

The Utility Challenge 2010-2020:

Climate and Environmental Legislation, Regulation, Litigation

Gwen Eklund
President, A&WMA
Director, Power Generation Services
TRC

Gulf Coast Chapter, A&WMA
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Overview

- Climate Change Landscape
 - Legislation
 - Litigation
 - State Activity
- EPA Regulatory Pathway
 - Carbon, air, water, ash
- Coal Fleet Transition Initiatives
 - Thinking outside the Business As Usual box

Industry Challenges

- Minimize economic impacts to consumers
- Continue environmental improvements
- Maintain system reliability
- Maintain fuel diversity options
- Obtain access to capital and cost recovery
- Negotiate myriad political landscapes

Climate Legislation

- Senate progress last session, but unable to close the deal
 - Fatigue from health care and financial reform
 - Reid unwilling to address even limited oil spill/energy bill before August recess
 - Unlikely to address climate before elections
- House members taking hits for “yes” votes on Waxman-Markey
- Lame duck activity?
- Prospects in next Congress?

Climate Legislation (2)

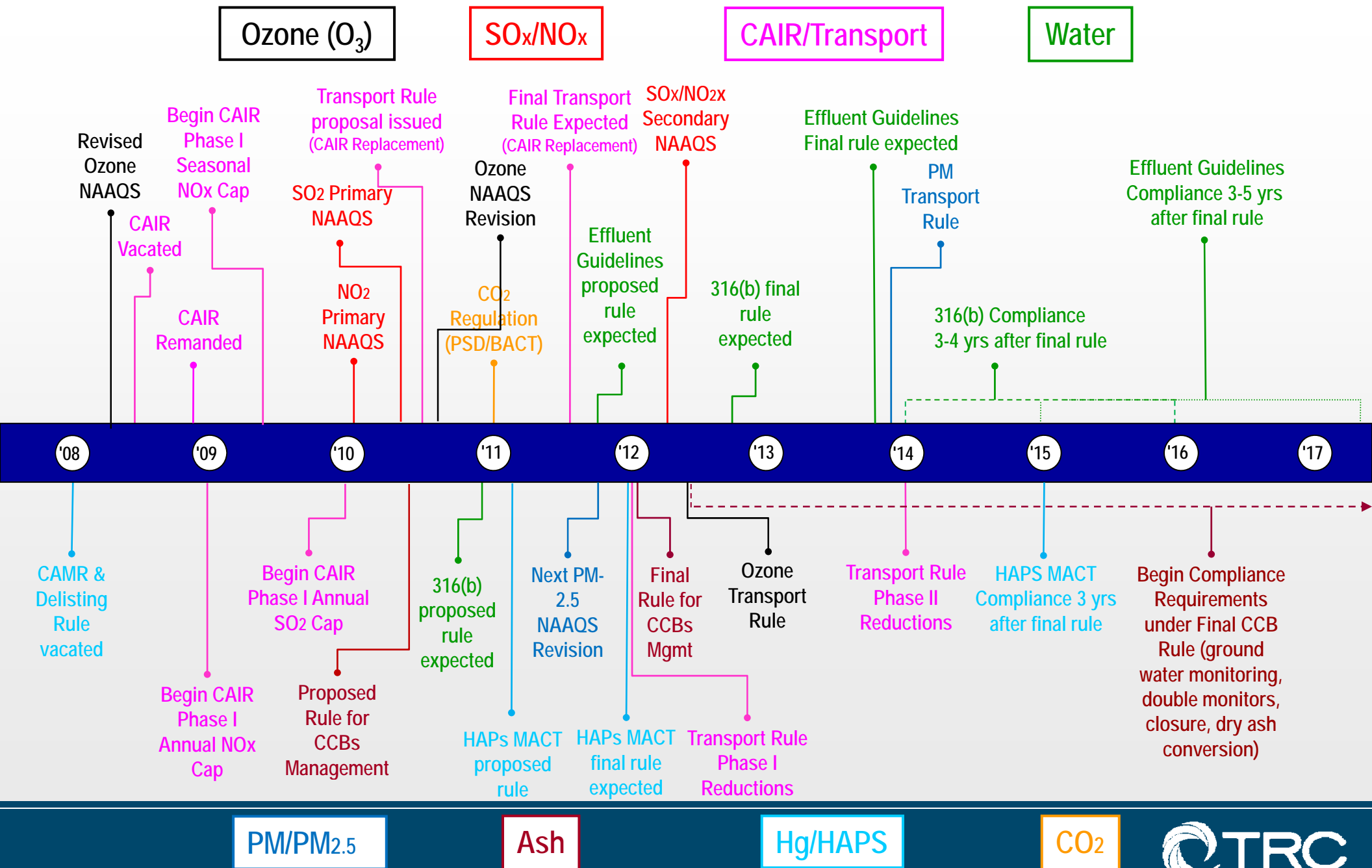
- Cap-and-trade approach on life support?
 - Seen as too complicated and too easy to “game” but has some White House buzz
 - Concerns about costs and regional disparities
- Other approaches proposed to date
 - Cap-and-dividend (Cantwell-Collins)
 - “Power sector plus” cap-and-trade (e.g., Kerry-Lieberman)
- Each has same problem: needs 60 votes
- Pending EPA activity remains a catalyst

- Some courts have allowed states/individuals to sue GHG emitters under common law tort principles:
 - Connecticut v. AEP (2d Cir., Sept. 21, 2009): federal common law action that seeks CO₂ emissions reductions from five electric utilities; four have sought Supreme Court review
 - Comer v. Murphy Oil (5th Cir., Oct. 16, 2009): federal and state tort law suit that seeks monetary damages from CO₂ emitters for Hurricane Katrina impacts; may be headed for Supreme Court
 - Kivalina v. ExxonMobil: native community seeking damages for moving village because of rising sea levels; district court disallowed suit, but appeal pending in 9th Circuit
- In absence of legislation, tort suits against GHG emitters are expected to increase, following tobacco and asbestos precedents

State Climate Activities

- Regional programs continuing, albeit at different levels
 - RGGI (12 states)
 - MGGGA (6 states)
 - WCI (6 states)
- CA law to take effect in 2012; ballot passed; may be more stringent in the future.
- Overall state activity could increase in absence of federal legislation...
- ... *but* level of state opposition to increased costs in this economic landscape is also growing

Possible Timeline for Environmental Regulatory Requirements for the Utility Industry



PM/PM_{2.5}

Ash

Hg/HAPS

CO₂



Carbon Regulation

- EPA finalized CAA regulations for GHG emissions:
 - Pre-construction permits addressing GHGs required for larger new and modified sources starting in 2011
 - Electric generating units among first sources regulated
- Will require BACT:
 - BACT is determined on case-by-case basis; uncertainty
 - EPA guidance
- New Source Performance Standards to follow soon
 - Eventually, will apply to existing fleet

Congressional Focus on EPA Progress

- Murkowski (R-AK) Resolution of Disapproval to prevent EPA regulation of GHGs under Clean Air Act
 - Failed to get 60 votes in June; Tea Party and Republicans may come back again this direction?
- Rockefeller (D-WV) introduced bill to delay EPA regulation by two years
 - Reid has not allowed vote; unclear whether it could get 60 votes
- Similar House efforts have failed, likely to be unavailing
- Unlikely to survive Presidential veto even if passed
- *But...* drumbeat of concern regarding costs continues

Mercury / HAPs Regulation

- Clean Air Mercury Rule: trading rejected by court
- EPA will regulate all HAPs for coal and oil units
- March 2011 proposal; November 2011 final decision
- 3-yr compliance period (1-yr extension possible)
- ICR data collection/testing program (almost \$100M)
- New units before final rule: case-by-case MACT
- Issues: stringency, sub-categorization
- Implications: Various combinations of FGD, SCR, baghouses, ACl to control acid gases, metals, organics

CAIR Replacement: The “Transport Rule”

- Affects power companies in 31 eastern states
 - State emission budgets for NO_x and/or SO₂ (both for most states)
- Some power companies able to meet requirements due to combination of individual company approaches to addressing environmental issues, state requirements, fuel mix, and settlement agreements; other power producers have concerns:
 - New reduction requirements must be met only 6 and 30 months after final Transport Rule issued in mid-2011
 - Provides little long-term certainty because requirements will be superseded in near-future by subsequent Transport Rules addressing the 2010 ozone standards and the 2011 particulate matter standards
 - Constraints on emissions trading

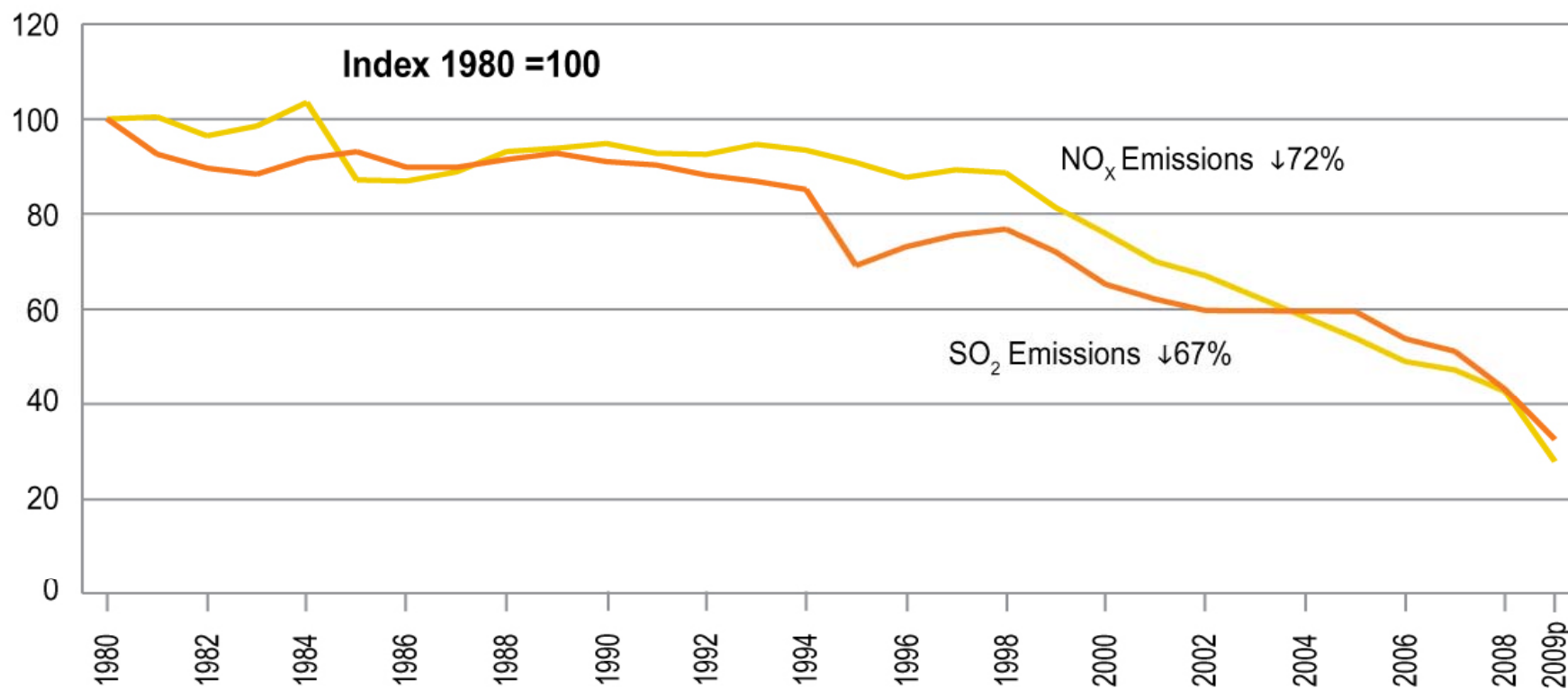
National Air Quality Standards

- New 1-hour NO₂ standard (January 2010) and new 1-hour SO₂ standard (June 2010) present permitting challenges
 - The new SO₂ standard must be met via both monitoring and modeling for an area to be “in attainment”
- Tightening of 2008 ozone standard
 - EPA has predicted implementation cost in 2020 of \$50-90 billion (for all emission sources) for the low end of its proposed range (0.06 ppm)
- Tightened PM proposal expected ~February 2011
- New ozone and PM standards will drive new Transport Rules
- State Implementation Plans: EGUs in bulls-eye due to perceived cost-effectiveness

Sector SO_2 and NO_x Emissions Down

- EPA's Clean Air Markets Division [website](#):
 - National SO_2 emissions from power plants in 2009 were 64 percent lower than in 1990
 - National power plant NO_x emissions declined 70 percent over the same time period
 - Power generation NO_x emissions during the ozone season in the 20-state Eastern region regulated for summer ozone declined 81 percent since 1990

Electric Power SO₂ and NO_x Emissions



p = preliminary

1980 represents the base year. Graph depicts increases or decreases from the base year.

Source: U.S. Environmental Protection Agency (EPA)

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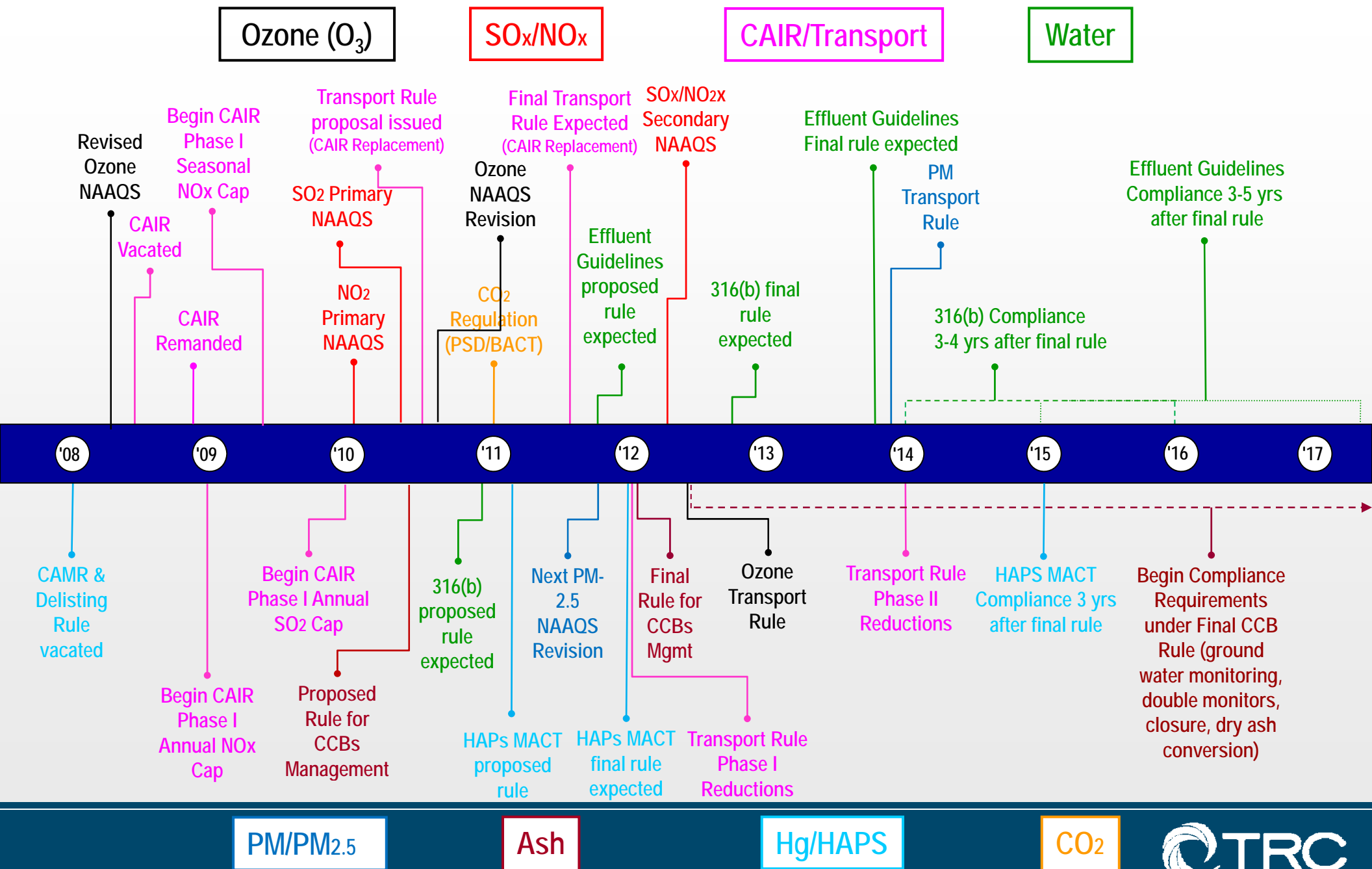
Coal Combustion Residuals (CCR)

- Co-proposal of two options in June (75 Fed. Reg. 35128):
 - Subtitle C, “Special” hazardous waste listing; Subtitle D regulations
 - Beneficial use exempt from regulation
 - Soliciting input on other options, restrictions on beneficial use
- Subtitle C option would reverse 1993 & 2000 Regulatory Determinations
- Majority of states, ash recyclers, industry groups, large number in Congress oppose hazardous waste regulations
- Will significantly impact operations: closure of ash ponds, construction of additional disposal capacity, reductions in beneficial use
- Comments due in November; Final Rule not likely before 2012

Cooling Water Intake Structures

- EPA implementing 316 in several phases:
 - Timing: revised proposal due ~October 2010; final rule in 2012
 - Technology: whether cooling towers are Best Technology Available
 - Flexibility: whether to allow cost-benefit analyses to balance environmental impacts of a technology
- Any retrofit mandate could cause premature closures, extended outages, and significantly impact rates and capacity margins

Possible Timeline for Environmental Regulatory Requirements for the Utility Industry



Industry's Predicament

- Have to comply with pending EPA regulations on air (SO₂, NO_x, mercury, *etc.*), water, and coal ash on or around 2015
 - Will require retrofit, retirement or replacement of substantial portion of existing coal fleet in short period of time
 - Could impact reliability; need to assess feasibility; regional differences
- Could cost up to \$200 billion/year by 2015
 - Industry already has capital expenditures of \$80 billion annually
 - Can it be raised? At what cost?
- Need carbon policy or face possibility of stranding investments
 - Dramatically changes economic outlook and impacts on coal fleet
 - Implementation of EPA regulation of stationary sources begins in 2011
 - Congress unlikely to pass climate legislation this year; next Congress?
 - Regulation is less certain than legislation; litigation likely
- Need to resolve to help smooth the transition of current coal fleet
 - Need planning and investment certainty to meet future demand; ensure industry can meet regulations while maintaining system reliability

The Next 10 Years Are Critical

- Need better coordination within EPA on air, water and waste rules; carbon too
- EPA coordination with sister agencies
- New technologies need to be encouraged (and funded), and phased in logically
- Implementation schedule must factor in material and labor needs, retrofit windows
- Need to expedite consideration of permits

For more information contact:

A. Gwen Eklund

Director, Power Generation and GHG Services
TRC Environmental Corporation

Tel: 512-684-3106

E-mail: geklund@trcsolutions.com