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Engineer's Ice Plant Helps Power County

By DEAN NELSON

In this northern region of San Diego County, residents are accustomed to heat, horses and avocado orchards. But now they are getting used to an incongruous addition -- a complex that creates electricity, steam and hockey rinks.

Therein lies the tale of a power entrepreneur who understands that business, like hockey, is about playing the angles. In this case the angles were his technical knowledge of cogeneration power production, the local utility's begrudging obligation to pay him a juicy premium for this power, and Escondido's willingness to grant him tax breaks if he helps revitalize a blighted area.

The result is Icefloe, a \$66.4 million power plant with two Olympic-size hockey rinks, a fitness center, a swimming pool and a restaurant. Paul Gerst, 67, an electrical power engineer who has built cogeneration plants around the country for others, built his own after studying industries that would combine well with a cogeneration plant producing nearly 50 megawatts of power. Several plants provide for ice-making businesses or refrigerated storage. He chose a skating rink.

Cogeneration plants create electricity and then, with waste heat, provide additional energy for something nearby. In this case it provides energy for which other ice rinks in the area pay \$13,000 a month.

Mr. Gerst said he decided to build an ice rink because "I didn't want to have to truck in a tomato or a turnip, slice it, package it, then truck it out again. The idea of an ice rink sounded good because the ice doesn't go anywhere."

But the real revenue for Mr. Gerst is in the 30-year contract his privately held Arroyo Energy Company has with the San Diego Gas and Electric Company. The utility, under the 1978 Public Utility Regulatory Policy Act, is required to buy the electricity he produces. He obtained the contract in 1985 when utility prices were considerably higher than they are now.

San Diego Gas pays 5.38 cents a kilowatt hour to Mr. Gerst, according to the utility, and it recently submitted a rate of 3.12 cents to the Public Utilities Commission for similar contracts in 1996. Mr. Gerst's rate, 72 percent higher than next year's proposed rate, was based on projections a decade ago that utility prices would skyrocket. They did not.

The utility was so reluctant to honor the contract with Mr. Gerst that Mr. Gerst sued and the utility settled.

"Mr. Gerst is a canny investor who took full advantage of a regulatory mistake where rates were set too high," said Greg Barnes, assistant general counsel for San Diego Gas.

Mr. Gerst took advantage of Federal and other Government benefits by building the power plant and the rink in an enterprise zone. The city, with a population 120,000, has seen rapid growth in the last 20 years, creating unsightly areas for the city to remedy.

Escondido officials deferred the collection of property tax from Icefloe, spread a \$1.2 million sewer connection charge over 30 years, and moved road and bridge work in the area to the top of the city's public works list to help accommodate Mr. Gerst.

More important, an enterprise-zone project allows the consolidation of the multiple design, planning and public hearings that, in California, can drag on for years.

Mr. Gerst feels that the combination of power plants and hockey rinks is good enough to repeat elsewhere in Southern California.

He financed the complex largely through California Alternative Energy Funding bonds, and said that on the first day of operation his income exceeded his operating expenses.

Predictably, the local utility hopes Mr. Gerst will be satisfied with the complex he has.

San Diego Gas buys 59 percent of its electricity from suppliers, and customers already pay rates 30 percent higher than the national average. The law requiring purchases from cogeneration providers at a locked-in rate for 30 years limits the utility's ability to get lower rates, and works against the idea of a free market, Mr. Barnes said.

"We're delighted to buy power from cogeneration providers, but not when the arrangement is just a subsidy to certain suppliers," he said.

And while the utility thinks Mr. Gerst is a smart entrepreneur, Mr. Barnes said Mr. Gerst was too smart to build any more Icefloes.

"If he looks at the economics of today, he won't do it," Mr. Barnes said.

At that, Mr. Gerst simply smiles. He has plans for five more.

"Anything is possible when you're clever," he said.