

**STATE OF NEBRASKA  
NEBRASKA POWER REVIEW BOARD**

IN THE MATTER OF THE APPLICATION	)	
OF THE OMAHA PUBLIC POWER	)	<b>PRB - 3355</b>
DISTRICT OF OMAHA, NEBRASKA,	)	
REQUESTING AUTHORIZATION TO	)	<b>ORDER</b>
CONSTRUCT A 600 MEGAWATT	)	
ELECTRIC GENERATION UNIT	)	
IN OTOE COUNTY, NEBRASKA.	)	

ON THE 19<sup>th</sup> day of April, 2002, the above-captioned matter came on for hearing before the Nebraska Power Review Board. The Board, being fully advised in the premises, and upon reviewing said application and all evidence presented to the Board at said hearing, HEREBY FINDS AS FOLLOWS:

1. That on the 18<sup>th</sup> day of March, 2002, the Omaha Public Power District (OPPD), headquartered in Omaha, Nebraska, filed an application with the Nebraska Power Review Board (the Board) for authorization to construct a 600 megawatt coal-fired electric generation facility in Otoe County, Nebraska. The application stated that the total cost to OPPD for the project (including related facilities) was estimated to be \$850,423,000. The Board designated the application as "PRB-3355."

2. That those power suppliers deemed to be potentially affected by said application were the Lincoln Electric System (LES), the Municipal Energy Agency of Nebraska (MEAN), the Nebraska Public Power District (NPPD), the Auburn Board of Public Works and the Nebraska City Utilities. Written notice of the hearing was provided to these alternate power suppliers and OPPD via certified mail. Notice of the hearing was provided to the general public by publication in the Omaha

World-Herald, a legal newspaper of general circulation in the affected area. Notice was published twice, on Sunday, April 7, 2002 and Wednesday, April 10, 2002.

3. Petitions for Intervention were filed by LES, MEAN, NPPD, and the Nemaha County Development Alliance (the Alliance). All the Petitions for Intervention were granted.

4. That on April 19, 2002, the Board commenced the hearing on PRB-3355.

5. At the hearing, among other evidence OPPD offered an exhibit titled "Nebraska Power Review Board, Nebraska City Unit #2, PRB-3355" which consisted of documents that had also been converted to overhead slides for use in OPPD's presentation in support of application PRB-3355. Other exhibits dealt with generation resource planning. Witnesses testifying in support of the application were: David Ried, OPPD Division Manager for Energy Marketing and Trading; Dale Widoe, OPPD Vice President; David Christianson, Vice President of Burns & McDonnell Engineering Company; Gerald Krause, Division Manager of OPPD's Electric Operations Division; Charles Moriarty, Senior Financial Officer, Division Manager of Finance and Assistant Treasurer and Assistant Secretary for OPPD. Jed Wagner, Executive Director of the Nemaha County Development Alliance, testified on behalf of the Alliance. The testimony and exhibits accepted into evidence at the hearing demonstrate the following (for purposes of this Order, "T" will be used to refer to the hearing transcript, followed by the page number, then line numbers):

- a. The generation facility will be located on the premises of the existing OPPD Nebraska City generating station. There is already in existence a 643 megawatt coal-fired generation unit at the Nebraska City site. (Exhibit 1; Exhibit 6, p. 20, Exhibit 9, p. 7). The proposed site was specifically designed to be capable of accommodating four 600-megawatt generation units, and one

unit is currently located and operating at the site. (T54:17-25; T60:25 to 61:1). Therefore, the site already has many of the coal-handling facilities, rail access, transmission facilities, and personnel that could also be used for the proposed generation unit. (T61:2-19; T130:6-11; Exhibit 5, p.17). These factors allow for significant reductions in the cost to construct and operate a coal-fired generation unit at the proposed location.

- b. The evidence demonstrated that OPPD needs a new baseload generating unit. OPPD has not added a baseload generation unit in over 30 years. (T33:11-12). By 2009, over 300 megawatts of OPPD's coal-fired generation units will be over 50 years old. (T118:18-25). OPPD's unit proposed in PRB-3355 could provide power when any of those units are out of service for maintenance or an unplanned outage. The age of OPPD's existing coal-fired resources indicates that OPPD may need to make preparations to replace baseload generation resources.
- c. OPPD's peak electricity use is expected to grow at 2.4 percent per year, which means OPPD experiences approximately 50 additional megawatts load growth per year. (T36:9-11; T76:23-25). At least part of OPPD's load growth is in the area of industrial customers, many of which need the energy 24 hours a day, seven days a week, not seasonally as with such demands as air conditioning. (T40:8-20). Such consistent, round-the-clock load demand demonstrates OPPD's need for a new baseload generation unit. The evidence was uncontroverted that OPPD requires 300 megawatts in order to supply its own customers' needs beginning in 2009. (T76:25 to 77:2; T156:23-24).

- d. The evidence showed that a coal-fired baseload generation unit in Nebraska is the most economical means available with which to generate electricity to meet significant and consistent loads. Natural gas prices have historically been, and continue to be, higher than coal prices and are much more volatile than coal prices. (T54:5-14; T55:7-22; Exhibit 5, p. 9). Coal prices are expected to climb at a slower rate than natural gas prices. (T42:7-19; Exhibit 5, p.9).
- e. A large baseload unit is able to take advantage of economies of scale, which reduces the price of the electricity generated by the unit. Assuming the unit is correctly sized to meet load demands, the larger the unit, the more cost savings can be expected and the cheaper the price of the resulting electricity. (T54:15-16). By constructing a unit between 300 and 600 megawatts in size, OPPD can take advantage of economies of scale to reduce the cost of the electricity produced, which would not be possible if the unit were limited to 300 megawatts. (T56:5-21; T154:23 to 155:25; Exhibit 5, p.16). By limiting the size to 600 megawatts, OPPD minimizes its exposure to risks such as unplanned outages, which are inherent if too large an amount of its generation capability would come from one source at one location. (T80:3-19).
- f. OPPD demonstrated that it requires 300 megawatts with which to supply its own load growth. Although OPPD expressed confidence that it could obtain long-term contracts for an additional 300 megawatts above what its own customers need, OPPD does not currently have any binding commitments from

other power suppliers to participate in any additional capacity (above the 300 megawatts needed by OPPD's customers) that might be available from the proposed unit in PRB-3355. (T83:9-22; T94:17-23). The testimony indicated that OPPD only intends to construct that amount above 300 megawatts (up to a maximum of 600 megawatts) for which it can obtain long-term contracts with other power suppliers. (T67:1-20; T85:18 to 86:5; T103:20 to 104:8). OPPD's witnesses defined long-term power purchase contracts as those having a commitment term of at least 25 years. (T80:2-8).

- g. OPPD provided reasons why it decided not to purchase its energy needs from the Cooper Nuclear Station (CNS), owned by NPPD, instead of constructing the generation unit in PRB-3355. (T96:17-20). At this time OPPD believes it could produce the electricity it needs with the proposed PRB-3355 unit for less than it could purchase the electricity from CNS. (T96:21 to 97:24; T98:3-16). OPPD needs long-term baseload capacity beginning in 2009. It is not clear whether NPPD will submit an application to renew its license to operate CNS, which expires in 2014, or whether the appropriate federal authorities will approve the new license. (T96:24 to 97:6). Approximately 40 percent of OPPD's energy is supplied by its Fort Calhoun nuclear facility. If OPPD were to purchase the 300 megawatts it needs from CNS, nuclear power would grow to approximately 65 percent of OPPD's fuel mix, well above the industry average. (T97:7-15).
- h. OPPD hired an independent engineering company to review OPPD's integrated resource plan, reviewing the assumptions,

methodologies and conclusions. The engineering firm concluded that OPPD's load growth methodologies, power supply options and fuel forecasts for the 300 megawatt unit OPPD needs for its own loads were reasonable and consistent with electric utility standards. The firm believed that increasing the size to 600 megawatts would provide additional efficiencies and lower capital costs, but only if all of the additional capacity were sold. (T123:8-21; Exhibit 5, p. 36).

- i. The evidence indicated that very strong long-term contracts for that portion of the generation exceeding the 300 megawatts needed by OPPD for its own load would be necessary to avoid negative action by financial rating agencies. (T140:13-22). The financing for the additional 300 megawatts (above that needed for OPPD's own needs) or any portion thereof would be provided by the entities owning or purchasing the energy. OPPD ratepayers would therefore not be subsidizing the costs, and the additional generation would not incur the risks of being sold on the open market. (T141:5 to 142:3; T157:8-25).

6. It was the position of Intervenor Nemaha County Development Alliance that OPPD should utilize some of the 400 megawatts that will be available from CNS in 2004, instead of building the generation unit requested in PRB-3355, or at least that Nebraska's power suppliers should coordinate in an effort to utilize CNS's electric output that will become available in 2004. The evidence shows that OPPD considered other alternatives to construction of the PRB-3355 coal-fired unit. OPPD's witnesses provided reasons why OPPD did not consider CNS a viable alternative to the proposed PRB-3355 unit. OPPD's reasoning appears to be based on sound utility business practices, and no technical or expert evidence was provided

to contradict OPPD's evidence. The Alliance also urged the Board to postpone a decision on PRB-3355 until OPPD and Nebraska's other power suppliers engage in joint planning activities. However, no legal basis for the Board to do so was provided. Pursuant to Neb. Rev. Stat. § 70-1013, the Board is required to render its decision within thirty days after the conclusion of the hearing. There is no provision for the Board to delay action on an application to allow for or require joint planning, particularly where such a delay may conflict with statutory time constraints. In addition, it was not clear how long a delay would be needed in order for Nebraska's power suppliers to complete the joint planning activities requested by the Alliance.

7. That the hearing was concluded on April 19, 2002. Briefs were accepted from the parties after the conclusion of the hearing.

8. That on May 31, 2002, the Power Review Board convened a scheduled public meeting which included the consideration of PRB-3355 on its agenda. At that public meeting a majority of the Power Review Board (5 ayes, no nays) voted to approve application PRB-3355 under certain conditions. The motion approved stated that "the findings required by Nebraska Revised Statute section 70-1014 have been met for application PRB-3355 and that the proposed construction will serve the public convenience and necessity and that the Omaha Public Power District can most economically and feasibly supply the electric service resulting from the proposed construction without unnecessary duplication of facilities or operations and that application PRB-3355 be approved with a capacity of up to 600 megawatts, subject to receipt by the Board of participation agreements with terms of 25 years or longer for any capacity in excess of 300 megawatts, such participation agreements to be received prior to the Omaha Public Power District's entering into contracts for construction. In the event participation agreements in the amount of 300 megawatts are not obtained, the Board's approval shall be limited to 300 megawatts capacity plus the amount of participation agreements obtained."



IT IS THEREFORE ORDERED by the Nebraska Power Review Board that, pursuant to the Board's action during its public meeting held May 31, 2002, set out in paragraph 8 of this Order, the Omaha Public Power District's application PRB-3355 for authorization to construct a coal-fired electric generation facility in Otoe County, Nebraska, with a capacity up to 600 megawatts is APPROVED, subject to receipt by the Board of participation agreements with terms of 25 years or longer for any capacity in excess of 300 megawatts. The participation agreements are to be received by the Power Review Board prior to the Omaha Public Power District entering into contracts for construction. If participation agreements in the amount of 300 megawatts capacity are not obtained, the Board's approval is limited to 300 megawatts capacity plus the amount of capacity indicated by the participation agreements obtained.

NEBRASKA POWER REVIEW BOARD

BY:   
Mark Hunzeker, Chairman

DATED: 7/3/02



## CERTIFICATE OF SERVICE

I, Timothy J. Texel, Executive Director and General Counsel for the Nebraska Power Review Board, hereby certify that a copy of the foregoing **ORDER** in PRB-3355 has been served upon the following parties, at the addresses listed below, by mailing a copy of the same via certified United States mail, first class postage prepaid, on this 12<sup>th</sup> day of July, 2002.

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