



# OKLAHOMA PUBLIC POWER

A publication of the Municipal Electric Systems of Oklahoma

February 2012

## On Those Coal Rules

By Shane Woolbright

In this newsletter you will see an article relating to the EPA announcement that they had finally settled on rules for power plant emissions. Across the nation there was an outcry. The front page of the Oklahoma City paper proclaimed rate hikes but ignored the fact that OG&E has a rate hike hearing going on now for its Smart Grid and transmission investments. That requested \$75 million hike is far more than any hike would be for following the EPA rules so we should put this order in context.

I first looked into coal-fired generation 37 years ago while in graduate school and presented testimony to the Arkansas Public Service Commission stating that scrubbers should be used on coal-fired power plants. The first Wyoming coal-fired unit in this region was being built not far from my home, and I had no desire for any additional emissions that could be avoided. The Arkansas PUC did not adopt that proposal, approved the power plant, and I went to work there for a time.

Seven years later EPA agreed and mandated scrubbers for new coal-fired generation. Now some would say that the new rules requiring utilities to upgrade power plants that are 30-50 years old is too expensive. Then again, those utilities are operating plants that are cheaper to operate than those of public power systems. OMPA,

for example, has three scrubbed coal unit investments. So, OMPA members pay for cleaner emissions than competing utilities. On this, there is a competitive reason for wanting to level the playing field in emissions investment.

On the other hand, market power costs could increase with utilities upgrading their equipment. As I've written before, this rule will take forever to implement. EPA ruled over two years ago that coal plants in Oklahoma would need to be upgraded due to emissions causing haze and air quality problems. As far as I can see, that ruling has not caused any investments to be made.

More recently, utility groups and the agencies responsible for the security of the grid and responsible for the reliability of the grid have noted that as a nation we have a huge number of old generating units. We rely on the old units, and we cannot take many of them off line for rehabilitation and life extension at one time.

I cannot imagine the EPA's goal of having the oldest coal units upgrade being completed for at least a decade. Cincinnati has a utility that had planned to add scrubbers in 1999 and had a budget for this, but with the Bush presidency, the EPA stopped pushing for the action, and to my knowledge, it still has not happened.

For MESO members, the coal units operated by Western Farmers and GRDA are not on the EPA priority list for the addition of

scrubbers. By the time EPA has arranged for the upgrade of units at OG&E and PSO, we are likely to be many years from seeing such investment unless those utilities want to move sooner. And even if they did, they would still need coordination with reliability agencies to insure that there is enough dependable capacity for a summer like we just experienced.

When I talk to our congressmen next month, I will speak on the patient scheduling of upgrades because for 30 years the law has been that when a power plant is upgraded, it will be upgraded to the standards that are currently on the books. We have lived with that rule these three decades. The mercury rule is the kicker here. Its addition presents an added operations cost that is hard to quantify. But the investment made in these plants is just that, an investment. Upgrading a 30-40 year coal unit gives you a unit that may run another 30-40 years. That some-  
(see COAL RULES, page 2)

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## Coal Rules

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times gets ignored in the arguments against scrubbers.

As I said, I argued for a scrubber 37 years ago. SWEPCO has received notification from EPA that the agency wishes to see their Flint Creek coal unit upgraded in 2016, 40 years from its construction. I would take odds that the plant's upgrade will still be in the discussion stage by then.

The final note, reiterating what I stated about how long delays on upgrades can take, a Republican win in November could easily mean these rules are on hold for another eight years. The other likely outcome is that many old coal plants will be shut down in favor of new natural gas plants. Such an outcome would not be bad for Oklahoma.

One other thing I notice in this argument are statements from utility companies regarding costs. PSO spokesmen give numbers for cost of adding scrubbers to their Oolagah generation units of \$780 million. This is about 200% of the original cost to build the units. Recent announcements of the costs of installing scrubbers make that number look very inflated. New natural gas generation is about that same cost which makes me wonder about the company's intent in making such statements.

Noticeably absent from these discussions has been any mention of global warming or how the reductions will aid in the slowing of climate change. It's been some 15 years since the planning for the Kyoto protocols were done. The USA did not sign on to that agreement. But in the last eight

years, with no climate change efforts and an extra 25 million residents in the USA, our nation's output of greenhouse gases has increased only 7% in total. This compares to increases of 180% in China and 400% in India. Our output of greenhouse gases per person is actually down since the Kyoto agreement we did not sign. I would guess that will continue even without the coal plant investments EPA desires.

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## DOE Offers Cost-Share Agreements to Spur Small Modular Reactors

The U.S. Department of Energy said it will establish cost-shared agreements with private industry to support the design and licensing of small modular nuclear reactors in the United States. This will be the first step toward manufacturing the small nuclear units, DOE said.

"America's choice is clear - we can either develop the next generation of clean energy technologies, which will help create thousands of new jobs and export opportunities here in America, or we can wait for other countries to take the lead," said Energy Secretary Steven Chu. "The funding opportunity announced today is a significant step forward in designing, manufacturing, and exporting U.S. small modular reactors, advancing our competitive edge in the global clean energy race."

Small modular reactors, approximately one-third the size of current nuclear plants, have compact designs "that are expected to offer a host of safety, siting, construction and economic benefits," DOE

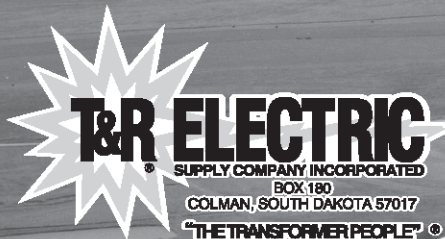
said. They could be made in factories and transported to sites where they would be ready to "plug and play" upon arrival, reducing both capital costs and construction times. The small size also makes small modular reactors "ideal for small electric grids and for locations that cannot support large reactors, providing utilities with the flexibility to scale production as demand changes," the Energy Department said.

DOE issued a draft "Funding Opportunity Announcement" on Jan. 20 that solicits input from industry. Once the proposal is finalized, the effort will fund up to two SMR designs, with the goal of deploying these reactors by 2022.

The Nuclear Regulatory Commission in December certified Westinghouse Electric's AP1000 nuclear reactor design, which was supported through a cost-shared agreement with the Energy Department.

More information on small modular reactors is posted on the Office of Nuclear Energy website.

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## APPA Washington Report An Uncertain Year

by Robert Varela  
Editor, Public Power Weekly

The outlook for energy policy in the coming year can be summed up in one word: uncertainty.

The 500-pound gorilla issue for the electric utility industry—the series of “train wreck” environmental regulations—cleared up a little recently with the Environmental Protection Agency’s issuance of its utility MACT and Cross-State Air Pollution rules. However, both regulations are now mired in the court system and EPA has more power sector rules in the pipeline, notably the greenhouse gas emissions regulation.

Shale gas now appears to be a sure thing for the foreseeable future, but a few lingering questions remain about environmental impacts, earthquakes and exports—not to mention the overarching issue of fuel diversity.

Another big-ticket issue—allocation of costs of new transmission—was the subject of a major rule (Order No. 1000) issued by the Federal Energy Regulatory Commission. However, the devil is in the details and the commission left the details of implementation for regional transmission organizations to develop in compliance filings.

The commission tried to provide clarity in a Nov. 17 order on an issue of great importance to public power, changes to the minimum offer price rules in the PJM and ISO-New England capacity markets. The order acknowledged for the first time that the minimum offer price rules were not intended to unreasonably impede efforts to procure or build capacity under long-standing business models. To that end, FERC approved a unit-specific exception process. “The problem is that the unit-specific exception process approved in the November 17 order will unreasonably impede such efforts,” APPA and others

said in a request for rehearing of the order.

The mandatory reliability standards regime remains a work in progress, but improvements are being made. For example, the North American Electric Reliability Corp. is implementing a new emphasis on prioritization, and its “find, fix, track and report” system promises to streamline handling of minor infractions.

The Commodity Futures Trading Commission has been cranking out rules implementing the Dodd-Frank Act, but still has a lot to do. In particular, 2011 ended without a regulation defining “swaps” and other key terms that will affect many other Dodd-Frank rules.

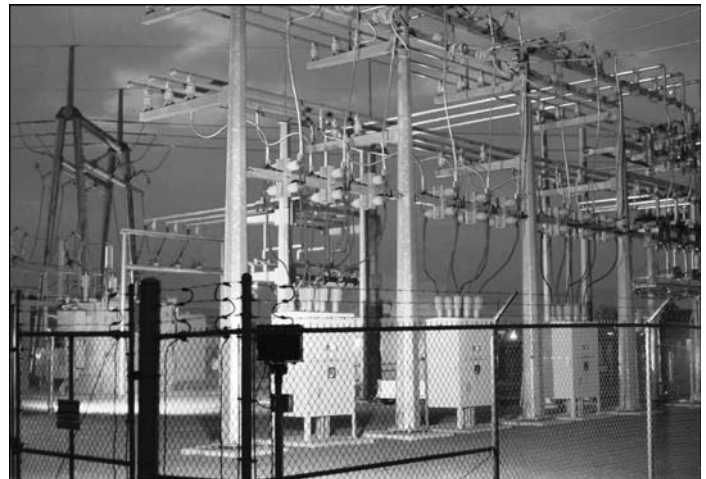
The major uncertainty with Congress is whether they’ll be able to pass almost anything, given the added partisanship of an election year. However, the pressure to cut the deficit will increase in an election year, which means that APPA will be busy continuing to oppose proposals to raise more money by changing the federal power system or revising the tax exemption for municipal bonds.

For APPA, it shapes up as a busy year trying to shape policy to promote and protect the interests of public power utilities and their customer-owners. For

*(see APPA, next page)*

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## Night and Day

By Shane Woolbright  
MESO General Manager

This will be my 30th and last year representing you at the State Capitol, and I have to tell you that it is night and day comparing this year to last year. Last year we had bills giving the governor the ability to remove management at our power agencies, a bill to require OMPA and GRDA to use the attorney general for legal services, bills that would have had GRDA oversight moved to other agencies and bills limiting their ability to operate, and a bill on IT that would have required our power agencies to use the State Finance Office for all their IT needs including SCADA, power dispatch, and reliability. And that just scratches the surface of some 70 bills we tracked. Your staff did some good work. None of those bills passed except the IT bill, and it had an amending provision allowing our power agencies the chance to be exempted from the provisions of the bill. That exemption has been partially extended, and thus far no harm has resulted. So in retrospect, we had a fine year. But it looked like a dark night early last year looking at all those negative bills.

So this year looks like daytime. Very few menacing titles are among those filed. Senator Fields has a bill to put GRDA under the Administrative Procedures Act that most other state agencies have to follow. That effort should fall by the wayside. And GRDA has several "request" bills filed on their behalf that we will be moving through the process.

But on the whole, this legislature looks like it wants to go home and campaign for another term in November. With revenues up, they don't have the pain of trying to find new cuts. The improved revenue forecast may come tumbling down, however, as recent reductions in the cost of gas will greatly impact gas production taxes. That, in turn, will cause problems for tax decrease proposals. So, as always, the budget will be the central issue for the session.

## OMPA News

OMPA received several good news articles in recent months. A \$122,000 energy rebate check to Charles Machine Works earned the praise of the governor. Charles will also save \$285,000 per year in energy costs with its new lighting system that gives more light with less energy. The City of Perry, home of Charles Machine Works (the Ditch Witch folks), will also benefit with some 835 kw of reduced energy demand. The plant is a big employer with some 1,100 employees.

The new Dorado Foods plant in Ponca City will get a reduced power cost rate from OMPA as the plant exceeds 1,000 kw of load and will provide a boost to the local economy. Ponca City Energy will reduce the retail cost to Dorado by the amount of the OMPA discounted rate.

OMPA's board will hold a spring planning retreat at Roman Nose State Lodge. Roman Nose is located in Watonga, the newest city in the OMPA power supply program.

## APPA *(continued from preceding page)*

public power utilities, it looks to be a year to rely on public power's core values, its focus on providing reliable electricity at the lowest reasonable rate with exceptional customer service.

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## Non-Utility Fees Rise

MESO staff has done rate analyses for many of our member cities and designed rates for many as well. Over the past decade we have recommended that cities move some costs of their public works authorities to line items on the utility bill for shared services and to show certain costs that are not affiliated with a particular bill-

ing item. MESO cities often use power revenues for funding other public purposes. This artificially inflates the cost of electricity so that city power seems higher than it actually would be without the subsidy. In Oklahoma City the public works bill now has a fee each month for overall administration of the public works department. The

fee of \$10.14 per month covers areas of shared cost such as IT and billing. In addition there is a monthly fee of \$5.06 for street and drainage costs. MESO staff recommends that cities look at similar processes for their cities to better show costs of operations and better show the real cost of power.

## Town of Carmen and Wind Energy

We could not help but notice a big article in the Daily Oklahoman on the Town of Carmen. "Carmen embraces power of wind to save money" was the headline. Carmen received a \$242,500 grant to construct five small wind generators around town with a total capacity of 30 kilowatts of generation. If they are very efficient, the units could turn out 115,000 kwh of energy or more than enough for a dozen homes. The city will use the energy to cut the city energy bill.

What MESO General Manager Shane Woolbright finds interesting about this is the fact that Carmen sold its electric distribution system to the local cooperative in 1983 for a similar amount of money. The entire power system of the town was sold then for not much more than what these small wind units cost today.

At the time the Town of Carmen was buying power for nearly 7 cents per kwh or double the cost of GRDA energy at the time. This made the local operation high cost. The difficulty of operating a small system also came into play. At the time funds could be invested for 10% interest so the interest was more than the town was gaining from electric operations. Still, MESO staff travelled to Carmen to try to convince the town board of trustees to wait on the decision. We tried to explain a better power

supply option was being created. But the board had no desire to even listen to the presentation.

The town later sold its local gas system as well.

Things have not gone so well since then. The town has only one employee to take care of all departments of parks, streets, water, and sewer. And, of course, instead of paying the wholesale

price of energy for city electricity of about 5.5 cents per kwh, the city is paying 11 cents per kwh for retail energy.

Carmen was the first city to receive stimulus funds for projects to cut energy use. Funds were set aside for very small community projects. Funding was provided for such projects in 412 communities nationwide.

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## Utilities Need More Time to Comply with EPA's MACT Rule, APPA Tells Obama

EPA issues final rule to curb mercury, other toxic pollutants from coal-fired power plants

The Environmental Protection Agency on Dec. 21 released its final rule requiring maximum achievable control technology for mercury and other hazardous air pollutants from power plants.

The agency said the rule, called the Mercury and Air Toxics Standards (known in the electricity industry as the "utility MACT rule"), will prevent as many as 11,000 premature deaths and 4,700 heart attacks a year by 2016. For every \$1 spent by utilities under the new rule, the federal government estimates there will be \$9 in health benefits, said EPA Administrator Lisa Jackson. The rule is expected to cost \$9.6 billion annually.

In a Dec. 21 statement, APPA said the rule would "impose additional significant costs to consumers."

In announcing the rule, the EPA said power plants "are the largest remaining source of several toxic air pollutants, including mercury, arsenic, cyanide, and a range of other dangerous pollutants, and are responsible for half of the mercury and over 75% of the acid gas emissions in the United States."

Many coal-fired power plants are expected to comply with the new rule by installing equipment to control their emissions, while others -- especially smaller, older units -- may choose to cease operations rather than install control technologies, the EPA said.


Public power utilities own approximately 200 coal-fired units with an aggregate generating capacity of 31 gigawatts, APPA President and CEO Mark Crisson said in a Dec. 9 letter to President Obama (see the Dec. 13 Public Power Daily). Based on a survey of its members, APPA has determined that public power utilities will need 77 months, or about six and a half years, to comply with the final rule, he said.

The rule will go into effect when it is published in

the Federal Register, which is expected to occur in February or March 2012, said Gina McCarthy, assistant administrator of EPA's Office of Air and Radiation. Utilities will have three years to comply, but most coal-fired power plants are expected to qualify for one additional year, for a total of four years, she said. That means that most coal-fired power plants will have until early 2016 to install baghouses, scrubbers, or other equipment to reduce their emissions, she said. McCarthy said the EPA expects that most coal-fired power plants will be able to meet the standards within these time limits.

A presidential memo that accompanies the rule will allow up to an extra year if there is a reliability issue, but "we expect this to be rarely, if ever, used," said EPA Administrator Jackson. "The president wanted

*(continues to top of next page)*



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the American people to know that the lights will stay on and we will have cleaner air," she said.

The agency received more than 900,000 comments on the rule it proposed in March 2011, and those comments helped make the rule more flexible and more cost-effective, said McCarthy. In a Dec. 21 conference call, she urged electric utility officials to "talk to us if you have concerns or are confused in any way" by the packet of materials the EPA released on Dec. 21.

"Our goal is to ensure this rule gets implemented effectively and that the lights stay on," McCarthy said.

"Since toxic air pollution from power plants can make people sick and cut lives short, the new Mercury and Air Toxics Standards are a huge victory for public health," said Albert A. Rizzo, national volunteer chair of the American Lung Association, a pulmonary and critical care physician in Newark, Del.

APPA said that while it was still reviewing the rule and consulting with its members, the association "believes that this rule will impose additional significant costs to consumers in a short period of time."

"While APPA appreciates that the Administration provided modest opportunities for additional time to comply with the rule, we

are also disappointed that the rule does not appear to utilize other authorities available under the Clean Air Act that would provide additional time for compliance and lessen the cost to consumers and the potential impact on reliability," the association said.

In its comments on the proposed rule, APPA noted that it had "stressed the need to take into account public power's concerns that enough time be provided for our communities to engage in the processes necessary for us to comply with the rule." This includes the time needed to plan,

hold public meetings and hearings, finance, permit, construct and install pollution control devices, and coordinate and sequence the necessary regional activities, the association said.

"APPA staff and our member utilities will review the details of the final rule in the coming days and may have additional reaction once that review has been completed," the association said.

On its website, the EPA posted an enforcement memo explaining the process for allowing utilities additional time for meeting the standards.

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## **SWEPCO Settles Lawsuits on J.W. Turk Power Plant**

SWEPCO as the primary owner of the J.W. Turk Power Plant located north of Texarkana in Southwest Arkansas announced in December that they had settled all lawsuits with hunting clubs and environmental groups over the siting of the plant. The settlement was needed as the permit for water needed for the plant would have been withheld by the U.S. Army Corps of Engineers if the plant remained forever entangled in litigation. And the litigation would likely have continued as duck hunters of extraordinary financial means were long incensed over the placement of the plant in their duck hunting habitats.

With the settlement, all legal challenges to permits or certificates will be withdrawn. SWEPCO will not build more power units at the site and will take in the construction of transmission lines to avoid sensitive areas.

As an offset, SWEPCO will construct or secure 400 megawatts of renewable energy, likely wind energy, with any windpower project passing review by the U.S. Fish and Wildlife Service for meeting guidelines to minimize impacts on birds and bats.

SWEPCO will also close an older coal-fired power

plant in Pittsburg, Texas. The 528 mw Welsh 2 unit will close with the loss of 44 jobs. This plant had, however, already been scheduled for closing.

SWEPCO will also contribute \$8 million to the Nature Conservancy of Arkansas which will use the funds to acquire property for wildlife and another \$2 million to the Arkansas Community Foundation which will provide grants in support of energy efficiency. SWEPCO will pay Sierra Club and Audubon Society \$2 million in accumulated attorney fees.

OMPA has a 7% ownership interest in the Turk plant. The settlement means that the plant should be completed on time. The legal costs will increase the total cost of the plant by less than 1%.

In separate announcements, SWEPCO announced that it had planned for upgrades to three other power plants affecting MESO members. OMPA owns a portion of the Dolet Hills and Pirkey power plants. SWEPCO's corporate website lists these two plants as candidates for the addition of Activated Carbon Injection (ACI) systems and new baghouses to capture minute particulate matter in emissions.

*(see SWEPCO, next page)*



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## Member Changes

New Altus city manager is Elizabeth Gray. She comes from Alaska where she has been in local government but grew up in Oklahoma and has her MPA from OU. Previously she worked in Shawnee as Director of Operations.

Bob Bornt retired as electric superintendent in Perry in December. Bob had 37 years of service to local government.

Kim Keller resigned as clerk in Olustee and has been replaced by Cindy Moellering.

New directories were mailed to members in December. If you'd like one, call the MESO office, 528-7564 in the metro area or 800-636-MESO long distance.

## Court Lifts EPA Stay of Boiler MACT Rule

A federal court has vacated the Environmental Protection Agency's administrative stay of its "boiler MACT" rule requiring industrial boilers and certain incinerators to limit emissions of hazardous air pollutants. The Jan. 9 ruling by the U.S. District Court for the District of Columbia found that the agency's stay of its May 2011 regulation requiring boilers to use maximum achievable control technology was "arbitrary and capricious."

The court's action means the May 2014 compliance date for the boiler MACT rule remains in effect.

EPA issued the stay in May while it reconsidered the regulation. In December, the agency proposed extensive changes to the rule (see Public Power Weekly, Dec. 5, 2011). EPA said it expects to issue a revised final rule by April.

## Post Office Notices

Cities still mail bills to customers and most customers still pay by mail. Cities would do their customers a favor and remind them that the post office consolidation could mean that mail could take days to reach city hall from down the street. So, if your customers have not gotten their bill in the mail well before the due date, remind them to bring the bill by to city hall and drop it in the after-hours receptacle or consider direct bill drafting with their bank. We are seeing customers getting past due notices due to slow delivery of bills by the post office. So do them a favor and yourself one as well and tell them to remember that the mail they send might go to some distant processing center before it is sent back to your city. Get rid of this headache before it becomes an issue.

## SWEPCO *(continued from preceding page)*

The Flint Creek Power Plant north of Siloam Springs is listed as a candidate for flue gas desulfurization (scrubbers), ACI, and a new bag-house. SWEPCO has projected that these upgrades could raise retail power costs by 18-20% in its service territory.

No timetables are listed on the site.

## CALENDAR

February 9, 2012  
**The Supervisor Course: Character**  
Altus, OK

February 24, 2012  
**MESO/OMUSA Board Meeting**  
MESO/OMUSA Offices, OKC

March 8, 2012  
**The Supervisor Course: Ethics**  
Altus, OK

March 13, 2012  
**Success Skills, Part 1: Uniqueness of You: Strengths of Your Personality through the MBTI**  
MESO/OMUSA Offices, OKC

March 23, 2012  
**MESO/OMUSA Board Meeting**  
MESO/OMUSA Offices, OKC

April 12, 2012  
**The Supervisor Course: Personality and Communication Skills**  
Altus, OK

April 23, 2012  
**MESO/OMUSA Board Meeting**  
Norman

May 10, 2012  
**The Supervisor Course: Individual Strengths and Gifts**  
MESO/OMUSA Headquarters



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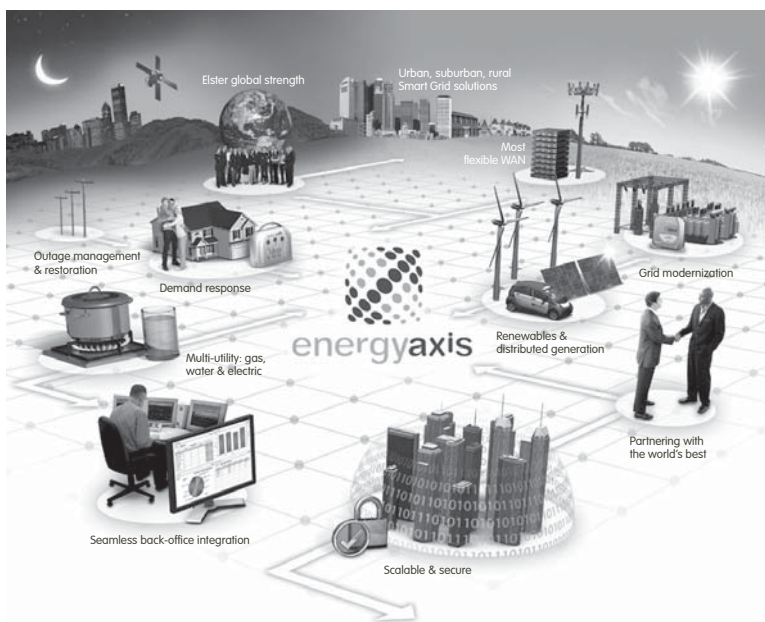
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