

GOVERNMENT OF PUERTO RICO  
PUBLIC SERVICE REGULATORY BOARD  
PUERTO RICO ENERGY BUREAU

IN RE: PRELIMINARY STUDIES FOR NEW  
COMBINED CYCLE POWER PLANT IN  
PALO SECO

CASE NO.: NEPR-MI-2021-0003

SUBJECT: Report on Preliminary Studies for  
New Combined Cycle Power Plant at Palo  
Seco.

**RESOLUTION AND ORDER**

On August 24, 2020, the Energy Bureau of the Puerto Rico Public Service Regulatory Board ("Energy Bureau") issued a Final Resolution and Order on the Puerto Rico Electric Power Authority's ("PREPA") Integrated Resource Plan ("IRP") under Case No. CEPR-AP-2018-0001<sup>1</sup> ("August 24 Resolution").

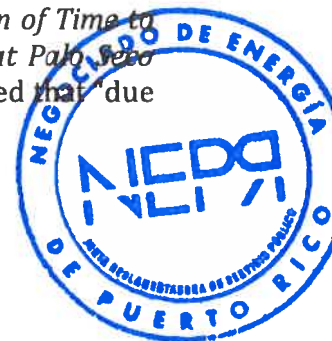
Through the August 24 Resolution, the Energy Bureau **DETERMINED** that PREPA had not supported the inclusion of a new Combined Cycle Gas Turbine ("CCGT") unit at Palo Seco by 2025 as part of a least-cost plan. For this reason, the Energy Bureau **REJECTED** the inclusion of such unit in the Modified Action Plan. The Energy Bureau also **DETERMINED** not to approve land-based Liquefied Natural Gas ("LNG") infrastructure at Palo Seco, based on the risk of the impact of cost overruns during its development.

However, to protect against the uncertainty of near-future solar PV and battery energy storage price outcomes, or other potential reliability concerns, out of an abundance of caution and coupled with strict oversight, the Energy Bureau also **DETERMINED** that PREPA may spend up to five million dollars (\$5,000,000) for preliminary economic, siting, permitting, and planning analysis regarding a new LNG powered CCGT unit at Palo Seco. The Energy Bureau also **WARNED** PREPA it must be highly cost-efficient with any preliminary permitting and engineering activity it undertakes, and these activities must not interfere with or delay the procurement of solar PV (or other renewable energy) and battery energy storage resources as directed in the August 24 Resolution.

The August 24 Resolution also instructed PREPA to submit quarterly progress reports to the Energy Bureau, commencing no later than January 1, 2021, describing the status of the overall efforts to complete the preliminary work for a CCGT at Palo Seco, including a description of the work performed and the staffing and/or consultant resources used for such tasks.

On January 3, 2021, PREPA filed a document titled *Request for Extension of Time to Submit Reports on Preliminary Work for a New Combined Cycle Power Plant at Palo Seco* ("Request for Extension"). Through the Request for Extension, PREPA expressed that "due

<sup>1</sup> In Re: Review of the Puerto Rico Electric Power Authority Integrated Resource Plan.



to holidays, it was not possible to complete the report to submit to the Energy Bureau on a timely fashion”<sup>2</sup>. In the Request for Extension PREPA also expressed that it would complete the first report on or before January 15, 2021.<sup>3</sup>

On January 15, 2021, PREPA filed a document titled *Report on Preliminary Work for a New Combined Cycle Power Plant at Palo Seco* which included as an “Attachment A” a report titled *Puerto Rico Electric Power Authority (PREPA) - New Combined Cycle Planning and Studies – Quarterly Progress Status Report – December 31, 2020* (“Palo Seco Report”). The Palo Seco Report was limited to two (2) Power Point slides, which deviates from the Energy Bureau reporting standards.

In matters of such importance pertaining to multi-million dollar capital expenditures PREPA is required to provide as much detailed information as possible. In the Palo Seco Report, PREPA states that it “is working with the planning and studies for the construction of a new dual-fuel, combined cycle power plant in the San Juan area with a capacity between 300 and 400 MW”.<sup>4</sup> The Palo Seco Report also states that “[o]n October 16, 2020 the Federal Emergency Management Agency (“FEMA”) obligated **\$13,507,500** of mitigation funds under Section 404 for the planning, design and studies for a new combined cycle power plant”.<sup>5</sup> PREPA added that said obligation of mitigation funds includes a “Phase I” for preliminary engineering through an initial obligation of \$5,130,000 and an increment of \$8,377,500.<sup>6</sup> PREPA also clarified that “[t]he project, including construction, shall not exceed \$572,377,050 and would be 100% federally funded”.<sup>7</sup> Finally, through the Palo Seco Report PREPA informed that Sargent & Lundy (“S&L”) was chosen as the consultant for the planning of the new CCGT, and that for the quarter reported, 28 Part-time and Full-time resources were employed. The total estimated expenses for the quarter were \$174,762.<sup>8</sup>

In light of the foregoing, the Energy Bureau reminds PREPA that, as per the August 24 Resolution it may spend only up to five million dollars (\$5,000,000) for preliminary economic, siting, permitting, and planning analysis. In the August 24 Resolution, the Energy Bureau specifically ordered that all capital investments, regardless of the source of funding (*e.g.*, federal funding, ratepayer monies, etc.) have to be previously approved by the Energy Bureau. Also, it is important to reiterate that the Energy Bureau specifically and

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<sup>2</sup> Request for Extension, ¶ 3.

<sup>3</sup> *Id.*, ¶ 3.

<sup>4</sup> See the *Palo Seco Report*, at p. 2.

<sup>5</sup> *Id.* (Emphasis added.)

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*, at p. 3.



expressly warned PREPA it must be highly cost-efficient with any preliminary permitting and engineering activity it undertakes, and these activities shall not interfere with or delay the procurement of solar PV (or other renewable energy) and battery energy storage resources as directed by the Energy Bureau.

As stated above, "Phase I" of the initial obligation of FEMA mitigation funds for preliminary engineering ascends to \$5,130,000, which **exceeds** the total amount allowed by the Energy Bureau. The Energy Bureau reminds PREPA that any modification to said amount, needs to be submitted for Energy Bureau approval **prior to spending or allocating the amount, regardless of the source of funding.**

Preliminary economic, siting, permitting and planning analysis for a CCGT should include its associated infrastructure, including but not limited to, fuel delivery infrastructure. The Palo Seco Report fails to properly inform the Energy Bureau on these matters. Moreover, the Palo Seco Report also fails to establish the **total and specific scope** for which S&L was retained. The report does not mention the inclusion of any tasks specific to the fuel delivery infrastructure development necessary to supply LNG to a CCGT in Palo Seco. The fuel delivery infrastructure analysis specifics are of the utmost importance to the Energy Bureau given that one of the main reasons for the determination not to approve land-based LNG infrastructure to Palo Seco was based on the risk of the impact of cost overruns during its development.

The Energy Bureau **DETERMINES** that the Palo Seco Report fails to properly inform the Energy Bureau regarding the status of the development of the studies for the CCGT in Palo Seco. Therefore, the Energy Bureau **ORDERS** PREPA to file reports on the status of the development of the studies for the CCGT in the San Juan area, on a monthly **basis starting February 15, 2021.** The aforementioned reports **SHALL** include, but not be limited to:

- (i) a proper and adequate detailed description of the specific tasks and studies being conducted for the preliminary economic, siting, permitting, and planning analysis of the combined cycle plant and the fuel delivery infrastructure;
- (ii) the progress of such tasks;
- (iii) a Gantt Chart of the timeline for the completion of the required preliminary work, which shall include, but not be limited to, the person(s) responsible for such work, any prerequisite task, description of the tasks; and
- (iv) copies of the contract originally executed for the preliminary work and copies of the contracts compliant with the scope of work and budget approved in the August 24 Resolution, including, but not limited to, the S&L contract.

The Energy Bureau also **ORDERS** PREPA to immediately abstain from spending above the budget allocated in the IRP for these preliminary studies and immediately amend any contracts executed for the foregoing preliminary studies which are inconsistent with the August 24 Resolution.

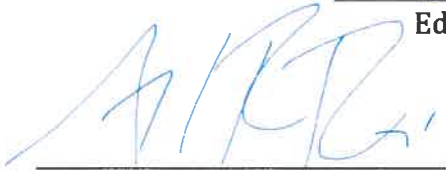


Finally, the Energy Bureau **WARNS** PREPA that noncompliance with the Energy Bureau's orders or applicable legal requirements may carry the imposition on administrative fines of up to twenty thousand dollars (\$25,000.00) per day, per violation and/or other sanction that the Energy Bureau may deem appropriate.

Be it notified and published.



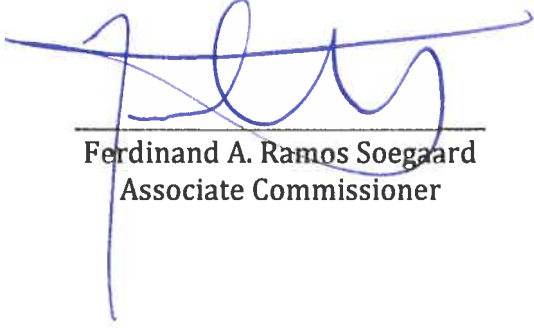
Edison Avilés Deliz  
Chairman



Ángel R. Rivera de la Cruz  
Associate Commissioner



Lillian Mateo Santos  
Associate Commissioner



Ferdinand A. Ramos Soegaard  
Associate Commissioner



Sylvia B. Ugarte Araujo  
Associate Commissioner

**CERTIFICATION**

I hereby certify that the majority of the members of the Puerto Rico Energy Bureau has so agreed on February 1<sup>st</sup>, 2021. I also certify that on February 1, 2021 a copy of this Resolution and Order was notified by electronic mail to the following: astrid.rodriguez@prepa.com, fabiola.rosa@prepa.com, marisol.pomales@prepa.com, vilmarie.fontanet@prepa.com, jorge.ruiz@prepa.com, Legal@lumamc.com, wayne.stensby@lumamc.com and mario.hurtado@lumamc.com. I also certify that today, February 1<sup>st</sup>, 2021, I have proceeded with the filing of the Resolution and Order issued by the Puerto Rico Energy Bureau.

For the record, I sign this in San Juan, Puerto Rico, today February 1<sup>st</sup>, 2021.



Sonia Seda Gaztambide  
Clerk

