



AMP-Ohio's Proposed Coal-Fired Power Plant Is Financially Risky

AMP-Ohio is asking municipalities to immediately lock themselves into purchasing power for nearly 50 years from a proposed \$2.9 billion coal-fired power plant. The proposed “take or pay” contract would make each municipality responsible for a share of the rapidly escalating cost to build the plant, and for the uncertain costs of controlling carbon dioxide (“CO2”) emissions from the plant. In addition, there is strong evidence that natural gas, biomass, co-generation, energy efficiency and renewable energy are economically and environmentally preferable alternatives to the proposed plant. Municipalities should take the time to fully evaluate these issues before deciding whether to lock itself into buying coal-fired power for the next 50 years.

The Decision Does Not Need to Be Made Now

While AMP is pushing communities to sign onto the project now, the proposed contract provides that a community has until March 1, 2008 to sign on without penalty.¹ Municipalities should use this time to commission a study of the AMP proposal and its alternatives. In addition, by waiting municipalities will have the chance to review the supplemental feasibility study that AMP is expected to present in early 2008,² the public comments on the Ohio EPA's draft air permit (which are due by October 30), and to find out who intervenes in the November 8 Ohio Power Siting Board hearing.

“Take or Pay” Puts the Risk on the Municipalities

AMP is proposing a “take or pay” contract, under which participants are responsible for construction and operating costs even if the plant is not “complete, operable, or operating.”³ As such, participants assume the risk of escalating construction costs and the uncertain costs of future CO2 regulations. In the 1980s, take or pay contracts led to substantial financial hardship for members of the Washington Public Power Supply System when the System defaulted on bonds for proposed nuclear power plants.⁴ Each municipality would also be ultimately responsible for purchasing a set amount of power every year, even if it does not need the power or if less costly alternatives are available.⁵

¹ See Power Sales Contract (“Contract”), Section 31; and Initial Project Feasibility Study (“Feasibility Study”), p. ES-8.

² Contract p. 11, Section 2(B)(x).

³ Contract, Section 5; Feasibility Study, p. ES-19

⁴ David Wilma, *Washington Public Power Supply System*, History Link.org (July 2003), available at http://www.historylink.org/essays/output.cfm?file_id=5482.

⁵ Contract, Sections 5 and 31(B). A participant in the contract can assign its ownership rights to another municipality, but only if it can locate a willing buyer with a good bond rating. Contract, Section 26(C). In addition, if a participant has too much energy, it can ask AMP to find another buyer, but is ultimately responsible for purchasing the power if no other buyer is found. Contract, Section 3(D). It is, of course, unlikely that other communities would be interested in owning a share of the plant or purchasing power from it if construction or operating costs end up being higher than expected.

Costs Have Escalated Significantly

AMP estimates that the plant will cost \$2.532 billion to construct, and will require the issuance of \$2.912 billion in bonds. In its October 2005 press release announcing the proposal, AMP estimated the cost to be \$1.2 billion. Nationwide, construction costs for coal-fired power plants have risen 25-30% in the past 18 months,⁶ and 60% in the past three years.⁷

AMP Has Underestimated the Cost of CO2 Regulation

The proposed plant would emit approximately 7.36 million tons of CO2 every year. AMP assumes that future carbon regulations will tax such emissions at \$5 to \$15 per ton (in 2006 dollars) until 2032, and provides no cost estimates for later years.⁸ A recent analysis by Synapse Energy Economics provided a middle-range estimate of future carbon costs (in 2005 dollars) as \$5 per ton in 2010, \$25 per ton in 2020, and \$35 per ton in 2030.⁹ An MIT analysis of pending CO2 legislative proposals provided a middle-range per ton estimate of \$41 in 2015, \$74 in 2030, and \$161 in 2050.¹⁰ An accurate evaluation of future CO2 regulation would significantly increase the cost of power from the proposed plant, thereby imposing a major and uncertain burden on each municipality and its residents, and making other alternatives more attractive.

AMP Has Not Estimated the Cost of Controlling CO2 Emissions

Future regulations are likely to require AMP to actually control its CO2 emissions, rather than simply paying a tax for them. AMP has provided no estimate for how much it would cost to use Powerspan technology to capture CO2, to retrofit the plant for capture if the unproven Powerspan technology does not work, and to sequester whatever CO2 is captured.

The Are Better Alternatives

Communities can satisfy their future energy needs through less economically and environmentally costly alternatives. Natural gas combined cycle, biomass, and co-generation facilities all provide options for the generation of baseload power, and aggressive energy efficiency investments can significantly reduce the amount of additional baseload power needed. For example, cost concerns led Avista Utilities in Washington to drop its plans for new coal-fired power plants and focus on natural gas, efficiency, and wind as future power sources.¹¹ Such options are not only cost competitive with new coal-fired power plants, but also involve investments and job creation in and around each community, rather than in a power plant located hundreds of miles away. A thorough analysis is necessary to determine which combination of these technologies is most appropriate for meeting future energy needs, and should be completed before municipalities decide to lock themselves into 50 years of dirty coal-fired power.

⁶ Matthew L. Wald, *Costs Surge for Building Power Plants*, New York Times (July 10, 2007).

⁷ Steve Ernst, *Avista Looks to Wind, Gas, and Conservation in IRP*, Clearing Up: Northwest Energy Market (Sept. 10, 2007), at 6-7.

⁸ Feasibility Study, p. ES-11, Attachment ES-1, pp. 1-2. AMP factors this CO2 tax into its cost estimates by assuming it can purchase allowances for \$3.38 per ton in 2013, increasing to \$13.94 per ton in 2020, and \$18.53 in 2032. No future cost estimates are provided in the Executive Summary of the Feasibility Study.

⁹ Synapse Energy Economics, *Climate Change and Power: Carbon Dioxide Emission Costs and Electricity Resource Planning* (Mar. 2, 2007), at 52.

¹⁰ MIT Joint Program on the Science and Policy of Global Climate Change, *Assessment of U.S. Cap-and-Trade Proposals* (April 2007), at 16-17.

¹¹ Ernst, *supra* note 3. Avista's plan is available at <http://www.avistautilities.com/resources/plans/electric.asp>.