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
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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
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
... but we lost CSAPR.

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

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

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\(^1\) Reflects Century contract termination August 20, 2013

\(^2\) 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!
Public power: Questions

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?
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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Sierra Club actions on public power

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

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.

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 informational gathering powers for Citizens.
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
Along with many partners, Sierra Club is organizing to elect champions to co-op boards of directors.
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