From: Robert Talley [mailto:rob@talleyandassociatesinc.com]

Sent: Friday, October 03, 2014 9:33 AM

To: Harvey, Reid

Cc: Ashlie Kuehn; Harre, Alyssa; Andrew, James; Natalie; Goffman, Joseph

Subject: Rate/Mass Conversion Consideration

Reid:

It was a pleasure to see you yesterday and thank you again for the time. Per our discussion, I wanted to follow up with a specific issue on the mass/rate conversion guidance that is under consideration internally for release in the near term.

The Prairie State Generating Company is two 800MW Supercritical, mine-mouth, coal fired power plants co-located in Southern IL that just recently completed construction. PSGC operates as a single entity and 95% of the ownership is held by public power utilities serving customers in 8 states.

Using the 111(d) proposed baseline date, PSGC was still under development and in the testing and shakedown phase and did not have representative emissions. For a Mass conversion this creates some issues.

We have encountered this problem in the Waxman-Markey legislative discussion over emissions allocations, in the CSAPR over credit allocations and we see a similar issue for treatment of under-construction NGCC plants that the proposed rule chooses to treat as if they are built for the purposes of setting a state goal.

My outreach here is to make a fairly simple request; that in proposing guidance for a rate to mass conversion EPA discuss the need, and states be given the opportunity, to address and credit emitting units that do not have representative emissions in the 2012 baseline year in a manner that does not require taking from other units to make the new units whole.

There is precedent for this approach:

In Waxman Markey credit allocation, new units were allocated a specific set-aside to allow new entrants to enter the market without an immediate disadvantage.

In the CSAPR, new units were given a credit allocation based on anticipated emissions tied to unit design and anticipated capacity factor.

If guidance is not provided to make clear that new units without emissions history we fear the state-by-state credit fight that the newest units will have to undertake to secure sufficient credits to operate will be insurmountable if we are required to 'take' credits from an existing pool that incumbent units will argue are 'theirs'.

This will be especially problematic for PSGC. Because the vast majority of our owners are in states that, for the moment, do not appear inclined to develop multi-state compliance systems, our owners will not be able to provide offsetting credits directly. With no fleet of existing units from which to transfer credits we will be forced to the market to secure operational credits at an unknown cost. This fight will be difficult in IL if the rule states as proposed, however, if EPA chooses to link source emissions to load (as has been discussed for renewables) we see absolutely NO ability to secure credits given the need to 'fight' in 8 states.

While we are not alone, the pool of impacted entities is not large. It will comprise the identified new NGCC units as well as new coal plants that had not completed construction or the necessary shakedown period before the end of 2012. Should EPA consider allowing states to evaluate other baseline years, as we understand many utilities are requesting, the pool may grow to some degree.

Failure to provide a mechanism is virtually certain to create a circumstance contrary to EPA's overall goals. New NGCC units and the most efficient coal plants (PSGC anticipates a GHG intensity close to 15% below a traditional pulverized coal plants) will immediately be at a material operational disadvantage if they cannot access a credit pool that is comparable to existing plants. Such a material disadvantage will affect dispatch decisions and will result in older, less efficient and less clean power plants running before the most efficient plants.

I would be happy to provide additional, more detailed information or to schedule a conference call with you and the technical advisers to PSGC should you feel additional discussion would be helpful. However, given the understood time frame, I assumed it was best to get to you quickly.

I can be reached at this email address or via cell phone at (202) 460-9114.

Thank you in advance for your consideration,

Rob Talley