

A Hard Look at the Oxycoal Project It's Time to Call it Quits and Move On

Dear Community Leader, please consider this alternative perspective on the new coal-fired power plant being proposed by the Jamestown Board of Public Utilities (BPU). Included in this packet of information is this question and answer statement plus a press release and green plan for Jamestown recently released by Clean Energy for Jamestown, a coalition of 20 regional, state, and national environmental groups which are opposed to this project, and a **DVD presentation** which was prepared before the December 4, 2009, U.S. Department of Energy (DOE) announcement denying funds to the project. While the green plan lays out a sensible least-cost low risk approach for the BPU to move forward meeting ratepayer's electric needs while boosting the local economy, the DVD presents our environmental and economic analysis of the coal plant project and makes clear that the recent DOE announcement was a good thing because it has stopped the BPU from making a huge mistake building a costly unneeded power plant which could financially undermine the BPU and the City, damaging Jamestown and its economy for years to come. Please have an open mind as you read and view these materials. And, if you agree, please privately or publicly speak out in order to encourage City and BPU leaders to move on. A great deal of ratepayer and state resources have already been spent on this project. There is no point in continuing that spending when it is now clear that this project is not the best for Jamestown and is not going to be built. Fortunately, as our green plan makes clear, there are alternatives and they are good ones.

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Did the U.S. Department of Energy (DOE) make the right decision when it recently denied hundreds of millions of dollars in funding for the Jamestown coal plant and carbon capture and storage (CCS) project?

Yes it did. The DOE decision was the right decision and was good news for the Jamestown community because it prevents the BPU from making a huge mistake, i.e. incurring minimally a \$145 million ratepayer debt¹ to construct an unneeded new \$500 million power plant with all the financial risks associated with that endeavor.

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¹ The BPU has publicly stated that ratepayers would pay no more than the original estimate for the proposed coal plant, i.e. \$145 million. This estimate is a few years old and is based on building a conventional coal plant with no controls on carbon dioxide emissions which are known to cause global warming and climate change. Current estimates for the overall cost of the plant with carbon capture and storage apparently have risen to as much as \$500 million. Presumably the difference between these two numbers would be paid by the federal government and other non-ratepayer entities if this project were to move forward. The recent DOE decision denies the BPU the sought after federal portion of funding. While the BPU is still saying that federal funding could be forthcoming, it should be clear by now – after two denials of funding by the DOE – that the federal agency is not impressed with the project.

What did the project have going against it?

Judging from the three projects the DOE did select, at 50 MWs the Jamestown project may have been too small and may have been using technology, i.e. oxycoal, that the DOE did not think was as attractive or as ready as other CCS technology. Significantly, the DOE decided to fund two retrofit projects where CCS technology would be adapted to existing coal plants – an approach favored by many in the environmental community because it allows CCS testing to proceed while avoiding the construction of new unneeded coal plants.

Also, the DOE must have noticed that the BPU's primary corporate partner, Praxair, Inc., and only academic partner, the University at Buffalo, quit the project -- presumably because of its perceived weaknesses. These defections occurred after the DOE denied funding for the project the first time this past summer.

Additionally, DOE must have been aware that the BPU and its supporters were unable to get the state legislature to pass a law allowing CCS in New York and that even the unsuccessful proposed law offered by Governor Paterson did not address liability issues. Moreover, DOE knew that BPU test drilling, which was conducted covertly and apparently without legal authority, was unsuccessful in finding suitable underground carbon dioxide reservoirs.

Furthermore, the Jamestown project is opposed by twenty environmental organizations — including well respected national organizations like the Natural Resources Defense Council, Sierra Club, Earthjustice, and Physicians for Social Responsibility — which have pointed out that the proposed coal plant is <u>not</u> needed to meet ratepayer electric needs, will significantly increase electric rates and run the risk of incurring large losses (even if all CCS costs are covered by the federal government), and would not be able to pass a fairly administered NYS Public Service Commission (PSC) prudent investment test because much cheaper alternatives are available to the BPU for meeting ratepayer electric needs — though these alternatives have been steadfastly ignored by the BPU from the beginning when the project was defined as a conventional coal plant 4 or more years ago.

Thus, when the DOE evaluated the BPU application, they probably saw this long list of problems:

- The proposed plant is not needed by Jamestown ratepayers
- The proposed plant, while oversized compared to ratepayer needs, is too small for an effective CCS test
- Oxycoal is not the best technology to fund at this time
- The project has severe economic problems even if federal funding covered all CCS costs
 - The plant will produce very expensive electricity, significantly raising electric rates -- thus harming ratepayers
 - Cleaner alternatives are available and are much cheaper, making the project unlikely to pass a NYS PSC prudency (thus blocking construction)
 - O Selling the excess power from the new coal plant on the open market would produce huge losses for the BPU and put the city at financial risk

- Proponents have failed to secure enabling statewide legislation which would make CCS legal in NYS
- Test drilling has failed to find geological reservoirs in which to bury CO2
- Over twenty top environmental organizations have been and continue to be vigorously opposed the project

Bottom line: The DOE would have to be crazy to fund a project with these fatal flaws, especially when attractive, viable CCS demonstration projects exist elsewhere.

Then, is the proposed new coal plant dead?

The DOE decision should make it clear to all that there is no point in further pursuing this costly, risky, unnecessary, and now doomed project. Yet, contrary to the interests of ratepayers, Mayor Sam Teresi, the BPU, and apparently the City Council continue to support this project and are willing to continue spending ratepayer money developing and promoting it.

But isn't the new coal plant needed as a way of keeping electric rates low?

Mayor Teresi and BPU General Manager David Leathers keep saying this but neither has ever produced an analysis which demonstrates this claim. In our study on the cost of power from various supply options available to the BPU², we estimated -- based on a BPU study which the BPU spent over \$200,000 on but now claims was inaccurate -- that even if all CCS costs are paid for by the federal government, it will cost the BPU at least 14 cents per kilowatt hour to generate power from the new plant. This compares very unfavorably to meeting ratepayer electric demand with energy efficiency (national average \$0.3/kWh; NYS average \$0.01/kWh), buying off the grid (less than \$0.06 in 2007 and 2008; \$0.03/kWh in 2009) and wind energy (\$0.09/kWh). Note: Even if the BPU study we based our analysis on is off by a few cents per kilowatt hour, that would not change the fact that the BPU's proposed plant would produce power at a higher cost than the alternatives we recommend.

The proposed new coal plant is the most expensive option available to Jamestown in terms of initial cost, operating costs, cost of generation, impact on rates, and financial risk. As planned, even at just 50 MW (with an expected output after CCS of only 30 MW), the proposed new plant is also oversized by a factor of five compared to actual existing ratepayer electric demand. That means that 80% of its output will have to be sold on the open market where power will probably be much cheaper, setting the BPU up for huge losses that will further increase electric rates for ratepayers and possibly cause the BPU to go into bankruptcy. This is precisely what happened to private investor-owned utilities in the 1980s when they built over-sized power plants based on anticipated electric loads which never materialized. Across the country, utility after utility went under as they raised rates to cover their losses; higher rates caused demand to shrink even more which further increased losses and provided an impetus for further rate increases -- thus fueling a spiral of rate increases, demand contractions, and losses which drove company after company

² See "Cost of Power for Jamestown Board of Public Utilities Electricity Supply Options - Proposed Coal-Fired Power Plant Is Most Expensive Option Even with Federal Subsidies," Clean Energy for Jamestown, September 17, 2009. For a copy, contact us or see http://www.cleanenergyforjamestown.com/Cost of Power Study.html

into bankruptcy. It was called an "economic death spiral" by many analysts, and Jamestown is likely to follow the same path if it goes forward with a new costly unneeded power plant.

Let's tell the truth. What has kept electric rates low in Jamestown has nothing to do with Jamestown generating its own power. Rates are low because 90% of the BPU ratepayer electric load is supplied by the New York Power Authority in the form of hydroelectricity which costs the BPU only 2 cents per kilowatt hour delivered to Jamestown.

Moreover, once you appreciate the fact that 90% of BPU ratepayer electricity is already supplied by NYPA at an extraordinarily low price it is easy to see the folly of building an expensive new power plant for the small remaining increment of ratepayer load. It just does not make sense to spend \$500 million – or even the \$145 million that supposedly ratepayers would pay -- to build a new power plant to supply only 10% of ratepayer electric needs in a small, financially strapped city like Jamestown -- especially when much cheaper, easier, cleaner, less risky options exist.

How much has the BPU spent promoting and developing the new power plant project?

The Mayor and BPU have never released this figure (and clearly an audit of the BPU should be conducted to find it out) but we estimate that approximately \$6 million in ratepayer money have been spent to date on this project to cover staff time, consultant fees, legal counsel, lobbying, and public relations (plus a similar amount of state money). Needless to say, \$6 million of ratepayer money is a large sum to spend on this project given BPU's small rate base; the BPU has approximately 20,000 residential, commercial, and industrial ratepayers, so on average each has paid through their electric bills around \$300 for this project so far. How many ratepayers would voluntarily agree to pay that amount? Probably very few yet nonetheless their money was spent on this project by those directing and managing the BPU.

How much is the BPU continuing to spend right now?

A recent article in the Jamestown *Post Journal* stated that the BPU's 2010 budget contains \$500,000 for the oxycoal project. Plus, a few months ago the BPU hired a new deputy general manager for the oxycoal project whose salary is probably in the \$100,000+/year range. This ongoing \$600,000 expenditure raises questions about BPU leadership and management. It seems obvious that this is a case of throwing good money after bad. How much more ratepayer money will the BPU spend on this project before it admits that the project has failed and that the very small energy problem created by closing the existing Carlson coal plant can be solved easily and cheaply with a different strategy?

What alternative exists to building a new coal plant? How else could the BPU meet its ratepayer's electricity needs while shutting down the 50 year old Carlson plant?

This question is easy to answer once you remember that 90% of the electricity BPU ratepayers consume is already being provided very cheaply at 2 cents per kilowatt hour from NYPA. Instead of building an expensive new power plant to meet just 10% of its ratepayer electric load, here is what the BPU should do – and could do at a fraction of the cost of building a new plant while keeping electric rates much lower:

- 1. Supplement low cost NYPA hydro-power with approximately 5.8 MW³ of some combination of :
 - Energy efficiency
 - Wind energy (only a few turbines would be required)
 - Solar energy
 - Occasional purchases off the regional grid if necessary
- 2. Meet the thermal requirements of Jamestown's district heating loop by:
 - Reducing load through an aggressive energy efficiency program for downtown building owners
 - Providing heat to the loop through alternative means, e.g. the existing natural gas turbine operated with single or combined cycle heat recovery, one or more natural gas package boilers, or a small biomass boiler or cogenerator with the cleanest available technology

Thus, technically speaking, there is an easy solution to Jamestown's perceived energy problem. This alternative solution is environmentally attractive, more affordable, less risky, and brings with it economic benefits as explained in our enclosed "A Proposal to Meet Jamestown's Electricity Needs at a Lower Cost while Creating a Local Green Economy."

But we were told that the new power plant would bring significant economic development and new jobs to Jamestown. Why sacrifice that?

Supporters of the new coal plant may sincerely believe that it would bring prosperity to Jamestown but they ignore evidence to the contrary -- the most obvious being the recent DOE refusal to fund the project. Thus the hoped for infusion of big federal dollars is null and void. But even before DOE announced its decision to deny Jamestown funding, the project did not make sense as an engine of economic development because at best it would fuel a boom and bust economic scenario. Yes there would be an influx of cash and jobs during construction but that would be followed by an economic downturn lasting many years as a result of needlessly higher electric rates and mega-dollar losses associated with selling excess power from the plant on the open market at prices below its generation cost. It's important to remember that the new coal plant would cost ratepayers a minimum of \$145 million even with full federal funding for the CCS portion of the project. This is way too much to spend on a power plant that is not needed in the first place. That debt plus the higher electric rates it would produce and the losses associated with off-system sales to non-ratepayers would hurt the BPU, the City, local economy, and prospects for job creation or retention over the long run.

But isn't the BPU's electric load increasing? Shouldn't we think long-term? Doesn't Jamestown need a new power plant to meet future electric need?

³ In 2008, the BPU's ratepayer electric load was an annual average of 61 MW. Of that amount, 55.2 MW was provided by the New York Power Authority and 5.8 MW was either generated by the BPU's Samuel Carlson coal plant or purchased of the grid.

The BPU's ratepayer electric load has <u>decreased</u> for the last five years. There is no evidence demonstrating that it will substantially increase in the coming years, justifying a new oversized, extremely expensive 50 MW coal-fired power plant. In fact, since the power plant will increase electric rates – we estimate by as much a 2 to 4 cents per kilowatt hour compared to lower cost supply options – it would more likely chase away business and thus further reduce ratepayer electric demand.

How would the alternative solution – efficiency and renewables with modest "as needed" buying off the grid -- affect the local economy? Could it bring money into the community? Could it foster job growth and economic sustainability?

In contrast to building a new power plant, pursuing the simple, inexpensive, and "least cost" solution outlined here will minimize risks and keep electric rates low while bolstering the local economy. This alternative solution could be funded by New York State Energy Research and Development Authority (NYSERDA), the New York Power Authority, the clean energy and green economy programs established by the American Recovery and Reinvestment Act of 2009, and the BPU's own Energy Efficiency Program Charge. These options are explained in more detail in the enclosed "Proposal to Meet Jamestown's Electricity Needs at a Lower Cost while Creating a Local Green Economy." Additionally, New York State has just passed an innovative green jobs law to ramp up statewide home weatherization. Jamestown could seek to become a "target community" under this law to maximize energy and jobs benefits. Implementing this alternative approach will bring money into the Jamestown community, producing jobs inside and outside the BPU to implement greater energy efficiency and reliance on wind, solar, and possibly biomass energy.

If the new power plant project is potentially economically disastrous and an alternative approach would be economically better, why haven't local manufacturers spoken out?

This is anyone's guess though some manufacturers – like many others in the BPU service territory -- may have taken the BPU's word on the project instead of carefully examining it themselves. Some manufacturers may harbor doubts but may have received special custom electric rates from the BPU in tacit exchange for their silence. The manufacturers association has not represented local business well by supporting a project which would needlessly and substantially increase electric rates.

Why haven't we heard this point of view in the Post Journal?

While the Post Journal occasionally permits alternative views on this project to grace its pages, it has generally functioned as a project booster, reporting the BPU perspective.

But, in the end, isn't it important that the BPU stay in the electric generation business?

Maybe in the past it made sense for Jamestown to generate its own electricity but no longer. The Carlson plant has been off line much of the year and who noticed? Aside from providing heat to the district heating loop (which can be accomplished by other means), the Carlson plant is not

needed any more than a new plant would be needed -- because, as previously explained, 90% of BPU ratepayer electric needs are met by very cheap power from the New York Power Authority and the rest of BPU's ratepayer load can easily be met through the alternative and cost-effective strategies of energy efficiency, renewables like wind energy, and occasional, modest purchases off the grid at much lower costs than generating power from the Carlson plant or a new plant.

There is a justifiable concern about the fate of BPU staff who now work in the Carlson plant but maintaining those jobs by building an expensive new unneeded power plant is not in the interest of ratepayers who should be the BPU's first concern. Hopefully, the staffing issue could be humanely addressed through attrition and reassignment.

Finally, what about the 2.5% rate increase the BPU just filed with the Public Service Commission? Is that justified?

Not at all – especially when you consider the vast sums of ratepayer money the BPU has poured down the drain and is apparently committed to continuing to waste on an unneeded power plant that if built would damage the long term prospects for prosperity in Jamestown, has just been denied funding by the U.S. Department of Energy, is adamantly opposed for many valid reasons by perhaps the strongest environmental coalition in New York State, could never pass a PSC prudency test, and is never going to be built. The BPU has demonstrated a willingness to waste an unprecedented amount of ratepayer money on this project and for that reason alone does NOT deserve a rate increase. Instead it should be cutting unnecessary costs and committing itself to least-cost energy strategies so that rates move in the other direction – toward the \$0.02/kWh that it pays to NYPA for 90% of the power consumed by its ratepayers.

What's needed now?

- 1. Mayor Teresi and BPU should announce that they have made a decision to stop spending money on a project which will never be built.
- 2. The BPU should finally commit to examining and pursuing a least-cost energy solution to what is really a very small problem, i.e. finding an alternative way of meeting just 10% of BPU ratepayer electric load as it shuts the Carlson plant down as soon as possible. The outline of a cost-effective alternative strategy is presented above and is contained in the enclosed "A Proposal to Meet Jamestown's Electricity Needs at a Lower Cost while Creating a Local Green Economy."

Because of the resistance of BPU and City leaders to admit the weaknesses of this project and accept the reality of the DOE decision, neither of the above outcomes is likely to occur unless residents and ratepayers speak out and demand it. Voicing your opinion can be done publicly or through private conversations with the decision-makers who keep spending your money and pushing this project when it doesn't make sense and is not going anywhere.

It's time to move on.

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