D in distributed resources", and very little else about energy conservation. All the report really does is recommend a leveling of the playing field somewhat so that EWGs can participate legally in Florida's current power market, under the purview of the PSC.

In effect, the report perpetuates and enhances the flaws in our current electric

power planning process that will impede progress into the 21st century and offer Floridians little hope of a sustainable energy future. The Commission has sent a clear signal to the Governor and Legislature that EWGs will, and should, determine Florida's future energy needs. This is a big mistake.

To illustrate the danger to Florida's future of allowing an open market for EWGs, look no further than a December *New York Times* analysis of President Bush's plans for energy policy. It reported that the new administration planned to "review federal lands currently off-limits for drilling" and that "such land could contain almost 140 trillion cubic feet of natural gas, enough to supply the United States for six years". Six years! My God, have we really come to this? That the road imagined to our energy future is littered with a critical mass of gas-guzzling gas turbines, supplied with exploits from pristine refuges which have just enough gas to see this country through one presidency and halfway through another! It should scare the pants off you.

A full analysis of the connection between an open market for EWGs, drilling for gas in our off-limits wilderness areas and roadblocks to a sustainable energy future is beyond the scope of this essay, however I offer the following for contemplation of the issues.

The main premise offered for building merchant plants is that competition will drive down prices. That's hogwash because what they're talking about is gas-to-gas competition. And we're not at all certain that adequate supplies can be developed or the infrastructure built to deliver product to the marketplaces any time soon or for the future. Most experts acknowledge that while global natural gas resources are abundant, getting them to market is a far different proposition. ExxonMobil "have for decades tried to figure out how to economically get it (Alaskan North Slope gas) to consumers" (NYT 02/08/01). This is a pointed reference to the fact that market prices for gas would have to escalate dramatically for the gas to become attractive. In gas-to-gas competition this is being set up to happen. If gas prices continue to climb due to market inelasticity then prices will not come down, instead they will be very volatile. Just last week ExxonMobil put the oil and gas supply situation in perspective. They said, "About half the oil and gas required by 2010 has not yet been brought to production status. The investment needed to develop this production could exceed \$1 trillion. This is an enormous challenge. Part of the challenge is to find resources in the first place."

It is believed that wilderness resources are easier to bring to market and would

Betting Florida's energy future on the wrong horse (continued)

therefore hold prices in check while more difficult resource plays, pipeline infrastructure and power plants are developed. This also includes time for securing additional supplies from Canada, if available, and possible financial and technical assistance to help Mexico develop its resources for US markets. And oil is part of the equation, which is why the Alaskan National Wildlife Refuge and its petroleum deposits are of so much interest to President Bush.

One of the features of gas turbines—the technology of choice for merchant plants—is that they can be dual fueled. They can operate on natural gas or distillate oil. If producing adequate gas resources proves problematic, and costly, these power plants could be switched to oil if it is more cost effective to do so. And in an emergency you know that the environment will suffer.

Recent modeling “suggests that a ‘switchable bench’ from gas to oil can occur with oil at \$25 and gas at a high of \$6” (Jensen Associates, US Association for Energy Economics “Dialogue”, Jan

2001). These prices are well within the bounds of today's experience, so the bench has been set, and might for example account for black emissions from FPL's Port Everglades plant during certain times of the day. The global industry voice, the World Energy Council, notes that “an important feature of (gas turbines) should be their ability to operate with more than one fuel. This in turn implies a need for storage of this different fuel, well-planned logistics, and a possible role of government to ensure that such low cost options are widely used.” This is the planned role for oil.

Instead of opening our doors to large-scale fossil fuel switching and 30-year sunk investments in outmoded infrastructure, Florida should demand a sustainable energy agenda. The agenda proposed is nowhere near good enough. It is designed to **fudge** the current energy paradigm (fossil fuels) to fit the future and ignores long-term energy security for a future based on wishful thinking and political clout. We should just say no. •



Robert Farmer is an energy planning engineer and energy policy specialist. A comprehensive resource on technologies, issues, and policies, he offers clients strategies, briefings, and presentations on planning a sustainable energy future.

His technical expertise includes large scale to small scale power generation, combined heat and power (CHP), marine and surface transportation, and alternative fuel applications.

A Florida resident since 1984, Robert was a member of the Energy Advisory Committee of Governor Chiles' Commission for a Sustainable South Florida.

He is a Regional member and Market Development Chair of the Gold Coast Clean Cities Coalition (a U.S. Department of Energy program), and a member of the Southeast Air Coalition for Outreach (SEACO, an initiative of the Florida Department of Environmental Protection).

He is a member of the international Association of Energy Engineers (AEE) and since 1992 has served on the Board of the Southeast Florida Society of Energy Professionals, the local AEE chapter. He is a member of the Sound Science Initiative of the Union of Concerned Scientists, and a member of the United States Association for Energy Economics (USAEE).

He is also a member of the Board of Directors of the Tallahassee-based law firm, Legal Environmental Assistance Foundation, Inc. (LEAF), and of Third Planet, a Fort Lauderdale-based public charity.

He graduated as a Planning Engineer with Bristol-Siddeley Engines/Rolls Royce Gas Turbines Ltd. in the United Kingdom and has over 30 years engineering, sales and service management experience in the engine power industry in North America.

robertfarmer@conceptcommuniques.com
CONCEPT COMMUNIQUE'S INC.
5200 N Federal Hwy Ste 2
Fort Lauderdale FL 33308
(954) 493-8127

www.conceptcommuniques.com