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# **Bad decisions, bad luck**

*The Big Rivers Electric Cooperative*

**Nachy Kanfer**

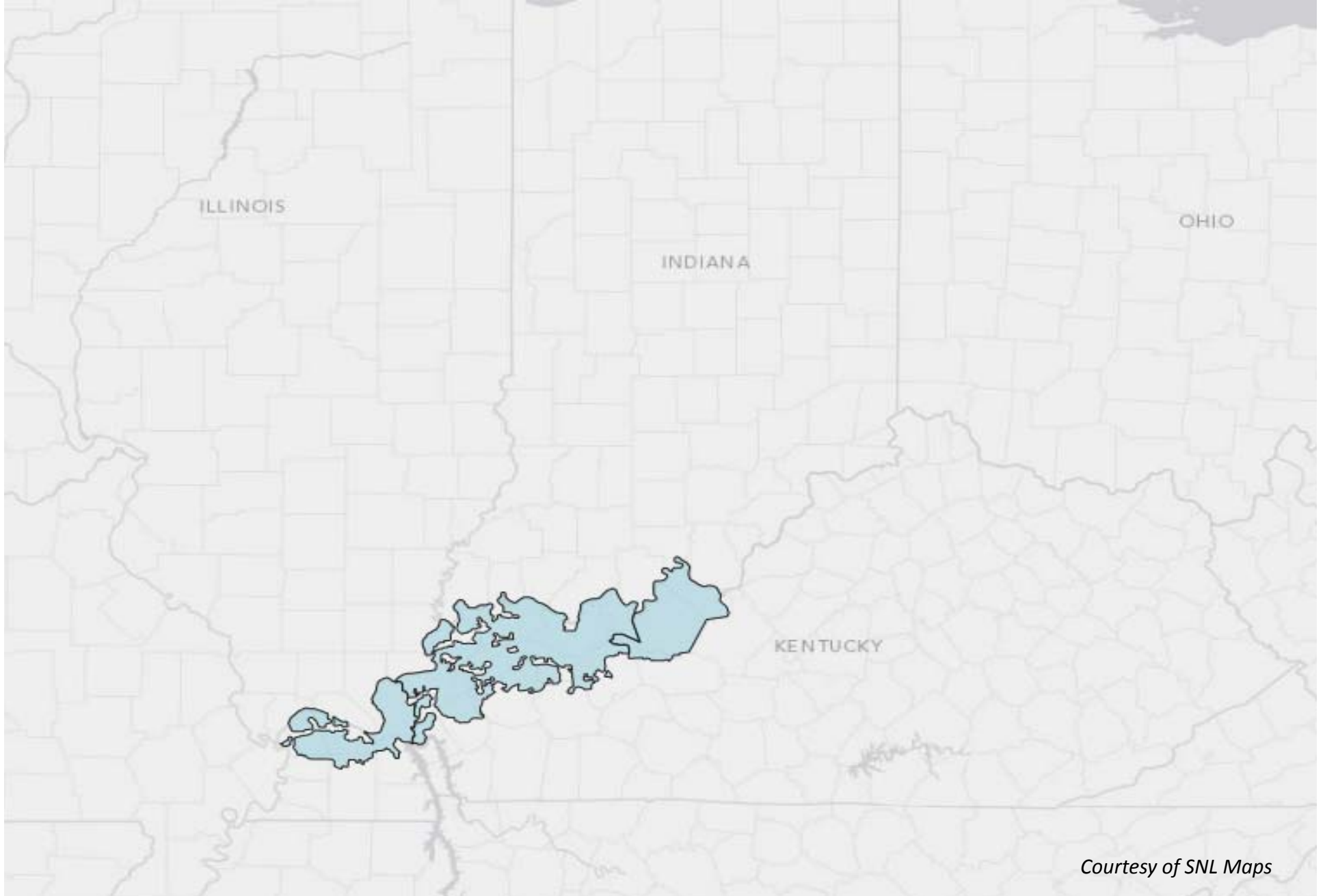
*Coal Finance 2013*  
*IEEFA / New York University*

**1) What differences** do we notice between privately-owned generation and public power?

**2) What is the Club doing** to address the risks of coal in public power?

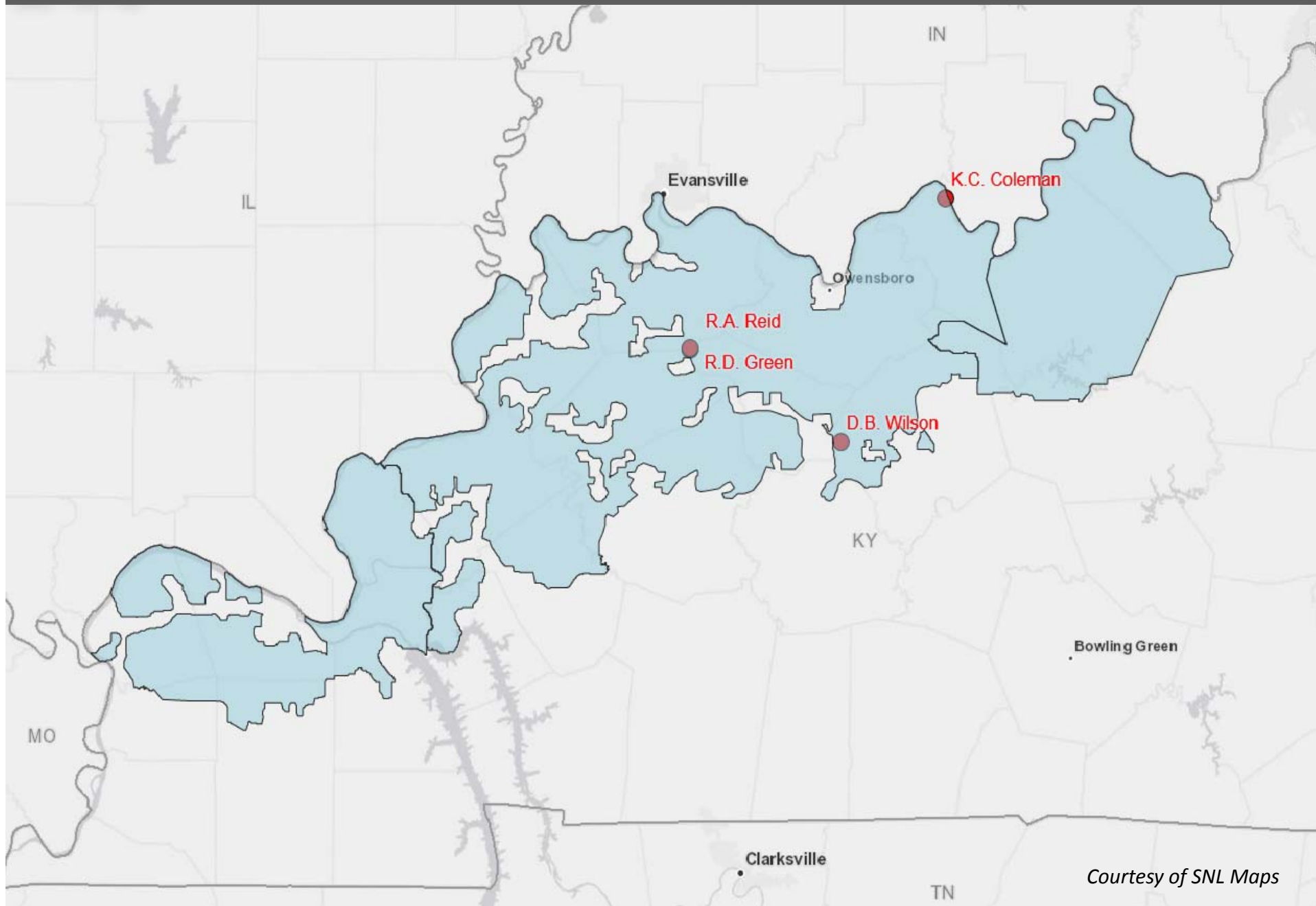
**3) If we're right** about efficiency, renewables and gas, why haven't there been *more* coal retirements announced?

# Big Rivers Electric Coop: *Background*



*Courtesy of SNL Maps*

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Courtesy of SNL Maps

## A “precarious financial situation”

November 2011: Kentucky PSC approves only half of desired rate increase. Drivers include:

- Severely declining revenues from off-system sales (“**from which Big Rivers derives almost all of its margins**”)
- Cost-cutting, deferred maintenance
- BREC has delayed, deferred, reduced, or canceled 22 out of 24 planned plant outages since July 2009

# Big Rivers Electric Coop: *Coal retrofits*



Old, dirty plants...

February 2012: BREC files at Kentucky PSC for major new pollution controls on its coal plants.

- Scrubber at D.B. Wilson -- \$139 million
- SCR at R.D. Green -- \$81 million
- MATS polishing technologies at Wilson, Green and Coleman
- R.A. Reid conversion to gas
- Total cost: approximately \$300 million

# Big Rivers Electric Coop: *Coal retrofits*



... but we lost CSAPR.

August 2012: Following DC Circuit decision, Sierra Club and Earthjustice settle with BREC

- ~~Scrubber at D.B. Wilson — \$139 million~~
- ~~SCR at R.D. Green — \$81 million~~
- MATS polishing technologies at Wilson, Green and Coleman
- R.A. Reid conversion to gas
- Total cost: approximately ~~\$300 million~~ \$58 million

And the bottom falls out.

January 2013: Big Rivers loses contract with its largest customer,  
Century aluminum smelter

- Century represents **482 MW** of peak demand
- 40% of BREC's internal load
- Big Rivers files for new rate increase for **\$75 million**, spreading out impact among customer classes
- Still no retirements (though D.B. Wilson will be "idled")
- Still seeking \$58 million for environmental projects and \$212 million in capital improvements by 2016



# Big Rivers Electric Coop: *Loss of load*



## Big Rivers Electric Corporation Case No. 2012-00535 Load Forecast Including Energy and Demand - Attachment 4 (2013-2016 Budget)

<u>MWh (2013-2016):</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Rural	2,409,830	2,448,796	2,479,656	2,519,437
Large Industrial	943,027	943,699	943,699	944,107
Smelter <sup>1</sup>	5,820,542	3,159,206	3,159,206	3,167,862
<b>Total</b>	<b>9,173,399</b>	<b>6,551,701</b>	<b>6,582,561</b>	<b>6,631,406</b>

<u>kW (2013-2016):</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Rural	5,267,190	5,346,949	5,410,429	5,491,859
Large Industrial	1,673,294	1,674,594	1,674,594	1,674,594
Smelter <sup>2</sup>	8,272,000	4,416,000	4,416,000	4,416,000
<b>Total</b>	<b>15,212,484</b>	<b>11,437,543</b>	<b>11,501,023</b>	<b>11,582,453</b>

<sup>1</sup> Reflects Century contract termination August 20, 2013

<sup>2</sup> Smelter kW is based on Smelter Contract Base Demand. Reflects Century contract termination August 20, 2013

And the bottom falls out... further!

January 2013: Big Rivers loses contract with its *second* largest customer, Alcan aluminum smelter

- Alcan represents **368 MW** of peak demand – so, in one month BREC has now lost 850 MW and over 50% of its internal load
- Big Rivers has not yet amended its rate increase request. But...
- **Still no retirements!**
- **Still seeking \$58 million for environmental projects and \$212 million in capital improvements by 2016!**

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# What this means for public power



All utilities face some risk of sudden loss of load – but public power tends to have some unique risk factors:

1. **SIZE.** Any utility would find it difficult to absorb the sudden loss of 482 MW. But public power tends to be small (and Big Rivers is bigger than most).
2. **REVENUE.** Investor-owned utilities have multiple sources of revenue and can raise more in emergencies – by slashing dividends, for example. Public power has fewer options.
3. **CREDIT.** Many IOUs seem to have no problem at all getting by with credit ratings that are so-so or worse (e.g., NRG at Ba3, DPL at Ba1). Big Rivers can't afford a downgrade – which is typical of public power.

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## Latham & Watkins is building a practice defending munis against Clean Air Act enforcement cases brought by EPA and Sierra Club.

### Holland

- Holland, like several municipals, also received and responded to a Section 114 request under the Clean Air Act that required significant resources to prepare.
- EPA looms, while we litigate with Sierra Club.
- Nexus between EPA and Citizen enforcement; effect of EPA act

### Citizen Suit and EPA Tactics

- Information on the location, size, age, and emissions profiles of all coal-fired units is widely available on the internet.
- Both EPA and Citizen groups are targeting older, vintage coal-fired units for NSR suits.
- FOIA and Section 114 of the CAA provide additional informational gathering powers and Citizens.

### Plan Ahead and Be Prepared

- If you have received a 114 request from EPA or a FOIA for information on facility projects and emissions, you are being targeted for PSD/NSR enforcement.
- Don't wait to evaluate your vulnerability until you receive an NOV or lawsuit, because then you are playing catch-up from a position of weakness.

Along with partners, Sierra Club is challenging the U.S. Department of Agriculture's loan program for rural co-ops.



“Any offer to complete a full EIS on the Holcomb Expansion Project would not be a settlement, but rather a complete capitulation to the Sierra Club.”  
-- U.S. Representatives Moran, Huelskamp, Jenkins, Pompeo, & Yoder

# Sierra Club actions on public power



Along with many partners, Sierra Club is organizing to elect champions to co-op boards of directors.



It's A New Day





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