

Cox News Service

Could Florida have power problems?

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WEST PALM BEACH— A summer heat wave pushes temperatures above 95 degrees for the second week in a row. A fire breaks out in the Everglades and downs a steel line carrying 500,000 volts of electricity. A water pump breaks, and the state's largest power plant is unable to make electricity. The second biggest plant is no help when a steam turbine unexpectedly quits.

Suddenly, your air-conditioner stops, your lights dim and you're sweating in the summer dark as engineers scramble to restore electricity.

It's the kind of scenario Californians have come to expect _ and one Floridians might not be as far from as they think.

State regulators charged with keeping tabs on Florida's power supply and the investor-owned utilities that control much of it say Florida is in good shape to meet the state's energy demands, no matter how hot it gets.

Others aren't so sure. Walter Revell, a Coral Gables businessman who chairs Gov. Jeb Bush's Energy 2020 Study Commission, says the power supply should be bigger for a state with 3 percent annual population growth and a white-collar workforce that hums only when its computers do.

"We have many people in office buildings with cubicles and a lot of technology," Revell said. "Modern society needs more power than in the great old days."

Florida's utilities have fallen short before:

- > Unseasonably warm weather in April 1999 reduced the state's power reserves to dangerously low levels, and residents were urged to use as little electricity as possible.
- > A late-winter storm in March 1993 dropped temperatures into the 20s and forced Florida Power & Light Co. to enact 30-minute rolling blackouts.
- > An unprecedented three-day cold snap depleted energy supplies throughout the Southeast, and 1.5 million Floridians went without electricity during the 1989 Christmas weekend.

In each case, unexpected hot or cold weather was only part of the problem. Planned and unplanned shutdowns at some of the state's biggest power plants left utilities powerless to meet the demands of all their customers.

Florida's big three power companies based in Miami, Tampa and St. Petersburg, regulated and protected monopolies, have added generating capacity at old power plants but haven't sought to build a new plant on virgin land in 10 years, when St. Petersburg-based Florida Power Corp. and Tampa Electric Co. both asked for state approval for sites in Polk County.

Florida Power & Light Co. of Miami, the main subsidiary of Juno Beach-based FPL Group, hasn't built an entirely new plant since 1980.

Over the past decade, the utilities instead have expanded old plants to keep hiring and training costs low, take advantage of power lines already in place and avoid image-damaging battles with environmental groups that usually oppose new plants.

They can add as many generating units to old plants as they have room for, but there's a downside to this cost-efficiency: Forest fires, hurricanes and other major storms carry a greater risk of knocking out power when the juice flows from only a few places.

Also, there's always the chance that power will trip off unexpectedly as people demand more of these aging facilities.

An unforeseen problem last month at FPL's 25-year-old nuclear plant on Hutchinson Island in St. Lucie County resulted in the two-day loss of 839 megawatts, enough electricity to power 182,393 homes and businesses. FPL took advantage of extra electricity elsewhere to deliver power without any interruption.

"Truthfully, I didn't even know it went down," said Linda Campbell, who oversees the state's daily energy supply for the Florida Reliability Coordinating Council in Tampa. "Our operating margin at the time was over 7,000 megawatts."

In a regulated market, that's how it's supposed to work. Daily monitoring of the state's electricity supply ensures there will be enough energy to burn, even during severe weather and the unexpected loss of the state's biggest power plant.

But when it comes to energy, people have a favorite saying: "Knock on wood."

REMOTE, BUT POSSIBLE

"You can't plan against absolutely every multiple-contingency event," said Kevin Wailes, who oversees electricity for the city of Tallahassee, which delivers power to 95,000 customers. "We're expecting this summer to be about what we've experienced the last several years. There've been no recent problems. But we always knock on wood."

A year ago, FPL customers in Palm Beach County were without electricity for 15 minutes after the company's Manatee County plant, its second biggest, was knocked out of service. FPL restored power by shutting off electricity to 642,000 customers who agree to go without air-conditioners, pool pumps and other appliances during an emergency.

Mike Bedley, an energy consultant with APEX Power Service in Fort Lauderdale, points to such incidents as examples of Florida's tenuous power situation. The shutdown at FPL's St. Lucie County plant could have spelled trouble during a heat wave.

"If there were fires, and the weather was extremely hot, and another unit tripped off, they might

have had to go to rolling brownouts or rolling blackouts," said Bedley, who's in favor of relaxing regulatory control over Florida's wholesale energy market to get more plants built. "It might seem like a remote possibility, but remote possibilities happen. They do."

The National Weather Service expects an average high temperature of 93 degrees this summer in Palm Beach County and the Treasure Coast, or 3 degrees above normal.

The state's utilities say they're prepared, with 21 percent more electricity than what they expect to need during peak demand.

But Revell, the 2020 Study Commission chairman, says that number is inflated. Revell subtracts 9 percent because that's how much utilities expect to save through service interruptions to large industrial users and through so-called load management. (Customers participating in load-management programs get credits on their monthly bills for allowing appliances to be shut off when reserves get low.)

The Public Service Commission requires utilities to maintain reserve margins of at least 15 percent, though it will raise the bar to 20 percent in 2004. If it goes much higher, electricity could become too expensive for some consumers, said Sanford Berg, director of the University of Florida's **Public Utility Research Center** in Gainesville.

"The price of electricity could double with reserve margins of 30 to 40 percent," said Berg, a member of the Energy 2020 commission. "Certainly, from the standpoint of Florida consumers, it would not be in our interest to have excess capacity."

The 19-member study commission has until Dec. 1 to give state lawmakers a plan for meeting Florida's energy needs during the next 20 years. Deciding whether Florida has enough energy to avert the kind of crisis facing California is not as easy as it seems.

Politics and big money get in the way of any clear answers.

Revell, who served as state transportation secretary under Democratic Gov. Reubin Askew, recalls a telephone conversation with Bush last summer in which the Republican governor warned that energy is the most heavily lobbied issue in Florida.

"The titans that are clashing here are the investor-owned incumbent utilities (such as FPL) vs. the so-called merchant plants that want access to Florida's markets," said Deb Swim, an attorney for the Legal Environmental Assistance Foundation (LEAF) in Tallahassee.

A clash of that magnitude leaves little room for environmentalists who would like to steer discussion toward conservation and renewable energy solutions. "It seems the policy makers are quicker to hear from those folks than us, but we're hopeful," Swim said.

Proponents of opening Florida to competition argue the state's utilities are not doing enough to meet growing demand. They say wholesale plants, also called merchant plants, should be allowed in Florida to sell power without any hindrances to the state's utilities, thus lowering energy prices.

Florida is the only state that prohibits merchant plants, unless they have long-term agreements for power sales with municipalities and utilities. Because of a quirk in state law, outside competitors instead can build so-called peaker plants, which generate electricity during peak demand and sell it on the spot market, sometimes for as much as 60 times the usual rate.

Allowing merchant plants to set up shop in Florida is the likely first step toward full deregulation, with utilities someday competing for residential and business customers, just as long-distance companies do now.

"The current wholesale market is not a vibrant one," said Barry Moline, executive director of the Florida Municipal Electric Association, which represents 32 local government-owned power companies, including those in Lake Worth, Fort Pierce and Vero Beach. "When you have cheaper prices at the wholesale level, all customers benefit."

Corporate heavyweights such as Houston-based Enron _ one of the biggest financial backers of President George W. Bush's election campaign _ are making their presence felt in Tallahassee.

Enron owns half of the state's only major natural gas pipeline and plans to build peaker power plants in St. Lucie County, Deerfield Beach and South Miami-Dade County. (It recently dropped plans to build a plant in Pompano Beach after heavy community opposition.) Its role in Florida almost certainly will grow as deregulation gains acceptance.

Eric Thode, an Enron spokesman, says deregulation is necessary to meet the state's energy needs. He accuses Florida's utilities of using "smoke and mirrors" to arrive at a 21 percent reserve margin.

Thode not only subtracts 9 percent for load management, he subtracts 3 percent for energy imported from neighboring states and 8 percent for energy bought from in-state, non-utility generators _ leaving a reserve of 1 percent.

"What you're looking at is a state that is not much different than California was several years ago," Thode said.

Lined up against Enron and other would-be competitors are Florida's three big utilities: Florida Power & Light, Florida Power and Tampa Electric. All have monopolies under Florida's regulatory system; all have shares trading on the New York Stock Exchange. (Florida Power is owned by Progress Energy, a \$7 billion holding company based in Raleigh, N.C.)

Florida Power & Light, boasting a 20 percent reserve margin, insists it has more than enough energy to meet the needs of its 3.9 million customer accounts this summer.

FPL EXPANDING CAPACITY

"We're not like California. We have planned ahead. We anticipate what our customers are going to be needing," said FPL spokesman Bill Swank. "California did everything wrong. California did not build a power plant in 10 years. We build them all the time."

Swank is referring to FPL adding units, or generating capacity, to old plants. In reality, a power plant building boom did not happen in the 1990s. Utilities everywhere stopped building in the latter half of the decade after Congress started considering deregulation, a move that would have drastically changed the business landscape.

"Definitely, if you look three years ago in Florida, not enough plants were built," said David Parker, a utility analyst for Robert W. Baird in Tampa. "It was a tough sale to investors to say 'we want a lot of money to build plants' if they didn't know what the marketplace was going to look

like. The utilities went into a holding pattern."

FPL banked 2,900 megawatts by signing up hundreds of thousands of customers for its load management program and by emphasizing energy conservation. As a result, it avoided building seven medium-size power plants during the '90s.

FPL President Paul Evanson justifies the utility's conservative building strategy like this: "Who wants to build a power plant when there's no need to?" He dismisses as "misinformation" criticism of the state's reserve margin, saying energy bought on contract _ whether from out-of-state or in-state suppliers _ is no less reliable than energy produced at a utility-owned plant in Florida. Likewise, he argues, energy saved through load management is energy available during peak demand.

"It's just a totally bogus issue," he said. "You've got to add up the pieces, and each piece makes sense.

"We've planned our capacity. We've added capacity. We have one of the highest reserve margins in the country."

Last year, 10.5 percent of FPL's energy came from in-state and out-of-state suppliers. With deregulation looking more and more inevitable, FPL is promising to add nearly twice as much generating capacity during the next five years as it did in all of the '90s. Consider:

> In the first half of the decade, FPL added new units to plants in Martin County, Fort Lauderdale and Georgia, bumping production capacity by 2,600 megawatts, or enough power to serve 550,000 homes and businesses.

> It now plans to add 4,250 megawatts by 2006. It recently fired up new units in Martin County and Fort Myers and plans to build a new plant in St. Lucie County. Also, it will add power by converting oil-fired facilities in Fort Myers and Sanford to natural gas.

> It wants to build another unit in Martin in 2006, adding 550 megawatts, and expects to need five more units in 2007, 2009 and 2010.

Despite squeezing more power from old facilities, FPL acknowledges it needs to build more plants. The company in April told the Public Service Commission it needs to add the equivalent of six plants to meet the needs of 700,000 additional customers during the next decade, though it has not said how, or where, it will do that. Last year, FPL predicted it would need only three new plants.

Why the change?

Last year's plan did not take into account the 2010 expiration date on a contract to buy more than 900 megawatts from a Georgia utility, company spokesman Swank said.

Further, he said, FPL is responding to large growth forecasts that stem not only from the usual influx of residents and businesses to Florida, but from the widespread use of computer technology. The U.S. Chamber of Commerce estimates that businesses today use three times as much electricity in each square foot as they did 15 years ago.

John McWhirter, a Tampa lawyer who represents large industrial power users, argues that

Florida's investor-owned utilities are not producing enough electricity. Instead of building power plants, they're relying on load management and out-of-state suppliers, he said.

Five big companies that buy electricity from Tampa Electric expect to pay nearly \$10 million this year to keep from having their service interrupted during peak demand and plant shutdowns, he said. The extra costs come from having to buy power on the spot market.

McWhirter, speaking on behalf of Florida Industrial Users Group, believes his clients would save millions of dollars if merchant plants were allowed.

"If you have a monopoly, and you can keep demand high and supply low, it drives up prices," McWhirter said. "As customers, we'd like to see more supply."

As for this summer, overseers of the state's energy supply say Florida consumers can rest assured _ they're not likely to be left sweating in the dark.

"I never say never, but we think we're in good shape," said Ken Wiley, director of the Florida Reliability Coordinating Council. "If it's just a good typical hot summer like what we've been having, we'll have daily reserves of 21 percent or better."

Knock on wood.

Load date: July 15, 2001