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Electric Power Daily

Monday, February 6, 2012

FERC beefing up targeted market investigations staff: sources

The Federal Energy Regulatory Commission is moving to beef up its Office of Enforcement with the addition of a new division aimed at analysis and market "surveillance," according to Washington sources.

To be headed up by Lee Ann Watson, who currently serves as deputy director of the OE Division of Investigations, the new division would take on some of the resources currently under the Division of Energy Market Oversight.

The new division, with the working title of analytics and surveillance, would be the fourth under Director of Enforcement Norman Bay. The other is the Division of Audits.

Asked if the commission was in the process of restructuring OE, FERC spokesman Craig Cano would say only that "we don't comment on personnel matters." He repeated that response when pressed to comment only on the office structure with no reference to individual employees. Requests to talk to Bay and/or Watson

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Early cost recovery for nuclear plants getting closer look

With natural gas prices and the cost of gas-fired power nearing record lows — and concern about the cost of new-build nuclear rising — some supporters of early cost recovery for nuclear projects in the past are turning against such recovery, and prospects for new early cost recovery laws are uncertain.

In Florida, where Florida Power & Light and Progress Energy Florida are seeking federal licenses to build a total of four new nuclear units, Senator Mike Fasano on Friday introduced an amendment to S.B. 2084, this year's comprehensive energy bill, that would repeal the state's 2006 early cost recovery law for new nuclear projects, as well as new integrated-gasification, combined-cycle projects.

Fasano, a Republican from New Port Richey who served as Senate majority whip and then president pro tempore in the latter half of the last decade, voted for the early cost recovery law six years ago.

He said in a statement Friday that Progress, whose service territory includes his

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Michigan bill would expand retail choice for C&I customers

Legislation is expected to be introduced soon in Michigan to alter the state's 10% electric choice cap to allow more than 6,000 commercial and industrial Detroit Edison and Consumers Energy customers, who currently are locked out because the cap was reached more than two years ago, to participate in retail open access.

The bill, to be filed by Republican State Representative Mike Shirkey, also would take future decisions about electric choice out of the hands of lawmakers and place them with the Public Service Commission in an effort to "take the politics out of it," a power industry source said Friday.

"It will allow for everyone in the queue to get in," said the source, who asked not to be identified.

In its newly released report on electric competition in 2011, the commission said nearly 6,400 C&I customers — 3,739 in Consumers' service area and 2,646 in Detroit Ed's territory — were waiting at the end of last year to purchase power from

WestConnect outlines plans for $27 billion in upgrades

Utilities and transmission developers plan to spend $27.1 billion over the next 10 years building or upgrading about 13,200 miles of power lines and related facilities across eight Western states, according to a draft report released last week by WestConnect, a regional transmission planning organization.

Almost three-quarters of the planned investments are for interstate lines, largely designed to deliver renewable energy to California and other Southwestern states.

The plans reflect a sharp increase in activity compared with a year ago when $19.9 billion in investments were planned on lines totaling about 11,200 miles. As power lines are added, the three trading hubs in WestConnect's footprint — Four Corners, Mead and Palo Verde — will benefit directly and indirectly from increased transmission capacity.

Reflecting the fluid nature of transmission planning, 38 projects that were being planned

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Fate of Homer City coal plant depends on raising $700 million

The fate of the 1,884-MW Homer City coal-fired plant in Pennsylvania rests on the ability of Edison Mission Energy and its partners to raise $700 million to install pollution control equipment to comply with pending Environmental Protection Agency rules.

In January, EME announced plans to spend $700 million to install scrubbers to capture sulfur dioxide emissions on two of the plant's three units to bring it into compliance with the Cross State Air Pollution Rule. A scrubber was installed on one of the units in 2000. All three units have selective catalytic reduction equipment to reduce nitrogen oxide emissions.

The plant, which sells baseload power into the PJM Interconnection, is set up as a limited partnership in which units of General Electric hold an undisclosed but majority stake with the remaining equity in the hands of institutional investors.

Edison Mission Energy, a unit of utility holding company Edison International, leases

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for about 82% of all planned transmission investments in WestConnect's footprint.

The 500-kV class is shaped by six interstate projects mainly designed to deliver renewables to California: High Plains Express, sweeping south from Wyoming, through New Mexico and across Arizona; TransCanada's Chinook project, which is on hold; Duke Energy and American Transmission's Zephyr Project, running from Wyoming to southern Nevada; the Centennial West Clean Line project, heading West from New Mexico; Anschutz's TransWest Express project, anchored with Wyoming wind; and, the SunZia project out of New Mexico.

While there has been an emphasis in recent years on building power lines to reach renewable energy zones, interstate and merchant lines are vital for the Western power markets, according to WestConnect. "Interstate and market-driven transmission projects facilitate a more robust and viable wholesale market," the report said. "Interstate and merchant transmission projects complement utilities electric infrastructure and allow for additional import/export points."

WestConnect breaks the pending transmission projects into two categories: those in the concept stage and those further along in the formal planning process. There are 213 projects, totaling 6,754 miles, in the planning process. It would cost about $13 billion to build them.

Meanwhile, utilities and developers are also considering 73 "conceptual" projects that do not yet have a firm commitment. Those projects would run 6,439 miles, mostly across state lines, and cost about $14.1 billion, the report said.

Among the WestConnect states, Arizona and Colorado have the most planned in-state power line projects, according to the draft report. Arizona has the most planning action under way with 135 projects in the planning pipeline or under consideration. However, that marks a drop-off from last year when 152 projects were under consideration. In contrast Nevada has 15 planned or conceptual projects, up from nine in 2010.

WestConnect is taking comment on the draft report until February 13.

WestConnect members include Arizona Public Service, Black Hills, El Paso Electric, Imperial Irrigation District, NV Energy, Xcel Energy, PNM, Sacramento Municipal Utility District, Salt River Project, Southwest Transmission Cooperative, Transmission Agency of Northern California, Tri-State Generation and Transmission Association, Tucson Electric Power and the Western Area Power Administration.

— Ethan Howland

Fate of Homer City coal plant *... from page 1*

the facility from the owners and operates it for a fee.

Homer City, like many other plants that sell power into PJM, particularly coal-fired plants, is facing an uphill battle.

Edison reported adjusted operating income of $26 million from Homer City in its third-quarter filing with the Securities and Exchange Commission, but if you back out its hedges it just about broke even, according to Angie Storozynski, an analyst at Macquarie Equities Research.

Natural gas prices, which set the wholesale prices in PJM, have sunk to historical lows, squeezing earnings and depressing earnings for generators, with income from coal-fired plants squeezed the hardest.

In this environment, Homer City is seeking to raise $700 million to install scrubbers. The decision to install the scrubbers was made by Edison, not GE, although Andy Katell, a spokesman for GE Energy Financial Services, said GE "supports that decision."

Katell said GE is exploring options to finance the equipment upgrades, but could not disclose those plans in any more detail.

For Edison, a lot could ride on the success of those explorations. In its third-quarter 10-Q filing, Edison said that "Homer City does not currently have sufficient capital and does not expect to generate sufficient funds from operations to complete retrofits" required by the cross-state rule.

Homer City was facing a 2014 deadline for compliance, and said it would need the capital beginning in 2012.

But on December 30, Homer City won more time when the US Court of Appeals for the District of Columbia Circuit stayed implementation of the rule two days before it was scheduled to take effect.

The stay gives Homer City, and the other petitioners in the filing, which includes GenOn Energy, Southern Company, Westar and Wisconsin Public Service, some breathing room while the court considers the petitioners' plea to have the EPA modify the cross-state rule or the court negate it.

Before the stay, Edison, in its third-quarter filing, warned that the persistence of low power prices combined with the outages suffered earlier in 2011 along with the January 2012 cross-state Phase I deadline would make it unlikely that Homer City would be able to make its April 1 equity rent payment, which could trigger termination of the $47 million senior rent reserve letter of credit.

The bottom line for Edison at the time was that Homer City had to come into compliance with the cross-state rule quickly in order to continue operating the plant. Failure to do so "could result in a foreclosure on its leasehold interest and/or a curtailment of plant operations," Edison said in its 10-Q, and that could have "an adverse effect on future financial results, cash flow, financial flexibility and assets of EME compared to historical levels."

EME spokesman Charles Parnell said he could not comment or expand on what was in the company's 10-Q.

Parnell said EME is midway through the Pennsylvania Department of Environmental Protection's permitting process for the environmental upgrades, and hopes to have that process completed by the end of March or early April and then start construction in April, with the new equipment coming online in 2014.

The circuit court's stay has bought Homer City more time, but it could still be an uphill battle to raise financing for a plant operating in an economically challenged market to install equipment that would not increase revenue.

The court stay gives the petitioners until April 13 to present their case, and the stay remains in place until the court makes a final decision, which observers say is likely to happen this summer or by early autumn.

"They are in a difficult position," said Cliff Kim, an analyst with Moody's Investors Service. "When we rated Homer City, [the cross-state rule] was to take effect at the beginning of the year, but our perspective is for some form of [the cross-state rule] to take effect." He rates Homer City B2 with a negative outlook.

And, as Storozynski at Macquarie pointed out, "They have no income and no room to borrow."

In the past, Edison has said they might use some form of leveraged lease to finance the needed equipment. That decision is now with GE and its equity partners. They are not divulging what they are working on, though Katell said there could be an announcement in a week or two.

One of the first places financiers seeking a solution to this problem might look is the tax code. The federal government offers tax subsidies for the cost of installing pollution control equipment, said Keith Martin, a partner in the energy practice of Chadbourne & Parke.

Most of these strategies revolve around the use of accelerated depreciation or tax credits. But it could be challenging to exploit those benefits for pollution control equipment. For instance, pollution control equipment is usually depreciated like the plant to which it is attached. If a structure could be devised to work around those restrictions it could be worth as much as 26 cents for every dollar of capital invested, but there are several hurdles that would have to be overcome, Martin said.

There is also a tax credit of $6/ton of coal available for tackling pollution control on the front end of a power plant, said Martin, noting that some utilities have taken that route.

And there are structured finance solutions similar to the "partnership flip" structure used in wind power deals. Those deals involve bringing in a third party, usually a financial institution, that takes equity in the plant and gains the tax credits that the owner or developer of a wind plant is not in a position to use. When the tax equity partner earns back their targeted return, the equity ownership "flips" back to the original developer or owner.

But the use of a partnership flip for the installation of pollution control equipment presents unique challenges, Martin pointed out. Essentially it could be difficult to create a structure, such as a lease or service contract, that would satisfy Internal Revenue Service rules regarding limited use property because pollution control equipment is usually integral to the operation of a power plant.

Meanwhile, boutique analysis company CreditSights, in a January 24 note to clients, said Homer City's bonds have been trading actively this year, reflecting the "strong possibility of a bankruptcy filing."

In that scenario, CreditSights analyst Scott Greenstein said the Homer City bondholders would become the owners of the plant and would only have to make a $700 million investment to bring the plant into compliance with EPA rules.

But with the time Homer City has won from the federal circuit court, the owners of the plant might be able to put together a financial structure that would fund the needed pollution control equipment and keep the plant in operation.

— Peter Maloney